

NORTHEAST BANCORP /ME/
Form 10-Q
November 09, 2018

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**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 September 30, 2018

Commission File Number: 1-14588

Northeast Bancorp

(Exact name of registrant as specified in its charter)

Maine **01-0425066**
(State or other jurisdiction of incorporation or organization) **(I.R.S. Employer Identification No.)**

500 Canal Street, Lewiston, Maine **04240**
(Address of Principal executive offices) **(Zip Code)**

(207) 786-3245

Registrant's telephone number, including area code

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 subjected to such filing requirements for the past 90 days. Yes No ___

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 an emerging growth company. See definition of “accelerated filer,” and “large accelerated filer”, “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. As of November 2, 2018, the registrant had outstanding 8,235,943 shares of voting common stock, \$1.00 par value per share and 811,946 shares of non-voting common stock, \$1.00 par value per share.

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PART 1- FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

**NORTHEAST
BANCORP AND
SUBSIDIARY
CONSOLIDATED
BALANCE
SHEETS**

(Unaudited)

(Dollars in thousands, except share and per share data)

	September 30, 2018	June 30, 2018
Assets		
Cash and due from banks	\$2,668	\$3,889
Short-term investments	203,049	153,513
Total cash and cash equivalents	205,717	157,402
Available-for-sale debt securities, at fair value	79,157	81,068
Equity securities, at fair value	6,620	6,619
Total investment securities	85,777	87,687
Residential real estate loans held for sale	1,940	3,405
SBA loans held for sale	1,350	3,750
Total loans held for sale	3,290	7,155
Loans		
Commercial real estate	599,624	579,450
Commercial and industrial	191,286	188,852
Residential real estate	93,308	100,256
Consumer	2,978	3,244
Total loans	887,196	871,802
Less: Allowance for loan losses	5,288	4,807
Loans, net	881,908	866,995
Premises and equipment, net	6,314	6,591
Real estate owned and other repossessed collateral, net	1,549	2,233
Federal Home Loan Bank stock, at cost	1,652	1,652

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Intangible assets, net	758	867
Servicing rights, net	3,010	2,970
Bank-owned life insurance	16,729	16,620
Other assets	7,013	7,564
Total assets	\$1,213,717	\$1,157,736
Liabilities and Shareholders' Equity		
Deposits		
Demand	\$67,500	\$72,272
Savings and interest checking	109,564	109,637
Money market	398,423	420,886
Time	440,020	352,145
Total deposits	1,015,507	954,940
Federal Home Loan Bank advances	15,000	15,000
Subordinated debt	24,043	23,958
Capital lease obligation	536	605
Other liabilities	15,240	24,803
Total liabilities	1,070,326	1,019,306
Commitments and contingencies	-	-
Shareholders' equity		
Preferred stock, \$1.00 par value, 1,000,000 shares authorized; no shares issued and outstanding at September 30, 2018 and June 30, 2018	-	-
Voting common stock, \$1.00 par value, 25,000,000 shares authorized; 8,226,648 and 8,056,527 shares issued and outstanding at September 30, 2018 and June 30, 2018, respectively	8,226	8,057
Non-voting common stock, \$1.00 par value, 3,000,000 shares authorized; 820,742 and 882,314 shares issued and outstanding at September 30, 2018 and June 30, 2018, respectively	821	882
Additional paid-in capital	77,075	77,016
Retained earnings	58,501	54,236
Accumulated other comprehensive loss	(1,232)	(1,761)
Total shareholders' equity	143,391	138,430
Total liabilities and shareholders' equity	\$1,213,717	\$1,157,736

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

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**NORTHEAST
BANCORP AND
SUBSIDIARY
CONSOLIDATED
STATEMENTS
OF INCOME**

(Unaudited)

(Dollars in thousands, except share and per share data)

	Three Months Ended September 30,	
	2018	2017
Interest and dividend income:		
Interest and fees on loans	\$ 17,525	\$ 15,383
Interest on investment securities	362	266
Other interest and dividend income	880	529
Total interest and dividend income	18,767	16,178
Interest expense:		
Deposits	3,682	2,176
Federal Home Loan Bank advances	118	172
Subordinated debt	601	508
Obligation under capital lease agreements	7	11
Total interest expense	4,408	2,867
Net interest and dividend income before provision for loan losses	14,359	13,311
Provision for loan losses	532	354
Net interest and dividend income after provision for loan losses	13,827	12,957
Noninterest income:		
Fees for other services to customers	492	526
Gain on sales of SBA loans	851	1,019
Gain on sales of residential loans held for sale	174	291
Net unrealized loss on equity securities	(40))
Loss on real estate owned, other repossessed collateral and premises and equipment, net	(40))
Bank-owned life insurance income	110	112
Other noninterest income	7	10
Total noninterest income	1,554	1,958
Noninterest expense:		
Salaries and employee benefits	5,509	5,254
Occupancy and equipment expense	1,127	1,109
Professional fees	534	442
Data processing fees	601	604

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Marketing expense	124	87
Loan acquisition and collection expense	439	365
FDIC insurance premiums	81	80
Intangible asset amortization	109	109
Other noninterest expense	831	664
Total noninterest expense	9,355	8,714
Income before income tax expense	6,026	6,201
Income tax expense	1,492	1,615
Net income	\$4,534	\$4,586
Weighted-average common shares outstanding:		
Basic	8,995,925	8,841,511
Diluted	9,183,729	9,089,936
Earnings per common share:		
Basic	\$0.50	\$0.52
Diluted	0.49	0.50
Cash dividends declared per common share	\$0.01	\$0.01

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

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**NORTHEAST
BANCORP AND
SUBSIDIARY
CONSOLIDATED
STATEMENTS OF
COMPREHENSIVE
INCOME**

(Unaudited)

(Dollars in thousands)

	Three Months Ended September 30, 2018 2017	
Net income	\$4,534	\$4,586
Other comprehensive income, before tax:		
Available-for-sale debt securities:		
Change in net unrealized loss on available-for-sale debt securities	(74)	122
Derivatives and hedging activities:		
Change in accumulated loss on effective cash flow hedges	482	22
Reclassification adjustments included in interest expense	70	23
Total derivatives and hedging activities	552	45
Total other comprehensive income, before tax	478	167
Income tax expense related to other comprehensive income	129	63
Other comprehensive income, net of tax	349	104
Comprehensive income	\$4,883	\$4,690

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

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**NORTHEAST
BANCORP AND
SUBSIDIARY
CONSOLIDATED
STATEMENTS OF
CHANGES IN
SHAREHOLDERS'
EQUITY**

(Unaudited)

(Dollars in thousands, except share and per share data)

	Preferred Stock Shares	Voting Common Stock Shares	Common Amount	Non-voting Common Stock Shares	Non-voting Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance at June 30, 2017	-	-	7,840,460	991,194	\$ 991	\$ 77,455	\$ 38,142	\$ (1,632)	\$ 122,797
Net income	-	-	-	-	-	-	4,586	-	4,586
Other comprehensive income, net of tax	-	-	-	-	-	-	-	104	104
Conversions between voting common stock and non-voting common stock, net	-	-	-	-	-	-	-	-	-
Dividends on common stock at \$0.01 per share	-	-	-	-	-	-	(87)	-	(87)
Stock-based compensation	-	-	-	-	-	220	-	-	220
Issuance of restricted common stock	-	-	10,000	-	-	(10)	-	-	-
Cancellation and forfeiture of restricted common stock	-	-	(15,089)	-	-	(39)	-	-	(54)
Stock options exercised, net	-	-	63,788	-	-	(917)	-	-	(854)

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Balance at September 30, 2017	-	\$ -	7,899,159	\$ 7,899	991,194	\$ 991	\$ 76,709	\$ 42,641	\$ (1,528)	\$ 126,712
Balance at June 30, 2018	-	-	8,056,527	\$ 8,057	882,314	\$ 882	\$ 77,016	\$ 54,236	\$ (1,761)	\$ 138,430
Net income	-	-	-	-	-	-	-	4,534	-	4,534
Other comprehensive income, net of tax	-	-	-	-	-	-	-	-	349	349
Conversions between voting common stock and non- voting common stock, net	-	-	61,572	61	(61,572)	(61)	-	-	-	-
Dividends on common stock at \$0.01 per share	-	-	-	-	-	-	-	(89)	-	(89)
Stock-based compensation	-	-	-	-	-	-	299	-	-	299
Issuance of restricted common stock	-	-	114,925	114	-	-	(114)	-	-	-
Cancellation and forfeiture of restricted common stock	-	-	(6,376)	(6)	-	-	(126)	-	-	(132)
Stock options exercised, net	-	-	-	-	-	-	-	-	-	-
Adjustment for adoption of ASU 2016-01	-	-	-	-	-	-	-	(180)	180	-
Balance at September 30, 2018	-	\$ -	8,226,648	\$ 8,226	820,742	\$ 821	\$ 77,075	\$ 58,501	\$ (1,232)	\$ 143,391

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

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CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited)
(Dollars in thousands)

	Three Months Ended September 30,	
	2018	2017
Operating activities:		
Net income	\$4,534	\$4,586
Adjustments to reconcile net income to net cash used in operating activities:		
Provision for loan losses	532	354
Loss on sale and impairment of real estate owned and other repossessed collateral, net	40	-
Net unrealized loss on equity securities	40	-
Accretion of fair value adjustments on loans, net	(1,592)	(2,938)
Accretion of fair value adjustments on borrowings, net	57	50
Amortization of subordinated debt issuance costs		