

CAMDEN NATIONAL CORP  
Form 10-Q  
May 07, 2015  
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, 2015

OR

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

Commission File No. 0-28190

CAMDEN NATIONAL CORPORATION

(Exact name of registrant as specified in its charter)

MAINE

(State or other jurisdiction of  
incorporation or organization)

01-0413282

(I.R.S. Employer  
Identification No.)

2 ELM STREET, CAMDEN, ME

(Address of principal executive offices)

04843

(Zip Code)

Registrant's telephone number, including area code: (207) 236-8821

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 periods 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 definitions 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

(Do not check if a 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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date:

Outstanding at May 5, 2015: Common stock (no par value) 7,442,559 shares.

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CAMDEN NATIONAL CORPORATION

FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2015  
TABLE OF CONTENTS OF INFORMATION REQUIRED IN REPORT

	PAGE
PART I. FINANCIAL INFORMATION	
ITEM 1. FINANCIAL STATEMENTS	
Consolidated Statements of Condition - March 31, 2015 and December 31, 2014	<u>3</u>
Consolidated Statements of Income - Three Months Ended March 31, 2015 and 2014	<u>5</u>
Consolidated Statements of Comprehensive Income - Three Months Ended March 31, 2015 and 2014	<u>6</u>
Consolidated Statements of Changes in Shareholders' Equity - Three Months Ended March 31, 2015 and 2014	<u>7</u>
Consolidated Statements of Cash Flows - Three Months Ended March 31, 2015 and 2014	<u>8</u>
Notes to Consolidated Financial Statements	<u>9</u>
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	<u>35</u>
ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK	<u>51</u>
ITEM 4. CONTROLS AND PROCEDURES	<u>53</u>
PART II. OTHER INFORMATION	
ITEM 1. LEGAL PROCEEDINGS	<u>54</u>
ITEM 1A. RISK FACTORS	<u>54</u>
ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS	<u>54</u>
ITEM 3. DEFAULTS UPON SENIOR SECURITIES	<u>54</u>
ITEM 4. MINE SAFETY DISCLOSURES	<u>54</u>
ITEM 5. OTHER INFORMATION	<u>54</u>
ITEM 6. EXHIBITS	<u>55</u>
SIGNATURES	<u>56</u>
EXHIBITS	



## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## CONSOLIDATED STATEMENTS OF CONDITION

(In Thousands, Except Number of Shares)	March 31, 2015 (unaudited)	December 31, 2014
<b>ASSETS</b>		
Cash and due from banks	\$53,074	\$60,813
Securities:		
Available-for-sale securities, at fair value	752,164	763,063
Held-to-maturity securities, at amortized cost	41,010	20,179
Federal Home Loan Bank and Federal Reserve Bank stock, at cost	20,391	20,391
Total securities	813,565	803,633
Trading account assets	2,308	2,457
Loans held for sale	625	—
Loans	1,791,080	1,772,610
Less: allowance for loan losses	(21,265)	(21,116)
Net loans	1,769,815	1,751,494
Bank-owned life insurance	58,222	57,800
Goodwill and other intangible assets	47,884	48,171
Premises and equipment, net	23,606	23,886
Deferred tax assets	14,118	14,434
Interest receivable	6,458	6,017
Other real estate owned	1,381	1,587
Other assets	20,148	19,561
Total assets	\$2,811,204	\$2,789,853
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Liabilities</b>		
Deposits:		
Demand	\$255,574	\$263,013
Interest checking	480,528	480,521
Savings and money market	653,834	653,708
Certificates of deposit	314,532	317,123
Brokered deposits	261,706	217,732
Total deposits	1,966,174	1,932,097
Federal Home Loan Bank advances	56,020	56,039
Other borrowed funds	447,530	476,939
Junior subordinated debentures	44,050	44,024
Accrued interest and other liabilities	45,631	35,645
Total liabilities	2,559,405	2,544,744
Commitments and contingencies (Notes 6, 7, and 9)		

CONSOLIDATED STATEMENTS OF CONDITION  
(CONTINUED)

(In Thousands, Except Number of Shares)	March 31, 2015 (unaudited)	December 31, 2014
Shareholders' Equity		
Common stock, no par value; authorized 20,000,000 shares, issued and outstanding 7,438,929 and 7,426,222 shares as of March 31, 2015 and December 31, 2014, respectively	41,889	41,555
Retained earnings	215,361	211,979
Accumulated other comprehensive income (loss):		
Net unrealized gains (losses) on available-for-sale securities, net of tax	3,789	(319 )
Net unrealized losses on derivative instruments, net of tax	(7,115	) (5,943 )
Net unrecognized losses on postretirement plans, net of tax	(2,125	) (2,163 )
Total accumulated other comprehensive loss	(5,451	) (8,425 )
Total shareholders' equity	251,799	245,109
Total liabilities and shareholders' equity	\$2,811,204	\$2,789,853

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

## CONSOLIDATED STATEMENTS OF INCOME

(unaudited)

(In Thousands, Except Number of Shares and Per Share Data)	Three Months Ended	
	March 31, 2015	2014
Interest Income		
Interest and fees on loans	\$18,084	\$16,780
Interest on U.S. government and sponsored enterprise obligations	3,872	4,230
Interest on state and political subdivision obligations	387	294
Interest on federal funds sold and other investments	108	89
Total interest income	22,451	21,393
Interest Expense		
Interest on deposits	1,529	1,551
Interest on borrowings	860	807
Interest on junior subordinated debentures	625	625
Total interest expense	3,014	2,983
Net interest income	19,437	18,410
Provision for credit losses	446	493
Net interest income after provision for credit losses	18,991	17,917
Non-Interest Income		
Service charges on deposit accounts	1,487	1,469
Other service charges and fees	1,510	1,395
Income from fiduciary services	1,220	1,184
Brokerage and insurance commissions	449	478
Bank-owned life insurance	422	306
Mortgage banking income, net	239	72
Net gain on sale of securities	—	166
Other income	817	615
Total non-interest income	6,144	5,685
Non-Interest Expense		
Salaries and employee benefits	8,375	7,980
Furniture, equipment and data processing	1,923	1,789
Net occupancy	1,472	1,380
Consulting and professional fees	591	518
Other real estate owned and collection costs	562	513
Regulatory assessments	510	481
Amortization of intangible assets	287	287
Merger and acquisition costs	735	—
Other expenses	2,346	2,177
Total non-interest expense	16,801	15,125
Income before income taxes	8,334	8,477
Income Taxes	2,723	2,762
Net Income	\$5,611	\$5,715
Per Share Data		
Basic earnings per share	\$0.75	\$0.76
Diluted earnings per share	\$0.75	\$0.75
Weighted average number of common shares outstanding	7,431,065	7,528,751
Diluted weighted average number of common shares outstanding	7,453,875	7,551,785

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

5

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## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

(In Thousands)	Three Months Ended	
	March 31,	
	2015	2014
Net income	\$5,611	\$5,715
Other comprehensive income:		
Available-for-sale securities:		
Net unrealized gains on available-for-sale securities arising during the period, net of tax of (\$2,212) and (\$1,041), respectively	4,108	1,933
Reclassification of gains included in net income, net of tax of \$0 and \$58, respectively <sup>(1)</sup>	—	(108 )
Net change in unrealized gains on available-for-sale securities, net of tax	4,108	1,825
Net change in unrealized losses on cash flow hedging derivatives, net of tax of \$631, and \$583, respectively	(1,172 )	(1,083 )
Reclassification of amortization of net unrecognized actuarial loss and prior service cost, net of tax of (\$21) and (\$15), respectively <sup>(2)</sup>	38	27
Other comprehensive income	2,974	769
Comprehensive Income	\$8,585	\$6,484

(1) Reclassified into the consolidated statements of income in net gain on sale of securities.

(2) Reclassified into the consolidated statements of income in salaries and employee benefits.

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

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(unaudited)

(In Thousands, Except Number of Shares and Per Share Data)	Common Stock		Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	Shares Outstanding	Amount			
Balance at December 31, 2013	7,579,913	\$47,783	\$195,660	\$(12,347)	\$231,096
Net income	—	—	5,715	—	5,715
Other comprehensive income, net of tax	—	—	—	769	769
Stock-based compensation expense	—	176	—	—	176
Exercise of stock options and issuance of vested share awards, net of repurchase for tax withholdings and tax benefit	18,174	118	—	—	118
Common stock repurchased	(113,527 )	(4,393 )	—	—	(4,393 )
Cash dividends declared (\$0.27 per share)	—	—	(2,012 )	—	(2,012 )
Balance at March 31, 2014	7,484,560	\$43,684	\$199,363	\$(11,578)	\$231,469
Balance at December 31, 2014	7,426,222	\$41,555	\$211,979	\$(8,425 )	\$245,109
Net income	—	—	5,611	—	5,611
Other comprehensive income, net of tax	—	—	—	2,974	2,974
Stock-based compensation expense	—	198	—	—	198
Exercise of stock options and issuance of vested share awards, net of repurchase for tax withholdings and tax benefit	12,707	136	—	—	136
Cash dividends declared (\$0.30 per share)	—	—	(2,229 )	—	(2,229 )
Balance at March 31, 2015	7,438,929	\$41,889	\$215,361	\$(5,451 )	\$251,799

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

CONSOLIDATED STATEMENTS OF CASH FLOWS  
(unaudited)

(In Thousands)	Three Months Ended March 31,	
	2015	2014
Operating Activities		
Net income	\$5,611	\$5,715
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	446	493
Depreciation expense	764	944
Investment securities amortization and accretion, net	509	411
Stock-based compensation expense	198	176
Amortization of intangible assets	287	287
Net gain on sale of investment securities	—	(166)
Net increase in other real estate owned valuation allowance and loss on disposition	81	15
Originations of mortgage loans held for sale	(5,425)	)
Proceeds from the sale of mortgage loans	4,935	—
Gain on sale of mortgage loans	(129)	)
Decrease in trading assets	149	180
Decrease (increase) in other assets	169	(1,278)
Increase (decrease) in other liabilities	412	(366)
Net cash provided by operating activities	8,007	6,411
Investing Activities		
Proceeds from sales and maturities of available-for-sale securities	37,132	33,205
Purchase of available-for-sale securities	(20,344)	) (19,395)
Purchase of held-to-maturity securities	(16,076)	) (5,976)
Net increase in loans	(20,293)	) (40,892)
Purchase of Federal Home Loan Bank stock	—	(693)
Proceeds from the sale of other real estate owned	1,564	—
Recoveries of previously charged-off loans	133	237
Purchase of premises and equipment	(464)	) (283)
Net cash used by investing activities	(18,348)	) (33,797)
Financing Activities		
Net increase in deposits	34,112	22,899
Repayments on Federal Home Loan Bank long-term advances	(19)	) (18)
Net (decrease) increase in other borrowed funds	(29,392)	) 11,309
Common stock repurchased	—	(4,355)
Exercise of stock options and issuance of restricted stock, net of repurchase for tax withholdings and tax benefit	136	118
Cash dividends paid on common stock	(2,235)	) (2,045)
Net cash provided by financing activities	2,602	27,908
Net (decrease) increase in cash and cash equivalents	(7,739)	) 522
Cash and cash equivalents at beginning of year	60,813	51,355
Cash and cash equivalents at end of period	\$53,074	\$51,877
Supplemental information		
Interest paid	\$3,015	\$3,019
Income taxes paid	5	1,500
Transfer from loans to other real estate owned	1,439	532
Held-to-maturity securities purchased but unsettled	4,830	1,008

Common stock repurchased but unsettled	—	358
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The accompanying notes are an integral part of these consolidated financial statements.

8

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in Tables Expressed in Thousands, Except Number of Shares and per Share Data)

## NOTE 1 – BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements were prepared in accordance with instructions for Form 10-Q and, therefore, do not include all disclosures required by accounting principles generally accepted in the United States of America for complete presentation of financial statements. In the opinion of management, the consolidated financial statements contain all adjustments (consisting only of normal recurring accruals) necessary to present fairly the consolidated statements of condition of Camden National Corporation as of March 31, 2015 and December 31, 2014, the consolidated statements of income for the three months ended March 31, 2015 and 2014, the consolidated statements of comprehensive income for the three months ended March 31, 2015 and 2014, the consolidated statements of changes in shareholders' equity for the three months ended March 31, 2015 and 2014, and the consolidated statements of cash flows for the three months ended March 31, 2015 and 2014. All significant intercompany transactions and balances are eliminated in consolidation. The income reported for the three months ended March 31, 2015 is not necessarily indicative of the results that may be expected for the full year. The information in this report should be read in conjunction with the consolidated financial statements and accompanying notes included in the year ended December 31, 2014 Annual Report on Form 10-K.

The acronyms and abbreviations identified below are used throughout this Form 10-Q, including Part I. "Financial Information" and Part II. "Other Information." The following is provided to aid the reader and provide a reference page when reviewing this Form 10-Q.

Acadia Trust:	Acadia Trust, N.A., a wholly-owned subsidiary of Camden National Corporation	FASB:	Financial Accounting Standards Board
Act:	Medicare Prescription Drug, Improvement and Modernization Act	FDIC:	Federal Deposit Insurance Corporation
AFS:	Available-for-sale	FHLB:	Federal Home Loan Bank
ALCO:	Asset/Liability Committee	FHLBB:	Federal Home Loan Bank of Boston
ALL:	Allowance for loan losses	FRB:	Federal Reserve Bank
AOCI:	Accumulated other comprehensive income (loss)	Freddie Mac:	Federal Home Loan Mortgage Corporation
ASC:	Accounting Standards Codification	GAAP:	Generally accepted accounting principles in the United States
ASU:	Accounting Standards Update	HTM:	Held-to-maturity
Bank:	Camden National Bank, a wholly-owned subsidiary of Camden National Corporation	IRS:	Internal Revenue Service
BOLI:	Bank-owned life insurance	LIBOR:	London Interbank Offered Rate
Board ALCO:	Board of Directors' Asset/Liability Committee	LTIP:	Long-Term Performance Share Plan
BSA:	Bank Secrecy Act	MaineHousing:	Maine State Housing Authority
CCTA:	Camden Capital Trust A, an unconsolidated entity formed by Camden National Corporation	Management ALCO:	Management Asset/Liability Committee
CDARS:	Certificate of Deposit Account Registry System	MBS:	Mortgage-backed security
CDs:	Certificate of deposits	MSRs:	Mortgage servicing rights

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Company:	Camden National Corporation	MSPP:	Management Stock Purchase Plan
CSV:	Cash surrender value	OTTI:	Other-than-temporary impairment
CMO:	Collateralized mortgage obligation	NIM:	Net interest margin on a fully-taxable basis
DCRP:	Defined Contribution Retirement Plan	N.M.:	Not meaningful
EPS:	Earnings per share	Non-Agency:	Non-agency private issue collateralized mortgage obligation

NRV:	Net realizable value	TDR:	Troubled-debt restructured loan Union Bankshares Capital Trust I, an unconsolidated entity formed by Union
OCC:	Office of the Comptroller of the Currency	UBCT:	Bankshares Company that was subsequently acquired by Camden National Corporation
OCI:	Other comprehensive income (loss)	U.S.:	United States of America
OFAC:	Office of Foreign Assets Control	2003 Plan:	2003 Stock Option and Incentive Plan
OREO:	Other real estate owned	2012 Plan:	2012 Equity and Incentive Plan
		2013	2013 Common Stock Repurchase
SERP:	Supplemental executive retirement plans	Repurchase Program:	Program, approved by the Company's Board of Directors

NOTE 2 – EPS

The following is an analysis of basic and diluted EPS, reflecting the application of the two-class method, as described below:

	Three Months Ended March 31,	
	2015	2014
Net income	\$5,611	\$5,715
Dividends and undistributed earnings allocated to participating securities <sup>(1)</sup>	(17	) (17
Net income available to common shareholders	\$5,594	\$5,698
Weighted-average common shares outstanding for basic EPS	7,431,065	7,528,751
Dilutive effect of stock-based awards <sup>(2)</sup>	22,810	23,034
Weighted-average common and potential common shares for diluted EPS	7,453,875	7,551,785
Earnings per common share:		
Basic EPS	\$0.75	\$0.76
Diluted EPS	\$0.75	\$0.75
Awards excluded from the calculation of diluted EPS <sup>(3)</sup> :		
Stock options	15,250	15,250

(1) Represents dividends paid and undistributed earnings allocated to nonvested stock-based awards that contain non-forfeitable rights to dividends.

(2) Represents the effect of the assumed exercise of stock options, vesting of restricted shares, vesting of restricted stock units, and vesting of LTIP awards that have met the performance criteria, as applicable, utilizing the treasury stock method.

(3) Represents stock-based awards not included in the computation of potential common shares for purposes of calculating diluted EPS as the exercise prices were greater than the average market price of the Company's common stock.

Nonvested stock-based payment awards that contain non-forfeitable rights to dividends are participating securities and are included in the computation of EPS pursuant to the two-class method. The two-class method is an earnings allocation formula that determines EPS for each class of common stock and participating security according to dividends declared (or accumulated) and participation rights in undistributed earnings. Certain of the Company's nonvested stock-based awards qualify as participating securities.

Net income is allocated between the common stock and participating securities pursuant to the two-class method. Basic EPS is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period, excluding participating nonvested stock-based awards.

Diluted EPS is computed in a similar manner, except that the denominator is increased to include the number of additional common shares that would have been outstanding if potentially dilutive common shares were issued using the treasury stock method.

10

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## NOTE 3 – SECURITIES

The following tables summarize the amortized cost and estimated fair values of AFS and HTM securities, as of the dates indicated:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2015				
AFS Securities:				
Obligations of U.S. government-sponsored enterprises	\$4,964	\$121	\$—	\$5,085
Obligations of states and political subdivisions	22,574	593	—	23,167
Mortgage-backed securities issued or guaranteed by U.S. government-sponsored enterprises	378,675	6,977	(930)	384,722
Collateralized mortgage obligations issued or guaranteed by U.S. government-sponsored enterprises	334,364	2,150	(3,133)	333,381
Private issue collateralized mortgage obligations	5,757	85	(33)	5,809
Total AFS securities	\$746,334	\$9,926	\$(4,096)	\$752,164
HTM Securities:				
Obligations of states and political subdivisions	\$41,010	\$529	\$(40)	\$41,499
Total HTM securities	\$41,010	\$529	\$(40)	\$41,499
December 31, 2014				
AFS Securities:				
Obligations of U.S. government-sponsored enterprises	\$4,962	\$65	\$—	\$5,027
Obligations of states and political subdivisions	26,080	697	—	26,777
Mortgage-backed securities issued or guaranteed by U.S. government-sponsored enterprises	377,657	5,656	(2,005)	381,308
Collateralized mortgage obligations issued or guaranteed by U.S. government-sponsored enterprises	348,855	953	(5,911)	343,897
Private issue collateralized mortgage obligations	5,999	63	(8)	6,054
Total AFS securities	\$763,553	\$7,434	\$(7,924)	\$763,063
HTM Securities:				
Obligations of states and political subdivisions	\$20,179	\$265	\$(19)	\$20,425
Total HTM securities	\$20,179	\$265	\$(19)	\$20,425

Net unrealized gains on AFS securities at March 31, 2015 included in AOCI amounted to \$3.8 million, net of a deferred tax liability of \$2.0 million. Net unrealized losses on AFS securities at December 31, 2014 included in AOCI amounted to \$319,000, net of a deferred tax benefit of \$172,000.

During the first three months of 2015, the Company purchased investment securities totaling \$36.4 million. The Company designated \$20.3 million as AFS securities and \$16.1 million as HTM securities.

## Impaired Securities

Management periodically reviews the Company's investment portfolio to determine the cause, magnitude and duration of declines in the fair value of each security. Thorough evaluations of the causes of the unrealized losses are performed to determine whether the impairment is temporary or other-than-temporary in nature. Considerations such as the ability of the securities to meet cash flow requirements, levels of credit enhancements, risk of curtailment, recoverability of invested amount over a reasonable period of time, and the length of time the security is in a loss position, for example, are applied in determining OTTI. Once a decline in value is determined to be other-than-temporary, the value of the security is permanently reduced and a corresponding charge to earnings is recognized.



The following table presents the estimated fair values and gross unrealized losses of investment securities that were in a continuous loss position at March 31, 2015 and December 31, 2014, by length of time that individual securities in each category have been in a continuous loss position:

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
March 31, 2015						
AFS Securities:						
Mortgage-backed securities issued or guaranteed by U.S. government-sponsored enterprises	\$10,308	\$(26)	\$73,476	\$(904)		