

Section 1: 10-Q (QUARTERLY REPORT)

UNITED STATES OF AMERICA
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended **September 30, 2019**

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: **000-11486**



CONNECTONE BANCORP, INC.

(Exact Name of Registrant as Specified in Its Charter)

New Jersey
(State or Other Jurisdiction of
Incorporation or Organization)

52-1273725
(IRS Employer
Identification No.)

301 Sylvan Avenue
Englewood Cliffs, New Jersey 07632
(Address of Principal Executive Offices) (Zip Code)

201-816-8900
(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 subject 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 such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or emerging growth company. See definition of "large accelerated filer", "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
(Do not check if 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 7(a)(2)(B) of the Securities Act.

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading symbol	Name of each exchange on which registered
Common stock	CNOB	NASDAQ

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

Common Stock, no par value:
(Title of Class)

35,374,845 shares
(Outstanding as of November 6, 2019)

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Item 1. Financial Statements

**CONNECTONE BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CONDITION**

(in thousands, except for share data)	September 30, 2019 (unaudited)	December 31, 2018
ASSETS		
Cash and due from banks	\$ 54,792	\$ 39,161
Interest-bearing deposits with banks	139,217	133,205
Cash and cash equivalents	194,009	172,366
Securities available-for-sale	425,849	412,034
Equity securities	11,231	11,460
Loans held-for-sale	33,245	-
Loans receivable	5,110,471	4,541,092
Less: Allowance for loan losses	38,771	34,954
Net loans receivable	5,071,700	4,506,138
Investment in restricted stock, at cost	27,946	31,136
Bank premises and equipment, net	19,754	19,062
Accrued interest receivable	21,024	18,214
Bank owned life insurance	137,048	113,820
Right of use operating lease assets	15,789	-
OREO	907	-
Goodwill	162,574	145,909
Core deposit intangibles	5,800	1,737
Other assets	34,393	30,216
Total assets	\$ 6,161,269	\$ 5,462,092
LIABILITIES		
Deposits:		
Noninterest-bearing	\$ 828,190	\$ 768,584
Interest-bearing	3,923,044	3,323,508
Total deposits	4,751,234	4,092,092
Borrowings	512,456	600,001
Subordinated debentures (net of unamortized debt issuance costs of \$1,353 and \$1,599, respectively)	128,802	128,556
Operating lease liabilities	17,148	-
Other liabilities	31,469	27,516
Total liabilities	5,441,109	4,848,165
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Preferred Stock:		
Authorized 5,000,000 shares	-	-
Common stock, no par value:		
Authorized 50,000,000 shares; issued 37,668,785 shares at September 30, 2019 and 34,392,464 shares at December 31, 2018; outstanding 35,364,845 shares at September 30, 2019 and 32,328,542 at December 31, 2018	468,571	412,546
Additional paid-in capital	20,450	15,542
Retained earnings	254,159	211,345
Treasury stock, at cost 2,303,940 common shares at September 30, 2019 and 2,063,922 at December 31, 2018	(21,892)	(16,717)
Accumulated other comprehensive loss	(1,128)	(8,789)
Total stockholders' equity	720,160	613,927
Total liabilities and stockholders' equity	\$ 6,161,269	\$ 5,462,092

See accompanying notes to unaudited consolidated financial statements.

CONNECTONE BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(unaudited)

(in thousands, except for per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Interest income				
Interest and fees on loans	\$ 66,796	\$ 51,699	\$ 190,646	\$ 148,218
Interest and dividends on investment securities:				
Taxable	1,916	2,154	7,431	6,191
Tax-exempt	897	785	3,105	2,377
Dividends	502	530	1,369	1,517
Interest on federal funds sold and other short-term investments	278	183	925	607
Total interest income	70,389	55,351	203,476	158,910
Interest expense				
Deposits	17,351	10,681	49,298	27,538
Borrowings and subordinated debentures	4,632	4,708	15,290	14,318
Total interest expense	21,983	15,389	64,588	41,856
Net interest income	48,406	39,962	138,888	117,054
Provision for loan losses	2,000	1,100	7,600	20,000
Net interest income after provision for loan losses	46,406	38,862	131,288	97,054
Noninterest income				
Income on bank owned life insurance	915	751	2,570	2,300
Net gains on sale of loans held-for-sale	278	2	343	31
Deposit, loan and other income	1,116	676	2,816	1,893
Net gains (losses) on equity securities	79	(157)	340	(325)
Net losses on sales of securities available-for-sale	(279)	-	(280)	-
Total noninterest income	2,109	1,272	5,789	3,899
Noninterest expenses				
Salaries and employee benefits	12,420	10,174	36,168	29,575
Occupancy and equipment	2,480	2,137	7,332	6,311
FDIC insurance	(364)	735	1,216	2,350
Professional and consulting	1,499	891	4,078	2,439
Marketing and advertising	473	192	1,080	736
Data processing	1,058	1,102	3,352	3,341
Merger expenses	191	375	8,084	399
Loss on extinguishment of debt	-	-	1,047	-
Amortization of core deposit intangibles	340	145	1,068	483
Other components of net periodic pension expense	29	7	86	21
Other expenses	2,253	2,372	6,520	6,474
Total noninterest expenses	20,379	18,130	70,031	52,129
Income before income tax expense	28,136	22,004	67,046	48,824
Income tax expense	6,440	2,102	14,434	7,144
Net income	\$ 21,696	\$ 19,902	\$ 52,612	\$ 41,680
Earnings per common share:				
Basic	\$ 0.61	\$ 0.62	\$ 1.49	\$ 1.30
Diluted	0.61	0.61	1.48	1.29

See accompanying notes to unaudited consolidated financial statements.

CONNECTONE BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net income	\$ 21,696	\$ 19,902	\$ 52,612	\$ 41,680
Other comprehensive income (loss):				
Unrealized gains and losses:				
Unrealized holding gains (losses) on available-for-sale securities arising during the period	2,236	(2,840)	11,821	(9,639)
Tax effect	(584)	729	(3,061)	2,466
Net of tax	1,652	(2,111)	8,760	(7,173)
Reclassification adjustment for realized losses included in net income	279	-	280	-
Tax effect	(62)	-	(62)	-
Net of tax	217	-	218	-
Unrealized (losses) gains on cash flow hedges	(49)	14	(977)	1,108
Tax effect	27	(5)	309	(312)
Net of tax	(22)	9	(668)	796
Reclassification adjustment for gains included in net income	(204)	-	(563)	-
Tax effect	46	-	125	-
Net of tax	(158)	-	(438)	-
Unrealized pension plan gains and losses:				
Unrealized pension plan (losses) gains before reclassifications	-	-	(562)	236
Tax effect	-	-	158	(67)
Net of tax	-	-	(404)	169
Reclassification adjustment for amortization included in net income	90	91	269	274
Tax effect	(26)	(26)	(76)	(77)
Net of tax	64	65	193	197
Total other comprehensive income (loss)	1,753	(2,037)	7,661	(6,011)
Total comprehensive income	\$ 23,449	\$ 17,865	\$ 60,273	\$ 35,669

See accompanying notes to unaudited consolidated financial statements.

CONNECTONE BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(unaudited)

Nine Months Ended September 30, 2019

(dollars in thousands, except for per share data)	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive (Loss) Income	Total Stockholders' Equity
Balance as of December 31, 2018	\$ -	\$ 412,546	\$ 15,542	\$ 211,345	\$ (16,717)	\$ (8,789)	\$ 613,927
Net income	-	-	-	52,612	-	-	52,612
Other comprehensive income, net of tax	-	-	-	-	-	7,661	7,661
Cash dividends declared on common stock (\$0.27 per share)	-	-	-	(9,798)	-	-	(9,798)
Exercise of stock options (28,937 shares)	-	-	265	-	-	-	265
Restricted stock grants (64,459 shares)	-	-	-	-	-	-	-
Net restricted stock units issued (4,904 shares)	-	-	-	-	-	-	-
Repurchase of stock (240,018 shares)	-	-	-	-	(5,175)	-	(5,175)
Net performance units issued (26,517 shares)	-	-	196	-	-	-	196
Stock issued (3,032,496 shares) in acquisition of Greater Hudson Bank	-	56,025	-	-	-	-	56,025
Restricted stock issued (119,008 shares) in acquisition of BoeFly, LLC	-	-	2,500	-	-	-	2,500
Stock-based compensation expense	-	-	1,947	-	-	-	1,947
Balance as of September 30, 2019	\$ -	\$ 468,571	\$ 20,450	\$ 254,159	\$ (21,892)	\$ (1,128)	\$ 720,160

Three Months Ended September 30, 2019

(dollars in thousands, except for per share data)	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive (Loss) Income	Total Stockholders' Equity
Balance as of June 30, 2019	\$ -	\$ 468,571	\$ 19,777	\$ 235,649	\$ (21,892)	\$ (2,881)	\$ 699,224
Net income	-	-	-	21,696	-	-	21,696
Other comprehensive income, net of tax	-	-	-	-	-	1,753	1,753
Cash dividends declared on common stock (\$0.09 per share)	-	-	-	(3,186)	-	-	(3,186)
Restricted stock grants (11,979 shares)	-	-	-	-	-	-	-
Stock-based compensation expense	-	-	673	-	-	-	673
Balance as of September 30, 2019	\$ -	\$ 468,571	\$ 20,450	\$ 254,159	\$ (21,892)	\$ (1,128)	\$ 720,160

(continued)

Nine Months Ended September 30, 2018

(dollars in thousands, except for per share data)	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive (Loss) Income	Total Stockholders' Equity
Balance as of December 31, 2017	\$ -	\$ 412,546	\$ 13,602	\$ 160,025	\$ (16,717)	\$ (4,019)	\$ 565,437
classification of stranded tax effects (ASU 2018-02) (see Note 8)	-	-	-	709	-	(709)	-
cumulative effect of adopting ASU 2016-01 (see Note 8)	-	-	-	(55)	-	55	-
Net income	-	-	-	41,680	-	-	41,680
Other comprehensive loss, net of tax	-	-	-	-	-	(6,011)	(6,011)
cash dividends declared on common stock (\$0.225 per share)	-	-	-	(7,258)	-	-	-

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