

NORTHEAST BANCORP /ME/
Form 10-Q
February 12, 2010

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 December 31, 2009
Or

Transition report pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934

For the transition period for _____ to _____

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

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

(207) 786-3245
Registrant's telephone number, including area code

Not Applicable
Former name, former address and former fiscal year, if changed since last report.

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 the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. As of February 11, 2009, the registrant had outstanding 2,322,332 shares of common stock, \$1.00 stated value per share.

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Consolidated Balance Sheets

December 31, 2009 (Unaudited) and June 30, 2009

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Three Months Ended December 31, 2009 and 2008

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PART 1 - FINANCIAL INFORMATION

Item 1. Financial Statements

NORTHEAST BANCORP AND SUBSIDIARY

Consolidated Balance Sheets

	December 31, 2009 (Unaudited)	June 30, 2009 (Audited)
Assets		
Cash and due from banks	\$ 6,404,534	\$ 9,356,233
Interest-bearing deposits	2,933,617	3,666,409
Total cash and cash equivalents	9,338,151	13,022,642
Available-for-sale securities, at fair value	168,979,459	148,410,140
Loans held-for-sale	1,555,087	2,436,595
Loans receivable	390,954,386	393,650,762
Less allowance for loan losses	5,872,000	5,764,000
Net loans	385,082,386	387,886,762
Premises and equipment, net	8,687,725	8,744,170
Acquired assets, net	874,325	672,669
Accrued interest receivable	2,241,846	2,200,142
Federal Home Loan Bank stock, at cost	4,889,400	4,889,400
Federal Reserve Bank stock, at cost	596,750	596,750
Goodwill	4,490,500	4,490,500
Intangible assets, net of accumulated amortization of \$2,916,125 at 12/31/09 and \$2,390,087 at 6/30/09	7,785,439	8,311,477
Bank owned life insurance	13,034,536	12,783,525
Other assets	5,120,977	3,703,358
Total assets	\$ 612,676,581	\$ 598,148,130
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits		
Demand	\$ 33,508,735	\$ 32,228,276
NOW	49,293,468	44,465,265
Money market	42,336,213	39,049,403
Regular savings	30,950,670	19,079,009
Brokered time deposits	4,976,378	10,906,378
Certificates of deposit	213,368,170	239,657,655
Total deposits	374,433,634	385,385,986
Federal Home Loan Bank advances	53,960,000	40,815,000
Structured repurchase agreements	65,000,000	65,000,000
Short-term borrowings	45,960,429	34,435,309
Junior subordinated debentures issued to affiliated trusts	16,496,000	16,496,000
Capital lease obligation	2,306,136	2,378,827
Other borrowings	2,629,660	3,263,817

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Other liabilities	2,439,814	3,056,311
Total liabilities	563,225,673	550,831,250

Commitments and contingent liabilities

Stockholders' equity

Preferred stock, \$1.00 par value, 1,000,000 shares authorized; 4,227 shares issued and outstanding at December 31, 2009 and June 30, 2009; liquidation preference of \$1,000 per share	4,227	4,227
Common stock, at stated value, 15,000,000 shares authorized; 2,322,332 and 2,321,332 shares issued and outstanding at December 31, 2009 and June 30, 2009, respectively	2,322,332	2,321,332
Warrants	133,468	133,468
Additional paid-in capital	6,731,827	6,708,997
Retained earnings	37,303,350	36,697,712
Accumulated other comprehensive income	2,955,704	1,451,144
Total stockholders' equity	49,450,908	47,316,880
Total liabilities and stockholders' equity	\$ 612,676,581	\$ 598,148,130

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NORTHEAST BANCORP AND SUBSIDIARY
Consolidated Statements of Income
(Unaudited)

	Three Months Ended December 31,	
	2009	2008
Interest and dividend income:		
Interest on loans	\$6,030,062	\$6,615,786
Interest on Federal Home Loan Bank overnight deposits	-	244
Taxable interest on available-for-sale securities	1,724,484	1,833,533
Tax-exempt interest on available-for-sale securities	119,430	112,601
Dividends on available-for-sale securities	19,801	23,538
Dividends on Federal Home Loan Bank and Federal Reserve Bank stock	8,949	37,806
Other interest and dividend income	2,373	29,408
Total interest and dividend income	7,905,099	8,652,916
Interest expense:		
Deposits	1,770,788	2,376,157
Federal Home Loan Bank advances	475,681	659,223
Structured repurchase agreements	707,633	763,737
Short-term borrowings	178,369	223,973
Junior subordinated debentures issued to affiliated trusts	200,229	257,656
FRB Borrower-in-Custody	-	49,897
Obligation under capital lease agreements	29,489	39,511
Other borrowings	56,587	56,117
Total interest expense	3,418,776	4,426,271
Net interest and dividend income before provision for loan losses	4,486,323	4,226,645
Provision for loan losses	527,649	503,561
Net interest and dividend income after provision for loan losses	3,958,674	3,723,084
Noninterest income:		
Fees for other services to customers	400,980	278,042
Net securities gains	14,972	26,060
Gain on sales of loans	353,240	51,533
Investment commissions	534,976	607,628
Insurance commissions	1,379,280	1,430,767
BOLI income	126,011	122,456
Other income	293,186	174,763
Total noninterest income	3,102,645	2,691,249
Noninterest expense:		
Salaries and employee benefits	3,518,374	3,539,580
Occupancy expense	458,299	451,373
Equipment expense	410,570	422,391
Intangible assets amortization	186,117	188,639
Other	1,665,806	1,479,660
Total noninterest expense	6,239,166	6,081,643
Income before income tax expense	822,153	332,690

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Income tax expense	172,840		39,115	
Net income	\$649,313		\$293,575	
Net income available to common stockholders	\$588,519		\$280,637	
Earnings per common share:				
Basic	\$0.25		\$0.12	
Diluted	\$0.25		\$0.12	
Net interest margin (tax equivalent basis)	3.14	%	2.99	%
Net interest spread (tax equivalent basis)	2.98	%	2.82	%
Return on average assets (annualized)	0.42	%	0.19	%
Return on average equity (annualized)	5.18	%	2.75	%
Efficiency ratio	82	%	88	%

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NORTHEAST BANCORP AND SUBSIDIARY
Consolidated Statements of Income
(Unaudited)

	Six Months Ended December 31,	
	2009	2008
Interest and dividend income:		
Interest on loans	\$ 12,069,399	\$ 13,417,034
Interest on Federal Home Loan Bank overnight deposits	-	244
Taxable interest on available-for-sale securities	3,437,564	3,453,458
Tax-exempt interest on available-for-sale securities	234,895	227,126
Dividends on available-for-sale securities	27,187	35,248
Dividends on Federal Home Loan Bank and Federal Reserve Bank stock	17,903	81,949
Other interest and dividend income	7,982	32,604
Total interest and dividend income	15,794,930	17,247,663
Interest expense:		
Deposits	3,825,084	4,913,693
Federal Home Loan Bank advances	879,741	1,428,946
Structured repurchase agreements	1,479,388	1,421,771
Short-term borrowings	320,605	441,431
Junior subordinated debentures issued to affiliated trusts	405,391	510,915
FRB Borrower-in-Custody	-	61,992
Obligation under capital lease agreements	59,440	79,461
Other borrowings	113,364	121,603
Total interest expense	7,083,013	8,979,812
Net interest and dividend income before provision for loan losses	8,711,917	8,267,851
Provision for loan losses	1,082,543	1,024,285
Net interest and dividend income after provision for loan losses	7,629,374	7,243,566
Noninterest income:		
Fees for other services to customers	766,063	589,313
Net securities (losses) gains	42,679	(82,067)
Gain on sales of loans	566,518	111,695
Investment commissions	987,772	1,028,330
Insurance commissions	2,963,772	2,948,214
BOLI income	251,011	245,657
Other income	429,903	359,592
Total noninterest income	6,007,718	5,200,734
Noninterest expense:		
Salaries and employee benefits	6,922,739	6,932,335
Occupancy expense	892,764	891,837
Equipment expense	766,030	832,910
Intangible assets amortization	372,235	383,271
Other	3,213,249	3,078,970
Total noninterest expense	12,167,017	12,119,323
Income before income tax expense	1,470,075	324,977

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Income tax expense (benefit)	325,093	(37,713)
Net income	\$1,144,982	\$362,690	
Net income available to common stockholders	\$1,023,404	\$349,752	
Earnings per common share:			
Basic	\$0.44	\$0.15	
Diluted	\$0.44	\$0.15	
Net interest margin (tax equivalent basis)	3.08	%	2.95 %
Net interest spread (tax equivalent basis)	2.90	%	2.76 %
Return on average assets (annualized)	0.37	%	0.12 %
Return on average equity (annualized)	4.65	%	1.74 %
Efficiency ratio	83	%	90 %

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NORTHEAST BANCORP AND SUBSIDIARY
Consolidated Statements of Changes in Stockholders' Equity
Six Months Ended December 31, 2009 and 2008
(Unaudited)

	Preferred Stock	Common Stock	Warrants	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total
Balance at June 30, 2008	\$ -	\$ 2,315,182	\$ -	\$ 2,582,270	\$ 36,679,932	\$ (1,304,072)	\$ 40,273,312
Net income for six months ended 12/31/08	-	-	-	-	362,690	-	362,690
Other comprehensive income net of tax: Net unrealized gain on investments available for sale, net of reclassification adjustment	-	-	-	-	-	3,423,119	3,423,119
Total comprehensive income							3,785,809
Dividends on common stock at \$0.18 per share					(416,467)	-	(416,467)
Net proceeds from Capital Purchase Program	4,227	-	133,468	4,081,166	-	-	4,218,861
Stock options exercised	-	6,000	-	44,500	-	-	50,500
Stock grant	-	150	-	1,578	-	-	1,728
Accretion of preferred stock	-	-	-	1,439	(1,439)	-	-
Amortization of issuance cost of preferred stock	-	-	-	136	(136)	-	-
Balance at December 31, 2008	\$ 4,227	\$ 2,321,332	\$ 133,468	\$ 6,711,089	\$ 36,624,580	\$ 2,119,047	\$ 47,913,743
Balance at June 30, 2009	\$ 4,227	\$ 2,321,332	\$ 133,468	\$ 6,708,997	\$ 36,697,712	\$ 1,451,144	\$ 47,316,880

Net income for six months ended 12/31/09	-	-	-	-	1,144,982	-	1,144,982
Other comprehensive income net of tax:							
Net unrealized loss on purchased rate caps	-	-	-	-	-	(13,347)	(13,347)
Net unrealized gain on investments available for sale, net of reclassification adjustment	-	-	-	-	-	1,517,907	1,517,907
Total comprehensive income							2,649,542
Dividends on preferred stock	-	-	-	-	(105,675)	-	(105,675)
Dividends on common stock at \$0.18 per share	-	-	-	-	(417,839)	-	(417,839)
Stock options exercised	-	1,000	-	7,000	-	-	8,000
Accretion of preferred stock	-	-	-	12,229	(12,229)	-	-
Amortization of issuance cost of preferred stock	-	-	-	2,601	(2,601)	-	-
Balance at December 31, 2009	\$ 4,227	\$ 2,322,332	\$ 133,468	\$ 6,730,827	\$ 37,304,350	\$ 2,955,704	\$ 49,450,908

NORTHEAST BANCORP AND SUBSIDIARY
Consolidated Statements of Cash Flows
(Unaudited)

	Six Months Ended December 31,	
	2009	2008
Cash provided (used) by operating activities:	\$ 725,501	\$ (268,896)
Cash flows from investing activities:		
Available-for-sale securities purchased	(44,124,089)	(33,208,346)
Available-for-sale securities matured	24,737,082	7,109,660
Available-for-sale securities sold	1,123,849	2,703,046
Net change in loans	1,615,685	205,382
Net capital expenditures	(521,074)	(1,001,958)
Proceeds from sale of acquired assets	318,575	290,017
Proceeds from sale of business	269,575	-
Net cash used in investing activities	(16,580,397)	(23,902,199)
Cash flows from financing activities:		
Net change in deposits	(10,952,352)	1,616,997
Net change in short-term borrowings	11,525,120	6,923,967
Dividends paid	(523,515)	(416,467)
Net proceeds from Capital Purchase Program	-	4,191,861
Proceeds from stock options exercised	8,000	50,500
Advances from the Federal Home Loan Bank	12,500,000	5,000,000
Repayment of advances from the Federal Home Loan Bank	(2,000,000)	(10,000,000)
Net (payments) advances on Federal Home Loan Bank overnight advances	2,645,000	(19,680,000)
Structured repurchase agreements	-	20,000,000
FRB borrower-in-custody	-	15,000,000
Purchase of interest rate caps	(325,000)	-
Repayment on debt from insurance agencies acquisitions	(634,157)	(595,453)
Repayment on capital lease obligation	(72,691)	(72,110)
Net cash provided by financing activities	12,170,405	22,019,295
Net decrease cash and cash equivalents	(3,684,491)	(2,151,800)
Cash and cash equivalents, beginning of period	13,022,642	12,543,981
Cash and cash equivalents, end of period	\$ 9,338,151	\$ 10,392,181

Cash and cash equivalents include cash on hand, amounts due from banks, and interest-bearing deposits.

Supplemental schedule of noncash activities:

Transfer from loans to acquired assets and other real estate owned	\$ 686,759	\$ 508,839
Net change in valuation for unrealized gains/losses, net of income tax, on available-for-sale securities and purchased interest rate caps	\$ 1,504,560	\$ 3,423,119

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Supplemental disclosures of cash paid during the period for:

Income taxes paid, net of refunds	\$205,000	\$195,000
Interest paid	7,175,970	9,034,367

Insurance Agency acquisitions - see Note 10

NORTHEAST BANCORP AND SUBSIDIARY
Notes to Consolidated Financial Statements
December 31, 2009
(Unaudited)

1. Basis of Presentation

The accompanying unaudited condensed and consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, the accompanying consolidated financial statements contain all adjustments (consisting principally of normal recurring accruals) considered necessary for a fair presentation of the Company's financial position at December 31, 2009, the results of operations for the three and six month periods ended December 31, 2009 and 2008, the changes in stockholders' equity for the six month periods ended December 31, 2009 and 2008, and the cash flows for the six month periods ended December 31, 2009 and 2008. Operating results for the six month period ended December 31, 2009 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2010. For further information, refer to the audited consolidated financial statements and notes thereto for the fiscal year ended June 30, 2009 included in the Company's Annual Report on Form 10-K.

2. Junior Subordinated Debentures Issued to Affiliated Trust

NBN Capital Trust II and NBN Capital Trust III were created in December 2003. NBN Capital Trust IV was created in December 2004. Each such trust is a Delaware statutory trust (together, the "Private Trusts"). The exclusive purpose of the Private Trusts was (i) issuing and selling Common Securities and Preferred Securities in a private placement offering, (ii) using the proceeds of the sale of the Private Trust Securities to acquire Junior Subordinated Deferrable Interest Notes ("Junior Subordinated Debentures"); and (iii) engaging only in those other activities necessary, convenient or incidental thereto. Accordingly, the Junior Subordinated Debentures are the sole assets of each of the Private Trusts.

The following table summarizes the junior subordinated debentures issued by the Company to each affiliated trust and the trust preferred and common securities issued by each affiliated trust at December 31, 2009. Amounts include the junior subordinated debentures acquired by the affiliated trusts from the Company with the capital contributed by the Company in exchange for the common securities of such trust. The trust preferred securities (the "Preferred Securities") were sold in two separate private placement offerings. The Company has the right to redeem the junior subordinated debentures, in whole or in part, on or after March 30, 2009, for NBN Capital Trust II and III, and on or after February 23, 2010, for NBN Capital Trust IV, at the redemption price specified in the Indenture plus accrued but unpaid interest to the redemption date.

Affiliated Trusts	Trust Preferred Securities	Common Securities	Junior Subordinated Debentures	Interest Rate	Maturity Date
BN Capital Trust II	\$ 3,000,000	\$ 93,000	\$ 3,093,000	3.05%	March 30, 2034
NBN Capital Trust III	3,000,000	93,000	3,093,000	3.05%	March 30, 2034
NBN Capital Trust IV	10,000,000	310,000	10,310,000	5.88%	February 23, 2035
Total	\$ 16,000,000	\$ 496,000	\$ 16,496,000	4.82%	

NBN Capital Trust II and III pay a variable rate based on three month LIBOR plus 2.80%, and NBN Capital Trust IV pays a 5.88% fixed rate until February 23, 2010 when the rate changes to a variable rate based on three month LIBOR plus 1.89%. Accordingly, the Preferred Securities of the Private Trusts currently pay quarterly distributions at an

annual rate of 3.05% for the stated liquidation amount of \$1,000 per Preferred Security for NBN Capital Trust II and III and an annual rate of 5.88% for the stated liquidation amount of \$1,000 per Preferred Security for NBN Capital Trust IV. The Company has fully and unconditionally guaranteed all of the obligations of each trust. The guaranty covers the quarterly distributions and payments on liquidation or redemption of the Private Trust Preferred Securities, but only to the extent of funds held by the trusts. Based on the current rates, the annual interest expense on the Preferred Securities is approximately \$795,000.

3. Loans

The following is a summary of the composition of loans at:

	December 31, 2009	June 30, 2009
Residential real estate	\$ 144,995,437	\$ 138,789,985
Commercial real estate	127,265,252	120,889,910
Construction	4,413,439	6,383,948
Commercial	27,879,183	29,137,318
Consumer & Other	84,810,373	96,464,967
Total	389,363,684	391,666,128
Net Deferred Costs	1,590,702	1,984,634
Total Loans	\$ 390,954,386	\$ 393,650,762

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4. Allowance for Loan Losses

The following is an analysis of transactions in the allowance for loan losses:

		Six months Ended December 31,	
	2009		2008
Balance at beginning of period	\$ 5,764,000	\$	5,656,000
Add provision charged to operations	1,082,543		1,024,285
Recoveries on loans previously charged off	102,059		105,896
	6,948,602		6,786,181
Less loans charged off	1,076,602		1,065,181