

CAMDEN NATIONAL CORP
Form 10-Q
November 04, 2011

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, 2011

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 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 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 (§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

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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 November 1, 2011: Common stock (no par value) 7,691,508 shares.

CAMDEN NATIONAL CORPORATION

FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2011
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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Shareholders and Board of Directors
Camden National Corporation

We have reviewed the accompanying interim consolidated financial information of Camden National Corporation and Subsidiaries as of September 30, 2011, and for the three-month and nine-month periods ended September 30, 2011 and 2010. These financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit in accordance with standards of the Public Company Accounting Oversight Board (United States), the objective of which is to express an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

/s/ Berry Dunn McNeil & Parker, LLC
Berry Dunn McNeil & Parker, LLC

Bangor, Maine
November 4, 2011

CAMDEN NATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CONDITION

(In Thousands, Except Number of Shares)	September 30, 2011 (unaudited)	December 31, 2010
ASSETS		
Cash and due from banks	\$ 89,266	\$ 31,009
Securities		
Securities available-for-sale, at fair value	591,955	553,579
Securities held-to-maturity, at amortized cost (fair value \$38,037 at December 31, 2010)	—	36,102
Federal Home Loan Bank and Federal Reserve Bank stock, at cost	21,962	21,962
Total securities	613,917	611,643
Trading account assets	2,162	2,304
Loans held for sale	762	5,528
Loans	1,512,312	1,524,752
Less allowance for loan losses	(23,011)	(22,293)
Net loans	1,489,301	1,502,459
Goodwill and other intangible assets	45,389	45,821
Bank-owned life insurance	44,019	43,155
Premises and equipment, net	23,970	25,044
Deferred tax asset	11,341	12,281
Interest receivable	6,519	6,875
Prepaid FDIC assessment	5,088	6,155
Other real estate owned	1,759	2,387
Other assets	13,223	11,346
Total assets	\$ 2,346,716	\$ 2,306,007
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Demand	\$ 278,900	\$ 229,547
Interest checking, savings and money market	823,349	721,905
Retail certificates of deposit	417,456	464,662
Brokered deposits	121,552	99,697
Total deposits	1,641,257	1,515,811
Federal Home Loan Bank advances	126,953	214,236
Other borrowed funds	279,033	302,069
Junior subordinated debentures	43,691	43,614
Accrued interest and other liabilities	33,843	24,282
Total liabilities	2,124,777	2,100,012
Shareholders' Equity		
Common stock, no par value; authorized 20,000,000 shares, issued and outstanding 7,678,143 and 7,658,496 shares on September 30, 2011 and December 31, 2010, respectively	51,375	50,936
Retained earnings	165,300	150,730
Accumulated other comprehensive income (loss)		
Net unrealized gains on securities available-for-sale, net of tax	13,485	6,229

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Net unrealized losses on derivative instruments, at fair value, net of tax	(7,072)	(709)
Net unrecognized losses on postretirement plans, net of tax	(1,149)	(1,191)
Total accumulated other comprehensive income	5,264	4,329
Total shareholders' equity	221,939	205,995
Total liabilities and shareholders' equity	\$ 2,346,716	\$ 2,306,007

See Report of Independent Registered Public Accounting Firm.
The accompanying notes are an integral part of these consolidated financial statements.

CAMDEN NATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(unaudited)

(In Thousands, Except Number of Shares and per Share Data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Interest Income				
Interest and fees on loans	\$19,515	\$20,685	\$59,241	\$61,725
Interest on U.S. government and sponsored enterprise obligations	4,439	5,037	14,241	15,366
Interest on state and political subdivision obligations	387	528	1,284	1,601
Interest on federal funds sold and other investments	45	28	125	84
Total interest income	24,386	26,278	74,891	78,776
Interest Expense				
Interest on deposits	2,842	3,734	8,820	11,812
Interest on borrowings	2,265	2,953	7,913	9,357
Interest on junior subordinated debentures	632	712	1,983	2,108
Total interest expense	5,739	7,399	18,122	23,277
Net interest income	18,647	18,879	56,769	55,499
Provision for credit losses	1,182	1,291	3,271	5,237
Net interest income after provision for credit losses	17,465	17,588	53,498	50,262
Non-Interest Income				
Income from fiduciary services	1,517	1,618	4,503	4,697
Service charges on deposit accounts	1,296	1,151	3,879	3,716
Other service charges and fees	878	945	2,691	2,507
Bank-owned life insurance	910	401	1,784	1,119
Brokerage and insurance commissions	307	419	1,050	1,065
Mortgage banking income	368	160	500	332
Net gain (loss) on sale of securities	177	(188)	197	(188)
Other income	433	2,331	1,433	2,765
Total non-interest income before other-than-temporary impairment of securities	5,886	6,837	16,037	16,013
Other-than-temporary impairment of securities	(61)	(38)	(88)	(217)
Total non-interest income	5,825	6,799	15,949	15,796
Non-Interest Expenses				
Salaries and employee benefits	7,437	6,949	21,402	19,472
Furniture, equipment and data processing	1,149	1,150	3,518	3,396
Net occupancy	944	899	2,960	2,830
Consulting and professional fees	601	591	2,143	1,929
Regulatory assessments	410	832	1,515	2,149
Other real estate owned and collection costs	517	636	1,423	2,768
Amortization of intangible assets	144	144	433	432
Other expenses	2,105	2,258	6,470	6,262
Total non-interest expenses	13,307	13,459	39,864	39,238
Income before income taxes	9,983	10,928	29,583	26,820
Income Taxes	3,054	3,487	9,245	8,480
Net Income	\$6,929	\$7,441	\$20,338	\$18,340

Per Share Data				
Basic earnings per share	\$0.90	\$0.97	\$2.65	\$2.40
Diluted earnings per share	\$0.90	\$0.97	\$2.65	\$2.39
Weighted average number of common shares outstanding	7,677,972	7,657,098	7,671,911	7,655,097
Diluted weighted average number of common shares outstanding	7,683,570	7,663,051	7,680,401	7,660,919

See Report of Independent Registered Public Accounting Firm.
 The accompanying notes are an integral part of these consolidated financial statements.

CAMDEN NATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(unaudited)

(In Thousands, Except Number of Shares and per Share Data)	Common Stock		Retained	Accumulated Other Comprehensive	Total
	Shares Outstanding	Amount	Earnings	Income (Loss)	Shareholders' Equity
Balance at December 31, 2009	7,644,837	\$50,062	\$133,634	\$ 6,865	\$ 190,561
Net income	—	—	18,340	—	18,340
Other comprehensive income (loss), net of tax:					
Change in fair value of securities available-for-sale	—	—	—	3,734	3,734
Change in fair value of cash flow hedges	—	—	—	(3,375)	(3,375)
Change in net unrecognized losses on postretirement plans	—	—	—	24	24
Total comprehensive income	—	—	18,340	383	18,723
Stock-based compensation expense	—	623	—	—	623
Exercise of stock options and issuance of restricted stock	10,940	78	—	—	78
Common stock repurchased	(1,385)	—	(44)	—	(44)
Cash dividends declared (\$0.75 per share)	—	—	(5,751)	—	(5,751)
Balance at September 30, 2010	7,654,392	\$50,763	\$146,179	\$ 7,248	\$ 204,190
Balance at December 31, 2010	7,658,496	\$50,936	\$150,730	\$ 4,329	\$ 205,995
Net income	—	—	20,338	—	20,338
Other comprehensive income (loss), net of tax:					
Change in fair value of securities available-for-sale	—	—	—	7,256	7,256
Change in fair value of cash flow hedges	—	—	—	(6,363)	(6,363)
Change in net unrecognized losses on postretirement plans	—	—	—	42	42
Total comprehensive income	—	—	20,338	935	21,273
Stock-based compensation expense	—	593	—	—	593
Exercise of stock options and issuance of restricted stock	27,782	118	—	—	118
Common stock repurchased	(8,135)	(272)	—	—	(272)
Cash dividends declared (\$0.75 per share)	—	—	(5,768)	—	(5,768)
Balance at September 30, 2011	7,678,143	\$51,375	\$165,300	\$ 5,264	\$ 221,939

See Report of Independent Registered Public Accounting Firm.
The accompanying notes are an integral part of these consolidated financial statements.

CAMDEN NATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

(In Thousands)	Nine Months Ended September 30,	
	2011	2010
Operating Activities		
Net income	\$ 20,338	\$ 18,340
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	3,271	5,237
Depreciation and amortization	2,618	2,560
Stock-based compensation expense	593	623
Decrease (increase) in interest receivable	356	(101)
Amortization of intangible assets	433	432
Net decrease (increase) in trading assets	142	(448)
Net (gain) loss on sale of securities	(197)	188
Other-than-temporary impairment of securities	88	217
Increase in other real estate owned valuation allowance	188	21
Originations of mortgage loans held for sale	(11,848)	(4,690)
Proceeds from the sale of mortgage loans	16,817	2,234
Gain on sale of mortgage loans	(203)	(83)
Decrease in prepaid FDIC assessment	1,067	1,511
Increase in other assets	(5,660)	(4,391)
Increase (decrease) in other liabilities	3,238	(825)
Net cash provided by operating activities	31,241	20,825
Investing Activities		
Proceeds from maturities of securities held-to-maturity	251	1,130
Proceeds from sales and maturities of securities available-for-sale	133,416	121,929
Purchase of securities available-for-sale	(125,358)	(178,245)
Net decrease (increase) in loans	7,231	(13,858)
Recoveries on previously charged-off loans	865	653
Proceeds from the sale of other real estate owned	1,638	4,169
Proceeds from bank-owned life insurance	370	—
Purchase of premises and equipment	(722)	(1,736)
Net cash provided (used) by investing activities	17,691	(65,958)
Financing Activities		
Net increase in deposits	125,449	86,432
Proceeds from Federal Home Loan Bank long-term advances	190,000	20,177
Repayments on Federal Home Loan Bank long-term advances	(277,265)	(65,489)
Net change in short-term Federal Home Loan Bank borrowings	(37,275)	(24,335)
Net increase in other borrowed funds	14,335	37,670
Common stock repurchase	(272)	(44)
Proceeds from exercise of stock options	118	78
Cash dividends paid on common stock	(5,765)	(5,746)
Net cash provided by financing activities	9,325	48,743
Net increase in cash and cash equivalents	58,257	3,610
Cash and cash equivalents at beginning of year	31,009	29,772
Cash and cash equivalents at end of period	\$ 89,266	\$ 33,382
Supplemental information		

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Interest paid	\$ 18,433	\$ 23,777
Income taxes paid	8,340	9,860
Transfer from loans to other real estate owned	1,198	1,341

See Report of Independent Registered Public Accounting Firm.
The accompanying notes are an integral part of these consolidated financial statements.

CAMDEN NATIONAL CORPORATION AND SUBSIDIARIES

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 ("GAAP") 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 (the "Company") as of September 30, 2011 and December 31, 2010, the consolidated statements of income for the three and nine months ended September 30, 2011 and 2010, the consolidated statements of changes in shareholders' equity for the nine months ended September 30, 2011 and 2010, and the consolidated statements of cash flows for the nine months ended September 30, 2011 and 2010. All significant intercompany transactions and balances are eliminated in consolidation. Certain items from the prior year were reclassified to conform to the current year presentation. The income reported for the three month and nine month periods ended September 30, 2011, 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 Company's December 31, 2010 Annual Report on Form 10-K.

NOTE 2 – EARNINGS PER SHARE

Basic earnings per common share ("EPS") excludes dilution and is computed by dividing net income applicable to common stock by the weighted average number of common shares outstanding for the year. Diluted EPS reflects the potential dilution that could occur if certain securities or other contracts to issue common stock (such as stock options) were exercised or converted into additional common shares that would then share in the earnings of the Company. Diluted EPS is computed by dividing net income applicable to common stock by the weighted average number of common shares outstanding for the year, plus an incremental number of common-equivalent shares computed using the treasury stock method. The following table sets forth the computation of basic and diluted earnings per share under the two-class method, as unvested share-based payment awards include the nonforfeitable right to receive dividends and therefore are considered participating securities:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net income, as reported	\$6,929	\$7,441	\$20,338	\$18,340
Weighted-average common shares outstanding – basic	7,677,972	7,657,098	7,671,911	7,655,097
Dilutive effect of stock-based compensation	5,598	5,953	8,490	5,822
Weighted-average common and potential common shares – diluted	7,683,570	7,663,051	7,680,401	7,660,919
Basic earnings per share – common stock	\$0.90	\$0.97	\$2.65	\$2.40
Basic earnings per share – unvested share-based payment awards	0.87	0.97	2.51	2.40
Diluted earnings per share – common stock	0.90	0.97	2.65	2.39
Diluted earnings per share – unvested share-based payment awards	0.90	0.97	2.65	2.39

For the three month and nine month periods ended September 30, 2011, options to purchase 108,200 and 102,400 shares, respectively, of common stock were not considered in the computation of potential common shares for purposes of diluted EPS, because the exercise prices of the options were greater than the average market price of the common stock for the respective periods. For both the three month and nine month periods ended September 30, 2010, options to purchase 92,050 and 87,750 shares of common stock, respectively, were not considered in the computation of potential common shares for purposes of diluted EPS, because the exercise prices of the options were greater than the average market price of the common stock for the respective periods.

NOTE 3 – SECURITIES

The following tables summarize the amortized costs and estimated fair values of securities available-for-sale and held-to-maturity, as of the dates indicated:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
September 30, 2011				
Available-for-sale				
Obligations of U.S. government sponsored enterprises	\$59,908	\$510	\$(28)	\$60,390
Obligations of states and political subdivisions	39,234	3,004	—	42,238
Mortgage-backed securities issued or guaranteed by U.S. government sponsored enterprises	454,125	19,907	(90)	473,942
Private issue collateralized mortgage obligations	12,942	—	(1,799)	11,143
Total debt securities	566,209	23,421	(1,917)	587,713
Equity securities	5,000	—	(758)	4,242
Total securities available-for-sale	\$571,209	\$23,421	\$(2,675)	\$591,955
December 31, 2010				
Available-for-sale				
Obligations of U.S. government sponsored enterprises	\$49,870	\$237	\$(750)	\$49,357
Obligations of states and political subdivisions	13,777	443	—	14,220
Mortgage-backed securities issued or guaranteed by U.S. government sponsored enterprises	451,909	15,986	(3,053)	464,842
Private issue collateralized mortgage obligations	23,441	—	(2,719)	20,722
Total debt securities	538,997	16,666	(6,522)	549,141
Equity securities	5,000	—	(562)	4,438
Total securities available-for-sale	\$543,997	\$16,666	\$(7,084)	\$553,579
Held-to-maturity		&		