

NORTHEAST BANCORP /ME/  
Form 10-Q  
May 10, 2018

Table of Contents

**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, 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**

Edgar Filing: NORTHEAST BANCORP /ME/ - Form 10-Q

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 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 definition of "accelerated filer", "large 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 by Rule 12b-2 of the Exchange Act).  
Yes\_ No

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

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 the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. As of May 3, 2018, the registrant had outstanding 8,025,605 shares of voting common stock, \$1.00 par value per share and 908,730 shares of non-voting common stock, \$1.00 par value per share.



Table of Contents**Part I. Financial Information**

<b>Item 1. <u>Financial Statements (Unaudited)</u></b>	3
<u>Consolidated Balance Sheets March 31, 2018 and June 30, 2017</u>	3
<u>Consolidated Statements of Income Three and Nine Months Ended March 31, 2018 and 2017</u>	4
<u>Consolidated Statements of Comprehensive Income Three and Nine Months Ended March 31, 2018 and 2017</u>	5
<u>Consolidated Statements of Changes in Shareholders' Equity Nine Months Ended March 31, 2018 and 2017</u>	6
<u>Consolidated Statements of Cash Flows Nine Months Ended March 31, 2018 and 2017</u>	7
<u>Notes to Unaudited Consolidated Financial Statements</u>	8
<b>Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>	28
<b>Item 3. <u>Quantitative and Qualitative Disclosure about Market Risk</u></b>	44
<b>Item 4. <u>Controls and Procedures</u></b>	45

**Part II. Other Information**

<b>Item 1. <u>Legal Proceedings</u></b>	46
<b>Item 1A. <u>Risk Factors</u></b>	46
<b>Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u></b>	46
<b>Item 3. <u>Defaults Upon Senior Securities</u></b>	46
<b>Item 4. <u>Mine Safety Disclosures</u></b>	46
<b>Item 5. <u>Other Information</u></b>	46
<b>Item 6. <u>Exhibits</u></b>	46
<u>Signatures</u>	47

Table of Contents

## 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)

	March 31, 2018	June 30, 2017
Assets		
Cash and due from banks	\$3,621	\$3,582
Short-term investments	218,446	159,701
Total cash and cash equivalents	222,067	163,283
Available-for-sale securities, at fair value	89,741	96,693
Residential real estate loans held for sale	2,686	4,508
SBA loans held for sale	1,853	191
Total loans held for sale	4,539	4,699
Loans		
Commercial real estate	530,565	498,004
Commercial and industrial	185,049	175,654
Residential real estate	97,297	101,168
Consumer	3,518	4,369
Total loans	816,429	779,195
Less: Allowance for loan losses	4,691	3,665
Loans, net	811,738	775,530
Premises and equipment, net	6,762	6,937
Real estate owned and other repossessed collateral, net	947	826
Federal Home Loan Bank stock, at cost	1,758	1,938
Intangible assets, net	975	1,300

Edgar Filing: NORTHEAST BANCORP /ME/ - Form 10-Q

Loan servicing rights, net	2,998	2,846
Bank-owned life insurance	16,510	16,179
Other assets	8,108	6,643
Total assets	\$1,166,143	\$1,076,874
Liabilities and Shareholders' Equity		
Deposits		
Demand	\$66,054	\$69,827
Savings and interest checking	108,667	108,417
Money market	490,236	374,569
Time	311,323	337,037
Total deposits	976,280	889,850
Federal Home Loan Bank advances	15,000	20,011
Subordinated debt	23,873	23,620
Capital lease obligation	675	873
Other liabilities	16,528	19,723
Total liabilities	1,032,356	954,077
Commitments and contingencies	-	-
Shareholders' equity		
Preferred stock, \$1.00 par value, 1,000,000 shares authorized; no shares issued and outstanding at March 31, 2018 and June 30, 2017	-	-
Voting common stock, \$1.00 par value, 25,000,000 shares authorized; 8,016,669 and 7,840,460 shares issued and outstanding at March 31, 2018 and June 30, 2017, respectively	8,017	7,841
Non-voting common stock, \$1.00 par value, 3,000,000 shares authorized; 908,730 and 991,194 shares issued and outstanding at March 31, 2018 and June 30, 2017, respectively	908	991
Additional paid-in capital	76,926	77,455
Retained earnings	49,981	38,142
Accumulated other comprehensive loss	(2,045 )	(1,632 )
Total shareholders' equity	133,787	122,797
Total liabilities and shareholders' equity	\$1,166,143	\$1,076,874

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

Table of Contents

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

(Unaudited)

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2018	2017	2018	2017
Interest and dividend income:				
Interest and fees on loans	\$15,408	\$14,417	\$45,292	\$40,132
Interest on available-for-sale securities	280	261	813	748
Other interest and dividend income	795	282	1,818	669
Total interest and dividend income	16,483	14,960	47,923	41,549
Interest expense:				
Deposits	2,696	1,855	7,001	5,407
Federal Home Loan Bank advances	118	159	438	634
Subordinated debt	525	475	1,550	1,401
Obligation under capital lease agreements	10	12	31	39
Total interest expense	3,349	2,501	9,020	7,481
Net interest and dividend income before provision for loan losses	13,134	12,459	38,903	34,068
Provision for loan losses	364	384	1,156	1,205
Net interest and dividend income after provision for loan losses	12,770	12,075	37,747	32,863
Noninterest income:				
Fees for other services to customers	435	516	1,437	1,405
Gain on sales of residential loans held for sale	227	281	772	1,160
Gain on sales of SBA loans	560	951	1,921	3,411
Gain on sales of other loans	516	365	537	365
Gain on real estate owned, other repossessed collateral and premises and equipment, net	4	20	15	9
Bank-owned life insurance income	108	113	331	341
Other noninterest income	32	62	55	115
Total noninterest income	1,882	2,308	5,068	6,806
Noninterest expense:				
Salaries and employee benefits	5,329	5,203	15,756	15,678
Occupancy and equipment expense	1,159	1,299	3,418	3,781

Edgar Filing: NORTHEAST BANCORP /ME/ - Form 10-Q

Professional fees	423	370	1,291	1,265
Data processing fees	619	455	1,846	1,286
Marketing expense	172	89	329	272
Loan acquisition and collection expense	264	728	998	1,502
FDIC insurance premiums	77	78	236	224
Intangible asset amortization	107	107	325	324
Other noninterest expense	825	513	2,053	2,093
Total noninterest expense	8,975	8,842	26,252	26,425
Income before income tax expense	5,677	5,541	16,563	13,244
Income tax expense	1,745	2,080	4,741	4,932
Net income	\$3,932	\$3,461	\$11,822	\$8,312
Weighted-average shares outstanding:				
Basic	8,927,544	8,830,442	8,897,633	8,923,280
Diluted	9,143,177	8,893,534	9,133,515	8,963,483
Earnings per common share:				
Basic	\$0.44	\$0.39	\$1.33	\$0.93
Diluted	0.43	0.39	1.29	0.93
Cash dividends declared per common share	\$0.01	\$0.01	\$0.03	\$0.03

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

Table of Contents

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

(Unaudited)

(Dollars in thousands)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2018	2017	2018	2017
Net income	\$3,932	\$3,461	\$11,822	\$8,312
Other comprehensive income, before tax:				
Available-for-sale securities:				
Change in net unrealized loss on available-for-sale securities	(431 )	206	(605 )	(1,208)
Derivatives and hedging activities:				
Change in accumulated gain on effective cash flow hedges	179	59	362	1,692
Reclassification adjustments included in interest expense	26	12	73	26
Total derivatives and hedging activities	205	71	435	1,718
Total other comprehensive (loss) income, before tax	(226 )	277	(170 )	510
Income tax benefit (expense) related to other comprehensive (loss) income	60	(105 )	40	(197 )
Other comprehensive (loss) income, net of tax	(166 )	172	(130 )	313
Comprehensive income	\$3,766	\$3,633	\$11,692	\$8,625

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

Table of Contents

*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 Stock Shares	Common Amount	Non-voting Common Stock Shares	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity		
Balance at June 30, 2016	-	-	8,089,790	\$8,089	1,227,683	\$1,228	\$83,020	\$26,160	\$ (1,906 )	\$ 116,591
Net income	-	-	-	-	-	-	8,312	-	-	8,312
Other comprehensive income, net of tax	-	-	-	-	-	-	-	313	-	313
Common stock repurchased	-	-	(645,238 )	(645 )	-	-	(6,298 )	-	-	(6,943 )
Conversions between voting common stock and non-voting common stock, net	-	-	236,489	237	(236,489 )	(237 )	-	-	-	-
Dividends on common stock at \$0.03 per share	-	-	-	-	-	-	(268 )	-	-	(268 )
Stock-based compensation	-	-	-	-	-	689	-	-	-	689
Issuance of restricted common stock	-	-	160,000	160	-	-	(160 )	-	-	-
Cancellation and forfeiture of restricted	-	-	(16,956 )	(17 )	-	-	4	-	-	(13 )

common stock

Other tax-related APIC adjustment	-	-	-	-	-	-	(6	)	-	-	(6	)
Balance at March 31, 2017	-	\$	-	7,824,085	\$7,824	991,194	\$991					