NORTHEAST COMMUNITY BANCORP INC
Form 10-Q
August 13, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2009

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: 0-51852

Northeast Community Bancorp, Inc.
(Exact name of registrant as specified in its charter)

United States of America	06-1786701
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
325 Hamilton Avenue, White Plains, New York (Address of principal executive offices)	10601 (Zip Code)

(914) 684-2500
(Registrant's telephone number, including area code)

N/A
(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 subject to such filing requirements for the past 90 days. Yes T 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 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 "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 £ (Do not check if a smaller reporting company)	Smaller Reporting Company T

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

As of August 13, 2009, there were 13,225,000 shares of the registrant's common stock outstanding.

NORTHEAST COMMUNITY BANCORP, INC.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (UNAUDITED)

	June 30, 2009	December 31, 2008
	(In thousands, except share and per share data)	
ASSETS		
Cash and amounts due from depository institutions	$ 3,836	$ 2,368
Interest-bearing deposits	73,175	34,166
Cash and cash equivalents	77,011	36,534
Certificates of deposit	15,936	498
Securities available for sale	179	182
Securities held to maturity	1,880	2,078
Loans receivable, net of allowance for loan losses of $2,085 and $1,865, respectively	393,111	363,616
Premises and equipment, net	8,235	4,365
Federal Home Loan Bank of New York stock, at cost	2,952	2,350
Bank owned life insurance	10,301	8,902
Accrued interest receivable	1,934	1,785
Goodwill	1,310	1,310
Intangible assets	619	649
Real estate owned	631	832
Other assets	3,275	1,127
Total assets	$ 517,374	$ 424,228
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits:		
Non-interest bearing	$ 6,352	$ 6,209
Interest bearing	343,460	255,221
Total deposits	349,812	261,430
Advance payments by borrowers for taxes and insurance	3,166	6,624
Federal Home Loan Bank advances	50,000	40,000
Accounts payable and accrued expenses	3,247	5,191
Note payable	492	481
Total liabilities	406,717	313,726
Commitments and contingencies	–	–
Stockholders' equity:		
Preferred stock, $0.01 par value; 1,000,000 shares authorized, none issued	–	–
Common stock, $0.01 par value; 19,000,000 shares authorized; issued and outstanding: 13,225,000 shares	132	132
Additional paid-in capital	57,532	57,560
Unearned Employee Stock Ownership Plan ("ESOP") shares	(4,277)	(4,407)

Retained earnings	57,439	57,399
Accumulated comprehensive loss	(169)	(182)
Total stockholders’ equity	110,657	110,502
Total liabilities and stockholders’ equity	$ 517,374	$ 424,228

See Notes to Consolidated Financial Statements

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CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(In thousands, except per share data)			
INTEREST INCOME				
Loans	$6,050	$5,043	$11,882	$9,971
Interest-earning deposits	27	211	58	510
Securities – taxable	58	50	100	105
Total Interest Income	6,135	5,304	12,040	10,586
INTEREST EXPENSE				
Deposits	2,247	1,946	4,227	3,929
Borrowings	382	141	716	211
Total Interest Expense	2,629	2,087	4,943	4,140
Net Interest Income	3,506	3,217	7,097	6,446
PROVISION FOR LOAN LOSSES	336	79	386	79
Net Interest Income after Provision for Loan Losses	3,170	3,138	6,711	6,367
NON-INTEREST INCOME				
Other loan fees and service charges	77	102	160	193
Impairment loss on securities	-	-	(4)	-
Earnings on bank owned life insurance	113	92	199	193
Investment Advisory Fees	181	202	349	403
Other	3	3	3	38
Total Non-Interest Income	374	399	707	827
NON-INTEREST EXPENSES				
Salaries and employee benefits	1,766	1,540	3,300	3,008
Net occupancy expense of premises	374	278	659	554
Equipment	190	127	345	271
Outside data processing	192	168	390	335
Advertising	165	39	231	100
Real estate owned expenses	35	-	145	-
FDIC insurance premiums	216	6	227	12
Other	922	663	1,590	1,313
Total Non-Interest Expenses	3,860	2,821	6,887	5,593
Income (Loss) before Income Taxes	(316)	716	531	1,601
INCOME TAXES (BENEFIT)	(181)	271	160	628
Net (Loss) Income	$(135)	$445	$371	$973
Net (Loss) Income per Common Share – Basic	$(0.01)	$0.03	$0.03	$0.08
Weighted Average Number of Common Shares Outstanding – Basic	12,794	12,768	12,791	12,765

Dividends declared per common share	$0.03	$0.03	$0.06	$0.06

See Notes to Consolidated Financial Statements

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CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)
Six Months Ended June 30, 2009 and 2008

	Common Stock	Additional Paid-in Capital	Unearned ESOP Shares	Retained Earnings	Accumulated Other Comprehensive (Loss)	Total Stockholders' Equity	Comprehensive Income
Balance at December 31, 2007	$ 132	$ 57,555	$ (4,665)	$ 55,956	$ (149)	$ 108,829	
Comprehensive income:							
Net income	-	-	-	973	-	973	$ 973
Unrealized loss on securities available for sale, net of taxes of $9	-	-	-	-	(12)	(12)	(12)
Prior Service Cost and Actuarial Loss– DRP, net of taxes of $5	-	-	-	-	7	7	7
Cash dividend declared ($.06 per share) to minority stockholders	-	-	-	(329)	-	(329)	
ESOP shares earned	-	21	129	-	-	150	
Total comprehensive income							$ 968
Balance at June 30, 2008	$ 132	$ 57,576	$ (4,536)	$ 56,600	$ (154)	$ 109,618	
Balance at December 31, 2008	$ 132	$ 57,560	$ (4,407)	$ 57,399	$ (182)	$ 110,502	
Comprehensive income:							
Net income	-	-	-	371	-	371	$ 371
Change in unrealized loss on securities available for sale, net of	-	-	-	-	5	5	5

taxes of $1							
Prior Service Cost and Actuarial Loss– DRP, net of taxes of $6	-	-	-	-	8	8	8
Cash dividend declared ($.06 per share) to minority stockholders				(331)	-	(331)	
ESOP shares earned	-	(28)	130	-	-	102	
Total comprehensive income							$ 384
Balance at June 30, 2009	$ 132	$ 57,532	$ (4,277)	$ 57,439	$ (169)	$ 110,657	

See Notes to Consolidated Financial Statements

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CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$371	$973
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Net amortization of securities premiums and discounts, net	1	4
Provision for loan losses	386	79
Provision for depreciation	317	277
Net (accretion) of deferred loan discounts, fees and costs, net	(163)	(475)
Amortization other	41	45
Impairment loss on securities	4	-
Loss on disposal of equipment	3	-
Loss on sale of real estate owned	86	-
Earnings on bank owned life insurance	(199)	(193)
(Increase) in accrued interest receivable	(149)	(217)
(Increase) in other assets	(2,148)	(588)
Increase (decrease) in accrued interest payable	1	(2)
(Decrease) increase in other accounts payable and accrued expenses	(1,938)	328
ESOP shares earned	102	150
Net Cash (Used in) Provided by Operating Activities	(3,285)	381
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of loans	(1,529)	-
Net (increase) in loans	(28,189)	(41,850)
Principal repayments on securities available for sale	4	65
Principal repayments on securities held to maturity	198	549
Purchases of Federal Home Loan Bank of New York Stock	(602)	(812)
Purchases of premises and equipment	(4,190)	(152)
Purchases of Certificates of Deposit	(15,438)	-
Proceeds from sale of real estate owned	283	-
Capitalized costs on real estate owned	(168)	-
Purchase of bank owned life insurance	(1,200)	-
Net Cash (Used in) Investing Activities	(50,831)	(42,201)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	88,382	20,311
Proceeds from FHLB of New York advances	10,000	15,000
(Decrease) increase in advance payments by borrowers for taxes and insurance	(3,458)	580
Cash dividends paid to minority stockholders	(331)	(315)
Net Cash Provided by Financing Activities	94,593	35,576
Net Increase (Decrease) in Cash and Cash Equivalents	40,477	(6,243)
Cash and Cash Equivalents - Beginning	36,534	39,146
Cash and Cash Equivalents - Ending	$77,011	$32,903
SUPPLEMENTARY CASH FLOWS INFORMATION		

Income taxes paid	$3,862	$484
Interest paid	$4,942	$4,142
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING ACTIVITIES		
Loan transferred to Real Estate Owned	$-	$693

See Notes to Consolidated Financial Statements

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NORTHEAST COMMUNITY BANK
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – BASIS OF PRESENTATION

Northeast Community Bancorp, Inc. (the "Company") is a Federally-chartered corporation organized as a mid-tier holding company for Northeast Community Bank (the "Bank"), in conjunction with the Bank's reorganization from a mutual savings bank to the mutual holding company structure on July 5, 2006. The accompanying unaudited consolidated financial statements include the accounts of the Company, the Bank and the Bank's wholly owned subsidiary, New England Commercial Properties, LLC ("NECP"). All significant intercompany accounts and transactions have been eliminated in consolidation.

NECP, a New York limited liability company, was formed in October 2007 to facilitate the purchase or lease of real property by the Bank. As of June 30, 2009, NECP had title to one multi-family property located in Newark, New Jersey. The Bank accepted a deed-in-lieu of foreclosure and transferred this property to NECP on November 19, 2008.

The accompanying unaudited consolidated financial statements were prepared in accordance with generally accepted accounting principles for interim financial information as well as instructions for Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information or footnotes necessary for the presentation of financial position, results of operations, changes in stockholders' equity and cash flows in conformity with accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three-month and six-month periods ended June 30, 2009 are not necessarily indicative of the results that may be expected for the full year or any other interim period. The December 31, 2008 consolidated statement of financial condition data was derived from audited consolidated financial statements, but does not include all disclosures required by generally accepted accounting principles. That data, along with the interim financial information presented in the consolidated statements of financial condition, income, changes in stockholders' equity, and cash flows should be read in conjunction with the consolidated financial statements and notes thereto, included in the Company's annual report on Form 10-K for the year ended December 31, 2008.

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain recorded amounts and disclosures. Accordingly, actual results could differ from those estimates. The most significant estimate pertains to the allowance for loan losses.

The Company has evaluated subsequent events through August 13, 2009, the date of issuance of the financial data included herein.

NOTE 2 – EARNINGS PER SHARE

Basic earnings per common share is calculated by dividing the net income available to common stockholders by the weighted-average number of common shares outstanding during the period. Diluted earnings per common share is computed in a manner similar to basic earnings per common share except that the weighted average number of common shares outstanding is increased to include the incremental common shares (as computed using the treasury stock method) that would have been outstanding if all potentially dilutive common stock equivalents were issued during the period. Common stock equivalents may include restricted stock awards and stock options. Anti-dilutive shares are common stock equivalents with weighted-average exercise prices in excess of the weighted-average market value for the periods presented. The Company has not granted any restricted stock awards or stock options and, during the six-month periods ended June 30, 2009 and 2008, had no potentially dilutive common stock equivalents. Unallocated common shares held by the Employee Stock Ownership Plan ("ESOP") are not included in the weighted-average number of common shares outstanding for purposes of calculating both basic and diluted earnings per common share until they are committed to be released.

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NOTE 3 – EMPLOYEE STOCK OWNERSHIP PLAN

As of December 31, 2008 and June 30, 2009, the ESOP trust held 518,420 shares of the Company's common stock, which represents all allocated and unallocated shares held by the plan. As of December 31, 2008, the Company had allocated 51,842 shares to participants, and an additional 25,921 shares had been committed to be released. As of June 30, 2009, the Company had allocated 77,763 shares to participants, and an additional 12,961 shares had committed to be released. The Company recognized compensation expense of $54,000 and $75,000 during the three-month periods ended June 30, 2009 and 2008, respectively, and $102,000 and $150,000 during the six-month periods ended June 30, 2009 and 2008, respectively, which equals the fair value of the ESOP shares when they became committed to be released.

NOTE 4 – OUTSIDE DIRECTOR RETIREMENT PLAN ("DRP")

Periodic expenses for the Company's DRP were as follows:

	Three Months Ended June 30		Six Months Ended June 30,	
	(In thousands)			
	2009	2008	2009	2008
Service cost	$13	$12	$26	$24
Interest cost	9	7	18	14
Amortization of Prior Service Cost	5	5	10	10
Amortization of actuarial loss	2	1	4	2
Total	$29	$25	$58	$50

Effective January 1, 2006, the Bank implemented the DRP. This plan is a non-contributory defined benefit pension plan covering all non-employee directors meeting eligibility requirements as specified in the plan document. The DRP is accounted for under Statements of Financial Accounting Standards Nos. 132 and 158. The amortization of prior service cost and actuarial loss in the six-month periods ended June 30, 2009 and 2008 is also reflected as a reduction in other comprehensive income during each period.

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NOTE 5 – INVESTMENTS

The following table sets forth the amortized cost and fair values of our securities portfolio at the dates indicated (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2009				
Securities available for sale:				
FNMA common stock	$ -	$ -	$ -	$ -
Mortgage-backed securities	179	-	-	179
Total	$ 179	$ -	$ -	$ 179
Securities held to maturity:				
Mortgage-backed securities	$ 1,826	$ 22	$ 4	$ 1,844
Collateralized mortgage obligations	51	-	1	50
Private pass-through securities	3	-	-	3
Total	$ 1,880	$ 22	$ 5	$ 1,897
December 31, 2008				
Securities available for sale:				
FNMA common stock	$ 4	$ -	$ 3	$ 1
Mortgage-backed securities	183	-	2	181
Total	$ 187	$ -	$ 5	$ 182
Securities held to maturity:				
Mortgage-backed securities	$ 2,017	$ 6	$ 32	$ 1,991
Collateralized mortgage obligations	57	-	1	56
Private pass-through securities	4	-	1	3
Total	$ 2,078	$ 6	$ 34	$ 2,050

The age of unrealized losses and the fair value of related securities available for sale and held to maturity were as follows (in thousands):

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
June 30, 2009						
Mortgage-backed securities	$ -	$ -	$ 628	$ 4	$ 628	$ 4

Collateralized mortgage obligations	-	-	50	1	50	1
	$ -	$ -	$ 678	$ 5	$ 678	$ 5

December 31, 2008						
FNMA common stock	$ 1	$ 3	$ -	$ -	$ 1	$ 3
Mortgage backed securities	125	2	1,656	34	1,781	36
	$ 126	$ 5	$ 1,656	$ 34	$ 1,782	$ 39

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NOTE 5 – INVESTMENTS (Continued)

At June 30, 2009, 24 mortgage-backed securities and 3 collateralized mortgage obligations had unrealized losses. Management concluded that the unrealized losses reflected above for these securities were temporary in nature since they were primarily related to market interest rates and not related to the underlying credit quality of the issuers of the securities. Additionally, as the Company does not intend to sell these investments and it is not more likely than not that the Company will be required to sell these investments before a market recovery, these investments are not considered to be other-then-temporarily impaired.

NOTE 6 – FAIR VALUE MEASUREMENTS

Effective January 1, 2008, the Company adopted the provisions of SFAS No. 157, “Fair Value Measurements”, for financial assets and financial liabilities. In accordance with Financial Accounting Standards Board Staff Position (FSP) No. 157-2, “Effective Date of FASB Statement No. 157,” the Company delayed the application of SFAS 157 for non-financial assets and non-financial liabilities, until January 1, 2009. SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. The adoption of No. 157-2 did not have an impact on the amounts recorded in the consolidated financial statements.

SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact, and (iv) willing to transact.

SFAS 157 requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement cost). Valuation techniques should be consistently applied. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity’s own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, SFAS 157 establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Level 1 Inputs – Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 Inputs – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability; either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the assets or liabilities (such as interest rates, volatilities, prepayment speeds, credit risks, etc.) or inputs that are derived principally from or corroborated by market data by correction or other means.

Level 3 Inputs – Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

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NOTE 6 – FAIR VALUE MEASUREMENTS (Continued)

An asset or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. These valuation methodologies were applied to all of the Company's financial assets and financial liabilities carried at the fair value effective January 1, 2008.

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counter-party credit quality, the Company's creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. The Company's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Company's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Securities Available for Sale. Securities classified as available for sale are reported at fair value utilizing Level 2 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information, and the bond's terms and conditions, among other things.

The following table summarizes financial assets measured at fair value on a recurring basis as of June 30, 2009 and December 31, 2008, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Securities available for sale:				
June 30, 2009	$ -	$ 179	$ -	$ 179
December 31, 2008	-	182	-	182

Certain financial assets and financial liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). Financial assets and financial liabilities measured at fair value on a nonrecurring basis were as follows:

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Impaired loans:				
June 30, 2009	$ -	$ -	$ 1,448	$ 1,448
December 31, 2008	-	-	-	-

Impaired loans at June 30, 2009, included two loans having an aggregate principal balance of $1,614,000 and which were subject to charge-offs during the quarter ended June 30, 2009, aggregating $166,000.

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NOTE 6 – FAIR VALUE MEASUREMENTS (Continued)

Management uses its best judgment in estimating the fair value of the Company's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts the Company could have realized in a sale transaction on the dates indicated. The estimated fair value amounts have been measured as of their respective year-ends and have not been re-evaluated or updated for purposes of these financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each year-end.

The following information should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only provided for a limited portion of the Company's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company's disclosures and those of other companies may not be meaningful. The following methods and assumptions were used to estimate the fair values of the Company's financial instruments at June 30, 2009 and December 31, 2008.

Cash and Cash Equivalents, Certificates of Deposit and Accrued Interest Receivable and Payable

For these short-term instruments, the carrying amount is a reasonable estimate of fair value.

Securities

For available for sale and held to maturity securities, fair values are based on level 2 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, markets consensus prepayment speeds, credit information, and the bond's terms and conditions, among other things.

Loans

Fair values are estimated for portfolios of loans with similar financial characteristics. The total loan portfolio is first divided into performing and non-performing categories. Performing loans are then segregated into adjustable and fixed rate interest terms. Fixed rate loans are segmented by type, such as construction and land development, other loans secured by real estate, commercial and industrial loans, and loans to individuals.

Certain loan types, such as commercial loans and loans to individuals, are further segmented by maturity and type of collateral.

For performing loans, fair value is calculated by discounting scheduled future cash flows through estimated maturity using a market rate that reflects the credit and interest-rate risks inherent in the loans. The discounted value of the cash flows is reduced by a credit risk adjustment based on internal loan classifications.

For non-performing loans, fair value is calculated by first reducing the carrying value by a credit risk adjustment based on internal loan classifications, and then discounting the estimated future cash flows from the remaining carrying value at a market rate.

Impaired loans are those that are accounted for under FASB Statement No. 114, Accounting by Creditors for Impairment of a Loan ("SFAS 114"), in which the Bank has measured impairment generally based on the fair value of the loan's collateral. Fair value is generally determined based upon independent third-party appraisals of the properties, or discounted cash flows based upon the expected proceeds. These assets are typically included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements.

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NOTE 6 – FAIR VALUE MEASUREMENTS (Continued)

FHLB of New York Stock

The carrying amount of FHLB of New York stock is equal to its fair value and considers the limited marketability of this security.

Deposit Liabilities

The fair value of deposits with no stated maturity, such as non-interest-bearing demand deposits, money market accounts, interest checking accounts, and savings accounts is equal to the amount payable on demand. Time deposits are segregated by type, size, and remaining maturity. The fair value of time deposits is based on the discounted value of contractual cash flows. The discount rate is based on rates currently offered in the market. At June 30, 2009 and December 31, 2008, accrued interest payable of $21,000 and $20,000, respectively, is included in deposit liabilities.

FHLB of New York Advances and Note Payable

The fair value of FHLB advances and note payable are estimated based on the discounted value of future contractual payments. The discount rate is equivalent to the estimated rate at which the Bank could currently obtain similar financing.

Off-Balance-Sheet Financial Instruments

The fair value of commitments to extend credit is estimated based on an analysis of the interest rates and fees currently charged to enter into similar transactions, considering the remaining terms of the commitments and the credit-worthiness of the potential borrowers. At June 30, 2009 and December 31, 2008, the estimated fair values of these off-balance-sheet financial instruments were immaterial.

The carrying amounts and estimated fair value of our financial instruments are as follows:

	At June 30, 2009		At December 31, 2008	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(In Thousands)			
Financial assets:				
Cash and cash equivalents	$77,011	$ 77,011	$36,534	$ 36,534
Certificates of deposit	15,936	15,936	498	498
Securities available for sale	179	179	182	182
Securities held to maturity	1,880	1,897	2,078	2,050
Loans receivable	393,111	404,294	363,616	381,444
FHLB stock	2,952	2,952	2,350	2,350
Accrued interest receivable	1,934	1,934	1,785	1,785
Financial liabilities:				
Deposits	349,812	358,311	261,430	267,168
FHLB advances	50,000	51,818	40,000	42,330
Note payable	492	492	481	481

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NOTE 6 - FAIR VALUE MEASUREMENTS (Continued)

Effective January 1, 2008, the Company adopted the provisions of SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115.” SFAS 159 permits the Company to choose to measure eligible items at fair value at specified election dates. Unrealized gains and losses on items for which the fair value measurement option has been elected are reported in earnings at each subsequent reporting date. The fair value option (i) may be applied instrument by instrument, with certain exceptions, thus the Company may record identical financial assets and liabilities at fair value or by another measurement basis permitted under generally accepted accounting principles, (ii) is irrevocable (unless a new election date occurs), and (iii) is applied only to entire instruments and not to portions of instruments. Adoption of SFAS 159 on January 1, 2008 did not have any impact on the Company’s consolidated financial statements.

NOTE 7 – EFFECT OF SALE OF OUR NEW YORK CITY BRANCH OFFICE

On June 29, 2007, the Bank completed the sale of its branch office building located at 1353-55 First Avenue, New York, New York (the “Property”). The sale price for the Property was $28.0 million. At closing, the Bank received $10.0 million in cash and an $18.0 million zero coupon promissory note recorded at its then present value of $16.3 million (the “Original Note”). The Original Note was payable in two $9.0 million installments due on the first and second anniversaries of the Original Note. On July 31, 2008, as payment of the first installment due under the Original Note, the Bank received $2.0 million in cash and a new $7.0 million note bearing interest at 7% per annum and payable over a five-month period ending on December 31, 2008 (the “New Note”). On December 31, 2008, the Original Note and the remaining $1.9 million balance on the New Note were rolled into a new $10.9 million note payable on July 31, 2009 (the “Combined Note”). On July 29, 2009, prior to the due date, the $10.9 million Combined Note was extended to January 31, 2010. The amount due on such date includes interest and expenses. The Combined Note is secured by 100% of the interests in the companies owning the Property. In addition, the Combined Note is secured by a first mortgage on the Property. This note is not treated as a loan or extension of credit for purposes of the regulatory limits on loans to one borrower.

NOTE 8 – COMPREHENSIVE INCOME

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Net (loss) income	$(135)	$445	$371	$973
Other comprehensive income (loss):				
Gross unrealized holding gain (loss) on securities available for sale, net of income tax (benefit), of $-, $3, $(1), and $9, respectively.	-	(5)	5	(12)
Benefit plan amounts (amortization of prior service costs and actuarial gains, net of incometax effect of $3, $2, $6, and $5, respectively).	4	3	8	7
Other comprehensive income (loss)	4	(2)	13	(5)
Comprehensive income (loss)	$(131)	$443	$384	$968

NOTE 9 – EFFECT OF RECENT ACCOUNTING PRONOUNCEMENTS

Financial Accounting Standards Board ("FASB") Statement No. 141 (R) "Business Combinations" was issued in December 2007. This Statement establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree. The Statement also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The guidance will become effective as of the beginning of a company's fiscal year beginning after December 15, 2008. This new pronouncement will impact the Company's accounting for business combinations, if any, completed beginning January 1, 2009.

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NOTE 9 – EFFECT OF RECENT ACCOUNTING PRONOUNCEMENTS (Continued)

In March 2008, the FASB issued Statement No. 161, "Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133" (Statement 161). Statement 161 requires entities that utilize derivative instruments to provide qualitative disclosures about their objectives and strategies for using such instruments, as well as any details of credit-risk-related contingent features contained within derivatives. Statement 161 also requires entities to disclose additional information about the amounts and location of derivatives located within the financial statements, how the provisions of SFAS 133 has been applied, and the impact that hedges have on an entity's financial position, financial performance, and cash flows. Statement 161 is effective for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The implementation of this pronouncement, effective January 1, 2009, had no impact on the Company's consolidated financial statements.

In April 2009, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) No. FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly (FSP FAS 157-4). FASB Statement 157, Fair Value Measurements, defines fair value as the price that would be received to sell the asset or transfer the liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. FSP FAS 157-4 provides additional guidance on determining when the volume and level of activity for the asset or liability has significantly decreased. The FSP also includes guidance on identifying circumstances when a transaction may not be considered orderly.

FSP FAS 157-4 provides a list of factors that a reporting entity should evaluate to determine whether there has been a significant decrease in the volume and level of activity for the asset or liability in relation to normal market activity for the asset or liability. When the reporting entity concludes there has been a significant decrease in the volume and level of activity for the asset or liability, further analysis of the information from that market is needed and significant adjustments to the related prices may be necessary to estimate fair value in accordance with Statement 157.

This FSP clarifies that when there has been a significant decrease in the volume and level of activity for the asset or liability, some transactions may not be orderly. In those situations, the entity must evaluate the weight of the evidence to determine whether the transaction is orderly. The FSP provides a list of circumstances that may indicate that a transaction is not orderly. A transaction price that is not associated with an orderly transaction is given little, if any, weight when estimating fair value.

This FSP is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The adoption of this pronouncement, effective April 1, 2009, did not have a material impact on the Company's consolidated financial statements.

In April 2009, the FASB issued FSP No. FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments (FSP FAS 115-2 and FAS 124-2). FSP FAS 115-2 and FAS 124-2 clarifies the interaction of the factors that should be considered when determining whether a debt security is other-than-temporarily impaired. For debt securities, management must assess whether (a) it has the intent to sell the security and (b) it is more likely than not that it will be required to sell the security prior to its anticipated recovery. These steps are done before assessing whether the entity will recover the cost basis of the investment. Previously, this assessment required management to assert it has both the intent and the ability to hold a security for a period of time sufficient to allow for an anticipated recovery in fair value to avoid recognizing an other-than-temporary impairment. This change does not affect the need to forecast recovery of the value of the security through either cash flows or market price.

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NOTE 9 – EFFECT OF RECENT ACCOUNTING PRONOUNCEMENTS (Continued)

In instances when a determination is made that an other-than-temporary impairment exists but the investor does not intend to sell the debt security and it is not more likely than not that it will be required to sell the debt security prior to its anticipated recovery, FSP FAS 115-2 and FAS 124-2 changes the presentation and amount of the other-than-temporary impairment recognized in the income statement. The other-than-temporary impairment is separated into (a) the amount of the total other-than-temporary impairment related to a decrease in cash flows expected to be collected from the debt security (the credit loss) and (b) the amount of the total other-than-temporary impairment related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is recognized in earnings. The amount of the total other-than-temporary impairment related to all other factors is recognized in other comprehensive income.

This FSP is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The adoption of this pronouncement, effective April 1, 2009, did not have an impact on the Company's consolidated financial statements.

In April 2009, the FASB issued FSP No. FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments (FSP FAS 107-1 and APB 28-1). FSP FAS 107-1 and APB 28-1 amends FASB Statement No. 107, Disclosures about Fair Value of Financial Instruments, to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This FSP also amends APB Opinion No. 28, Interim Financial Reporting, to require those disclosures in summarized financial information at interim reporting periods.

This FSP is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The adoption of this pronouncement, effective April 1, 2009, did not have an impact on the Company's consolidated financial statements.

In June 2009, the FASB issued SFAS No. 166, Accounting for Transfers of Financial Assets, an amendment of FASB Statement No. 140. This statement prescribes the information that a reporting entity must provide in its financial reports about a transfer of financial assets; the effects of a transfer on its financial position, financial performance and cash flows; and a transferor's continuing involvement in transferred financial assets. Specifically, among other aspects, SFAS 166 amends Statement of Financial Standard No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, or SFAS 140, by removing the concept of a qualifying special-purpose entity from SFAS 140 and removes the exception from applying FIN 46(R) to variable interest entities that are qualifying special-purpose entities. It also modifies the financial-components approach used in SFAS 140. SFAS 166 is effective for fiscal years beginning after November 15, 2009. We have not determined the effect that the adoption of SFAS 166 will have on our consolidated financial position or results of operations.

In June 2009, the FASB issued SFAS No. 167, Amendments to FASB Interpretation No. 46(R). This statement amends FASB Interpretation No. 46, Consolidation of Variable Interest Entities (revised December 2003) — an interpretation of ARB No. 51, or FIN 46(R), to require an enterprise to determine whether it's variable interest or interests give it a controlling financial interest in a variable interest entity. The primary beneficiary of a variable interest entity is the enterprise that has both (1) the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and (2) the obligation to absorb losses of the entity that could potentially be significant to the variable interest entity or the right to receive benefits from the entity that could potentially be significant to the variable interest entity. SFAS 167 also amends FIN 46(R) to require ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity. SFAS 167 is effective for fiscal years beginning after November 15, 2009. We have not determined the effect that the adoption of SFAS 167 will have on our consolidated financial position or results of operations.

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NOTE 9 – EFFECT OF RECENT ACCOUNTING PRONOUNCEMENTS (Continued)

In June 2009, the FASB issued SFAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162. SFAS 168 replaces SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles, to establish the FASB Accounting Standards Codification as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in preparation of financial statements in conformity with generally accepted accounting principles in the United States. SFAS 168 is effective for interim and annual periods ending after September 15, 2009. We do not expect the adoption of this standard to have an impact on our consolidated financial position or results of operations.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

FORWARD-LOOKING STATEMENTS

This quarterly report contains forward-looking statements that are based on assumptions and may describe future plans, strategies and expectations of the Company. These forward-looking statements are generally identified by use of the words "believe," "expect," "intend," "anticipate," "estimate," "project" or similar expressions. The Company's abi predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse effect on the operations of the Company include, but are not limited to, changes in interest rates, national and regional economic conditions, legislative and regulatory changes, monetary and fiscal policies of the U.S. government, including policies of the U.S. Treasury and the Federal Reserve Board, the quality and composition of the loan or investment portfolios, demand for loan products, deposit flows, competition, demand for financial services in the Bank's market area, changes in real estate market values in the Bank's market area, and changes in relevant accounting principles and guidelines. Additional factors that may affect the Company's results are discussed in the Company's Annual Report on Form 10-K under "Item 1A. Risk Factors." These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. Except as required by applicable law or regulation, the Company does not undertake, and specifically disclaims any obligation, to release publicly the result of any revisions that may be made to any forward-looking statements to reflect events or circumstances after the date of the statements or to reflect the occurrence of anticipated or unanticipated events.

CRITICAL ACCOUNTING POLICIES

We consider accounting policies involving significant judgments and assumptions by management that have, or could have, a material impact on the carrying value of certain assets or on income to be critical accounting policies. We consider the following to be our critical accounting policies: allowance for loan losses and deferred income taxes.

Allowance for Loan Losses. The allowance for loan losses is the amount estimated by management as necessary to cover probable credit losses in the loan portfolio at the statement of financial condition date. The allowance is established through the provision for loan losses, which is charged to income. Determining the amount of the allowance for loan losses necessarily involves a high degree of judgment. Among the material estimates required to establish the allowance are: loss exposure at default; the amount and timing of future cash flows on impacted loans; value of collateral; and determination of loss factors to be applied to the various elements of the portfolio. All of these estimates are susceptible to significant change. Management reviews the level of the allowance on a quarterly basis and establishes the provision for loan losses based upon an evaluation of the portfolio, past loss experience, current economic conditions and other factors related to the collectibility of the loan portfolio. Although we believe that we use the best information available to establish the allowance for loan losses, future adjustments to the allowance may be necessary if economic conditions differ substantially from the assumptions used in making the evaluation. In addition, the Office of Thrift Supervision, as an integral part of its examination process, periodically reviews our allowance for loan losses. The Office of Thrift Supervision could require us to recognize adjustments to the allowance based on its judgments about information available to it at the time of its examination. A large loss could deplete the allowance and require increased provisions to replenish the allowance, which would negatively affect earnings. For additional discussion, see note 1 of the notes to the consolidated financial statements included in the Company's Annual Report on Form 10-K for 2008.

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Deferred Income Taxes. We use the asset and liability method of accounting for income taxes as prescribed in Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes." Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. If current available information raises doubt as to the realization of the deferred tax assets, a valuation allowance is established. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. We exercise significant judgment in evaluating the amount and timing of recognition of the resulting tax liabilities and assets. These judgments require us to make projections of future taxable income. The judgments and estimates we make in determining our deferred tax assets, which are inherently subjective, are reviewed on a continual basis as regulatory and business factors change. Any reduction in estimated future taxable income may require us to record a valuation allowance against our deferred tax assets. A valuation allowance would result in additional income tax expense in the period, which would negatively affect earnings.

Second Quarter Performance Highlights

Several one-time and extraordinary items contributed to the Company recording a loss for the second quarter of 2009 of $135,000, its first quarterly loss in 13 years. In particular, non-interest expenses increased $1.0 million to $3.9 million for the second quarter primarily as a result of our branch expansion plans. During the quarter, the Company opened two full service branches in Danvers and Plymouth, Massachusetts. Expenses related to staffing, marketing and furnishing these branches contributed significantly to the net loss for the quarter.

Our second quarter 2009 earnings were further reduced by an FDIC special assessment, which increased our non-interest expenses by $210,000 from the 2008 second quarter. The special assessment was imposed by the FDIC in order to cover the losses of the Deposit Insurance Fund that were incurred from failed financial institutions as well as anticipated future losses.

Our 2009 second quarter performance was positively impacted by a $289,000, 8.9% increase in net interest income to $3.5 million resulting primarily from increases in average balances of our loans, securities and other interest earning assets. The benefit of the rise in net interest income was reduced by a $336,000 provision for loan losses, which exceeded the year-earlier level by $257,000 due to the continuing decline in the local real estate markets and an increase in non-accrual loans to $5.0 million at June 30, 2009 from $1.9 million at December 31, 2008. Reflecting the impact of the recession on certain of our borrowers, net charge-offs rose to $166,000 during the quarter from $0 in the year-earlier three months. The increase was due to charge-offs on two non-performing non-residential mortgage loans totaling $1.5 million.

Comparison of Financial Condition at June 30, 2009 and December 31, 2008

Total assets increased by $93.2 million, or 22.0%, to $517.4 million at June 30, 2009 from $424.2 million at December 31, 2008. The increase in total assets was primarily due to increases of $40.5 million in cash and cash equivalents, $29.5 million in loans receivable, net, $15.4 million in certificates of deposits at other financial institutions, $3.9 million in premises and equipment, $2.1 million in other assets, and $1.4 million in bank owned life insurance. These increases were funded by increases of $88.4 million in deposits and $10.0 million in FHLB of New York advances, partially offset by a decrease of $3.5 million in advance payments by borrowers for taxes and insurance.

Cash and cash equivalents increased by $40.5 million, or 110.8%, to $77.0 million at June 30, 2009, from $36.5 million at December 31, 2008. In addition, certificates of deposits at other financial institutions increased by $15.4 million, or 3,100.0%, to $15.9 million at June 30, 2009, from $498,000 at December 31, 2008. The increase in short-term liquidity was primarily the result of deposit growth outpacing loan demand. The Company expects that balances of cash and cash equivalents and certificates of deposit will decrease over time primarily through the shrinkage in the national CD market certificates of deposit program.

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Loans receivable, net, increased by $29.5 million, or 8.1%, to $393.1 million at June 30, 2009 from $363.6 million at December 31, 2008, due to loan originations and purchases aggregating $35.4 million and increases in commercial business loans of $805,000 that exceeded loan repayments of $8.5 million.

Bank owned life insurance increased by $1.4 million, or 15.7%, to $10.3 million at June 30, 2009 from $8.9 million at December 31, 2008 due primarily to the additional purchase of $1.2 million of bank owned life insurance.

Premises and equipment increased by $3.9 million, or 88.7%, to $8.2 million at June 30, 2009 from $4.4 million at December 31, 2008 due to the purchases of the premises and equipment for, and renovation of, the two new branch offices located in Massachusetts, both of which opened in the second quarter of 2009.

Real estate owned decreased by $201,000, or 24.2%, to $631,000 at June 30, 2009 from $832,000 at December 31, 2008 due to the sale of a foreclosed multi-family property located in Hampton, New Hampshire that resulted in net proceeds of $283,000 and a loss of $86,000. The decrease in real estate owned was partially offset by capitalized cost of $168,000 to renovate a foreclosed multi-family building located in Newark, New Jersey.

Other assets increased by $2.1 million to $3.3 million at June 30, 2009 from $1.1 million at December 31, 2008 due primarily to an increase in current tax assets.

Advances from the FHLB increased by $10.0 million or 25.0% to $50.0 million at June 30, 2009 from $40.0 million at December 31, 2008. The increase in borrowings occurred during the first quarter of 2009 and was used to fund loan originations. The Bank did not incur any new borrowings during the quarter ended June 30, 2009.

Deposits increased by $88.4 million, or 33.8%, to $349.8 million at June 30, 2009 from $261.4 million at December 31, 2008. The increase in deposits was primarily attributable to an effort by the Bank to increase deposits through the opening of two new branch offices in Massachusetts during the second quarter of 2009 and the offering of competitive interest rates in our retail branches. During this period, the Bank decreased its reliance on two nationwide certificate of deposit listing services. As a result, our retail branches attracted $98.9 million in additional deposits that were offset by a decrease of $10.5 million in certificates of deposits obtained through the deposit listing services.

Advance payments by borrowers for taxes and insurance decreased by $3.5 million, or 52.2%, to $3.2 million at June 30, 2009 from $6.6 million at December 31, 2008 due primarily to an unusual remittance delay at December 31, 2008 that was resolved in January 2009.

Stockholders' equity increased by $155,000, or 0.1%, to $110.7 million at June 30, 2009, from $110.5 million at December 31, 2008. This increase was primarily the result of net income of $371,000 and the amortization of $102,000 for ESOP shares earned the period, partially offset by a cash dividends declared of $331,000.

Comparison of Operating Results for the Three Months Ended June 30, 2009 and 2008

General. Net income decreased by $580,000, or 130.3%, resulting in a net loss of $135,000 for the quarter ended June 30, 2009, from net income of $445,000 for the quarter ended June 30, 2008. The decrease was primarily the result of increases in additional non-interest expenses associated with the opening of two new branch locations in Massachusetts, the provision for loan losses and FDIC deposit insurance premiums, including a special assessment as of June 30, 2009. These increases were partially offset by an increase in net interest income and a decrease in the provision for income taxes.

Net Interest Income. Net interest income increased by $289,000, or 9.0%, to $3.5 million for the three months ended June 30, 2009 from $3.2 million for the three months ended June 30, 2008. The increase in net interest income resulted primarily from an increase in interest income due primarily to increased loan originations that exceeded an increase in interest expense resulting from increased certificates of deposit and borrowings. The increase in net interest income was partially offset by a decrease of $7.1 million in average net interest-earning assets.

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The net interest spread decreased by 16 basis points to 2.42% for the three months ended June 30, 2009 from 2.58% for the three months ended June 30, 2008. The decrease in the interest rate spread in the second quarter of 2009 compared to the same period in 2008 was due to the yield on our interest-earning assets decreasing more than a corresponding decrease in the cost of our interest-bearing liabilities. The yield on our interest-bearing assets decreased by 45 basis points to 5.36% for the three months ended June 30, 2009 from 5.81% for the three months ended June 30, 2008. The cost of our interest-bearing liabilities decreased by 29 basis points to 2.94% for the three months ended June 30, 2009 from 3.23% for the three months ended June 30, 2008. The decrease in both the yield on our interest-earning assets and the cost of our interest-bearing liabilities was due to the decreasing interest rate environment.

The net interest margin decreased by 46 basis points between these periods from 3.52% for the quarter ended June 30, 2008 to 3.06% for the quarter ended June 30, 2009. The increase in the net interest income, despite the declines in net interest spread and net interest margin, was due to an increase in loan volume.

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The following table summarizes average balances and average yields and costs of interest-earning assets and interest-bearing liabilities for the three months ended June 30, 2009 and 2008.

	Three Months Ended June 30,					
	2009			2008		
	Average Balance	Interest and Dividends	Yield/ Cost	Average Balance	Interest and Dividends	Yield/ Cost
	(Dollars in thousands)					
Assets:						
Interest-earning assets:						
Loans	$389,627	$ 6,050	6.21 %	$318,364	$ 5,043	6.34 %
Securities (including FHLB stock)	5,090	58	4.56	3,951	50	5.06
Other interest-earning assets	62,950	27	0.17	43,095	211	1.96
Total interest-earning assets	457,667	6,135	5.36	365,410	5,304	5.81
Allowance for loan losses	(1,919)			(1,489)		
Non-interest-earning assets	29,313			20,439		
Total assets	$485,061			$384,360		
Liabilities and equity:						
Interest-bearing liabilities:						
Interest-bearing demand	$27,066	$ 62	0.92 %	$22,173	$ 32	0.58 %
Savings and club accounts	59,020	120	0.81	58,469	112	0.77
Certificates of deposit	221,501	2,065	3.73	162,456	1,802	4.44
Total interest-bearing deposits	307,587	2,247	2.92	243,098	1,946	3.20
Borrowings	50,489	382	3.03	15,637	141	3.61
Total interest-bearing liabilities	358,076	2,629	2.94	258,735	2,087	3.23
Noninterest-bearing demand	6,503			4,283		
Other liabilities	9,529			11,899		
Total liabilities	374,108			274,917		
Stockholders' equity	110,953			109,443		
Total liabilities and Stockholders' equity	$485,061			$384,360		
Net interest income		$ 3,506			$ 3,217	
Interest rate spread			2.42 %			2.58 %
Net interest margin			3.06 %			3.52 %
Net interest-earning assets	$99,591			$106,675		
Interest-earning assets to interest-bearing liabilities	127.81 %			141.23 %		

Total interest income increased by $831,000, or 15.7%, to $6.1 million for the three months ended June 30, 2009, from $5.3 million for the three months ended June 30, 2008. Interest income on loans increased by $1.0 million, or 20.0%, to $6.0 million for the three months ended June 30, 2009 from $5.0 million for the three months ended June 30, 2008. The average balance of the loan portfolio increased by $71.3 million to $389.6 million for the three months ended June 30, 2009 from $318.4 million for the three months ended June 30, 2008 as originations outpaced repayments. The average yield on loans decreased by 13 basis points to 6.21% for the three months ended June 30, 2009 from 6.34% for the three months ended June 30, 2008.

Interest income on securities increased by $8,000, or 16.0%, to $58,000 for the three months ended June 30, 2009 from $50,000 for the three months ended June 30, 2008. The increase was primarily due to an increase of $1.1 million, or 28.8%, in the average balance of securities to $5.1 million for the three months ended June 30, 2009 from $4.0 million for the three months ended June 30, 2008. The increase in the average balance was due to an increase in FHLB New York stock. The increase in the average balance was offset by a decrease of 50 basis points in the average yield on securities to 4.56% for the three months ended June 30, 2009 from 5.06% for the three months ended June 30, 2008. The decline in the yield was due to the decline in interest rates from June 30, 2008 to June 30, 2009.

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Interest income on other interest-earning assets (consisting solely of interest-earning deposits) decreased by $184,000, or 87.2%, to $27,000 for the three months ended June 30, 2009 from $211,000 for the three months ended June 30, 2008. The decrease was primarily the result of a decrease of 179 basis points in the yield to 0.17% for the three months ended June 30, 2009 from 1.96% for the three months ended June 30, 2008, offset by an increase of $19.9 million, or 46.1%, in the average balance of other interest-earning assets to $63.0 million for the three months ended June 30, 2009 from $43.1 million for the three months ended June 30, 2008. The decline in the yield was due to the decline in interest rates from June 30, 2008 to June 30, 2009. The increase in the average balance of other interest-earning assets was due to the increase in cash and cash equivalents and certificates of deposit.

Total interest expense increased by $542,000, or 26.0%, to $2.6 million for the three months ended June 30, 2009 from $2.1 million for the three months ended June 30, 2008. Interest expense on deposits increased by $301,000, or 15.5%, to $2.2 million for the three months ended June 30, 2009 from $1.9 million for the three months ended June 30, 2008. During this same period, the average cost of deposits decreased by 28 basis points to 2.92% for the three months ended June 30, 2009 from 3.20% for the three months ended June 30, 2008.

Due to an effort by the Bank to increase deposits through the opening of two new branch offices in Massachusetts during the second quarter of 2009, the offering of competitive interest rates in our retail branches, and less reliance on two nationwide certificate of deposit listing services, the average balance of certificates of deposits increased by $59.0 million, or 36.4%, to $221.5 million for the three months ended June 30, 2009 from $162.5 million for the three months ended June 30, 2008. Concurrent with the increase in the average balance of certificates of deposits, interest expense on our certificates of deposits increased by $263,000, or 14.6%, to $2.1 million for the three months ended June 30, 2009 from $1.8 million for the three months ended June 30, 2008. The increase in the average balance of certificates of deposits was offset by a decrease in the average cost of our certificates of deposits of 71 basis points to 3.73% for the three months ended June 30, 2009 from 4.44% for the three months ended June 30, 2008.

Interest expense on our other deposit products increased by $38,000, or 26.4%, to $182,000 for the three months ended June 30, 2009 from $144,000 for the three months ended June 30, 2008. The increase was due to an increase of 4 basis points in the cost of our savings and holiday club deposits to 0.81% for the three months ended June 30, 2009 from 0.77% for the three months ended June 30, 2008 and an increase of 34 basis points in the cost of our interest-bearing demand deposits to 0.92% for the three months ended June 30, 2009 from 0.58% for the three months ended June 30, 2008. The increase in interest expense was also due to an increase of $4.9 million, or 22.1%, in the average balance of interest-bearing demand deposits to $27.1 million for the three months ended June 30, 2009 from $22.2 million for the three months ended June 30, 2008 and an increase of $551,000, or 0.9%, in the average balance of our savings and holiday club deposits to $59.0 million for the three months ended June 30, 2009 from $58.5 million for the three months ended June 30, 2008.

Interest expense on borrowings increased by $241,000, or 170.9%, to $382,000 for the three months ended June 30, 2009 from $141,000 for the three months ended June 30, 2008. The increase was primarily due to an increase of $34.9 million, or 222.9%, in the average balance of borrowed money to $50.5 million for the three months ended June 30, 2009 from $15.6 million for the three months ended June 30, 2008. Interest expense on borrowed money for the three months ended June 30, 2009 was comprised of $377,000 in interest expense on an average balance of $50.0 million in FHLB advances and $5,000 in interest expense on an average balance of $489,000 on a note payable incurred in connection with the acquisition of the operating assets of Hayden Financial Group LLC (now operating as Hayden Wealth Management Group, the Bank’s investment advisory and financial planning service division) in the fourth quarter of 2007. This compared to interest expense from FHLB advances of $133,000 on an average balance of $15.0 million in FHLB advances and $8,000 in interest expense on an average balance of $637,000 on the Hayden acquisition note for the three months ended June 30, 2008.

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Provision for Loan Losses. The following table summarizes the activity in the allowance for loan losses and provision for loan losses for the three months ended June 30, 2009 and 2008.

	Three Months Ended June 30, 2009	2008
	(Dollars in thousands)	
Allowance at beginning of period	$ 1,915	$ 1,489
Provision for loan losses	336	79
Charge-offs	166	–
Recoveries	–	–
Net charge-offs	166	–
Allowance at end of period	$ 2,085	$ 1,568
Allowance to nonperforming loans	39.77 %	57.82 %
Allowance to total loans outstanding at the end of the period	0.53 %	0.48 %
Net charge-offs to average loans outstanding during the period (annualized)	0.09 %	0.00 %

The allowance for loan losses was $2.09 million at June 30, 2009, $1.87 million at December 31, 2008, and $1.57 million at June 30, 2008. We recorded provisions for loan losses of $336,000 and $79,000 for the three-month periods ended June 30, 2009 and 2008. The primary reason for the increased provision during the first half of 2009 was the continued deterioration of the national and local economies and the deterioration in local real estate markets. Recognizing this deterioration, the Bank slowed loan growth during the first half of the year leading to a modest increase in the total loan portfolio of $8.7 million or 2.3% to $395.2 million at June 30, 2009 from $386.5 million at March 31, 2009. During the three months ended June 30, 2009 we also charged-off $166,000 against two non-performing non-residential mortgage loans totalling $1.5 million. We did not have any recoveries during the three months ended June 30, 2009.

We did not record any loan charge-offs or recoveries during the three months ended June 30, 2008.

Non-interest Income. Non-interest income decreased by $25,000, or 6.3%, to $374,000 for the three months ended June 30, 2009 from $399,000 for the three months ended June 30, 2008. The decrease was primarily due to a $25,000 decrease in other loan fees and service charges and a $21,000 decrease in fee income generated by Hayden Wealth Management Group, the Bank's investment advisory and financial planning services division, offset by a $21,000 increase in earnings on bank owned life insurance.

Non-interest Expense. Non-interest expense increased by $1.1 million, or 36.8%, to $3.9 million for the three months ended June 30, 2009 from $2.8 million for the three months ended June 30, 2008. The increase resulted primarily from increases relating to the opening of two new branch locations in Massachusetts and FDIC deposit insurance premiums. Specifically, the Company recorded increases of $259,000 in other non-interest expense, $226,000 in salaries and employee benefits, $210,000 in FDIC insurance expense, $126,000 in advertising expense, $96,000 in occupancy expense, $63,000 in equipment expense, $35,000 in real estate owned expenses, and $24,000 in outside data processing expense.

Other non-interest expense increased by $259,000, or 39.1%, to $922,000 in 2009 from $663,000 in 2008 due mainly to increases of $230,000 in expenses related to the opening of two branch offices in Massachusetts during the second quarter of 2009, and $22,000 in telephone expense.

Salaries and employee benefits, which represented 45.8% of the Company's non-interest expense during the quarter ended June 30, 2009, increased by $226,000, or 14.7%, to $1.77 million in 2009 from $1.54 million in 2008 due to normal salary increases and an increase in the number of full time equivalent employees from 86 at June 30, 2008 to 90 at June 30, 2009. The increase was due to the addition of one employee at Hayden Wealth Management Group and seven employees at the two new branch offices in Massachusetts, offset by a reduction of four employees at branch offices in the New York area.

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FDIC insurance expense increased by $210,000 to $216,000 in 2009 from $6,000 in 2008 due to increased deposit insurance rates in the current period and special assessment of $205,000 incurred as of June 30, 2009.

Advertising expense increased by $126,000, or 323.1%, to $165,000 in 2009 from $39,000 in 2008 due to a marketing campaign in connection with the opening of the two new branch offices in Massachusetts and an increased effort to market the Bank's deposit and investment products and services.

Occupancy expense increased by $96,000, or 34.5%, to $374,000 in 2009 from $278,000 in 2008 due to the addition of two new branch offices in Massachusetts and increases in utility expense and real estate tax expense. Equipment expense increased by $63,000, or 49.6%, to $190,000 in 2009 from $127,000 in 2008 due to the addition of our two new branch offices and the upgrade of equipment.

Real estate owned expense of $35,000 was due to operating expenses in connection with the maintenance and operation of a foreclosed property located in Newark, New Jersey. The Bank did not have any real estate owned expense during the three months ended June 30, 2008.

Outside data processing expense increased by $24,000, or 14.3%, to $192,000 in 2009 from $168,000 in 2008 due to the addition of two new branch offices in Massachusetts and additional services provided in 2009 by the Company's core data processing vendor.

Income Taxes. Income tax expense decreased by $452,000, or 166.8%, to a benefit of $181,000 for the three months ended June 30, 2009 from an expense of $271,000 for the three months ended June 30, 2008. The decrease resulted primarily from a $1.0 million decrease in pre-tax income in 2009 compared to 2008. The effective tax rate was a benefit of 57.3% for the three months ended June 30, 2009 and 37.8% for the three months ended June 30, 2008.

Comparison of Operating Results For The Six Months Ended June 30, 2009 and 2008

General. Net income decreased by $602,000, or 61.9%, to $371,000 for the six months ended June 30, 2009 from $973,000 for the six months ended June 30, 2008. The decrease was the primarily result of increases in additional non-interest expenses associated with the opening of two new branch locations in Massachusetts, the provision for loan losses and FDIC deposit insurance premiums, including a special assessment as of June 30, 2009. These increases were partially offset by an increase in net interest income and a decrease in the provision for income taxes.

Net Interest Income. Net interest income increased by $651,000, or 10.1%, to $7.1 million for the six months ended June 30, 2009 from $6.4 million for the six months ended June 30, 2008. The increase in net interest income resulted primarily from an increase in interest income due primarily to increased loan originations that exceeded an increase in interest expense resulting from increased certificates of deposit and borrowings. The increase in net interest income was partially offset by a decrease of $1.7 million in average net interest-earning assets.

The net interest spread decreased by 10 basis points to 2.56% for the six months ended June 30, 2009 from 2.66% for the six months ended June 30, 2008. The decrease in the interest rate spread in 2009 compared to the same period in 2008 was due to the yield on our interest-earning assets decreasing more than the corresponding decrease in the cost of our interest-bearing liabilities. The yield on our interest-bearing assets decreased by 45 basis points to 5.52% for the six months ended June 30, 2009 from 5.97% for the six months ended June 30, 2008. The cost of our interest-bearing liabilities decreased by 35 basis points to 2.96% for the six months ended June 30, 2009 from 3.31% for the six months ended June 30, 2008. The decrease in both the yield on our interest-earning assets and the cost of our interest-bearing liabilities was due to the decreasing interest rate environment.

The net interest margin decreased by 39 basis points between these periods from 3.64% for the six months ended June 30, 2008 to 3.25% for the six months ended June 30, 2009. The increase in the net interest income, despite the declines in net interest spread and net interest margin, was due to increased loan volume.

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The following table summarizes average balances and average yields and costs of interest-earning assets and interest-bearing liabilities for the six months ended June 30, 2009 and 2008.

	Six Months Ended June 30,					
	2009			2008		
	Average Balance	Interest and Dividends	Yield/ Cost	Average Balance	Interest and Dividends	Yield/ Cost
	(Dollars in thousands)					
Assets:						
Interest-earning assets:						
Loans	$ 381,745	$ 11,882	6.23 %	$ 309,963	$ 9,971	6.43 %
Securities	4,929	100	4.06	3,898	105	5.39
Other interest-earning assets	49,690	58	0.23	40,615	510	2.51
Total interest-earning assets	436,364	12,040	5.52	354,476	10,586	5.97
Allowance for loan losses	(1,892)			(1,489)		
Non-interest-earning assets	26,276			19,738		
Total assets	$ 460,748			$ 372,725		
Liabilities and equity:						
Interest-bearing liabilities:						
Interest-bearing demand	$ 26,041	$ 105	0.81 %	$ 21,616	$ 71	0.66 %
Savings and club accounts	58,301	238	0.82	57,885	215	0.74
Certificates of deposit	202,189	3,884	3.84	159,297	3,643	4.57
Total interest-bearing deposits	286,531	4,227	2.95	238,798	3,929	3.29
Borrowings	47,530	716	3.01	11,660	211	3.62
Total interest-bearing liabilities	334,061	4,943	2.96	250,458	4,140	3.31
Noninterest-bearing demand	6,372					
Other liabilities	9,446			9,598		
Total liabilities	349,879			263,481		
Stockholders’ equity	110,869			109,244		

Total liabilities and Stockholders’ equity	$ 460,748			$ 372,705		
Net interest income		$ 7,097			$ 6,446	
Interest rate spread			2.56 %			2.66 %
Net interest margin			3.25 %			3.64 %
Net interest-earning assets	$ 102,303			$ 104,018		
Average interest-earning assets to average interest-bearing liabilities	130.62 %			141.53 %		

Total interest income increased by $1.5 million, or 13.7%, to $12.0 million for the six months ended June 30, 2009, from $10.6 million for the six months ended June 30, 2008. Interest income on loans increased by $1.9 million, or 19.2%, to $11.9 million for the six months ended June 30, 2009 from $10.0 million for the six months ended June 30, 2008. The average balance of the loan portfolio increased by $71.8 million to $381.7 million for the six months ended June 30, 2009 from $310.0 million for the six months ended June 30, 2008 as originations outpaced repayments. The average yield on loans decreased by 20 basis points to 6.23% for the six months ended June 30, 2009 from 6.43% for the six months ended June 30, 2008.

Interest income on securities decreased by $5,000, or 4.8%, to $100,000 for the six months ended June 30, 2009 from $105,000 for the six months ended June 30, 2008. The decrease was primarily due to a decrease of 133 basis points in the average yield on securities to 4.06% for the six months ended June 30, 2009 from 5.39% for the six months ended June 30, 2008. The decline in the yield was due to the decline in interest rates from June 30, 2008 to June 30, 2009. This decrease was partially offset by an increase of $1.0 million, or 26.4%, in the average balance of securities to $4.9 million for the six months ended June 30, 2009 from $3.9 million for the six months ended June 30, 2008. The increase in the average balance was due to an increase in FHLB New York stock.

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Interest income on other interest-earning assets (consisting solely of interest-earning deposits) decreased by $452,000, or 88.6%, to $58,000 for the six months ended June 30, 2009 from $510,000 for the six months ended June 30, 2008. The decrease was primarily the result of a decrease of 228 basis points in the yield to 0.23% for the six months ended June 30, 2009 from 2.51% for the six months ended June 30, 2008, offset by an increase of $9.1 million, or 22.3%, in the average balance of other interest-earning assets to $49.7 million for the six months ended June 30, 2009 from $40.6 million for the six months ended June 30, 2008. The decline in the yield was due to the decline in interest rates from June 30, 2008 to June 30, 2009. The increase in the average balance of other interest-earning assets was due to increased levels of cash and cash equivalents and certificates of deposit.

Total interest expense increased by $803,000, or 19.4%, to $4.9 million for the six months ended June 30, 2009 from $4.1 million for the six months ended June 30, 2008. Interest expense on deposits increased by $298,000, or 7.6%, to $4.2 million for the six months ended June 30, 2009 from $3.9 million for the six months ended June 30, 2008. During this same period, the average interest cost of deposits decreased by 34 basis points to 2.95% for the six months ended June 30, 2009 from 3.29% for the six months ended June 30, 2008.

Due to an effort by the Bank to increase deposits through the opening of two new branch offices in Massachusetts during the second quarter of 2009, the offering of competitive interest rates in our retail branches, and less reliance on two nationwide certificate of deposit listing, the average balance of certificates of deposits increased by $42.9 million, or 26.9%, to $202.2 million for the six months ended June 30, 2009 from $159.3 million for the six months ended June 30, 2008. Concurrent with the increase in the average balance of certificates of deposit, interest expense on our certificates of deposit increased by $241,000, or 6.6%, to $3.9 million for the six months ended June 30, 2009 from $3.6 million for the six months ended June 30, 2008. The increase in the average balance of certificates of deposit was offset by a decrease in the average cost of our certificates of deposit by 73 basis points to 3.84% for the six months ended June 30, 2009 from 4.57% for the six months ended June 30, 2008.

Interest expense on our other deposit products increased by $57,000, or 19.9%, to $343,000 for the six months ended June 30, 2009 from $286,000 for the six months ended June 30, 2008. The increase was due to an increase of 8 basis points in the cost of our savings and holiday club deposits to 0.82% for the six months ended June 30, 2009 from 0.74% for the six months ended June 30, 2008 and an increase of 15 basis points in the cost of our interest-bearing demand deposits to 0.81% for the six months ended June 30, 2009 from 0.66% for the six months ended June 30, 2008. The increase in interest expense was also due to an increase of $4.4 million, or 20.5%, in the average balance of interest-bearing demand deposits to $26.0 million for the six months ended June 30, 2009 from $21.6 million for the six months ended June 30, 2008 and an increase of $416,000, or 0.7%, in the average balance of our savings and holiday club deposits to $58.3 million for the six months ended June 30, 2009 from $57.9 million for the six months ended June 30, 2008.

Interest expense on borrowings increased by $505,000, or 239.3%, to $716,000 for the six months ended June 30, 2009 from $211,000 for the six months ended June 30, 2008. The increase was primarily due to an increase of $35.9 million, or 307.6%, in the average balance of borrowed money to $47.5 million for the six months ended June 30, 2009 from $11.7 million for the six months ended June 30, 2008. Interest expense on borrowed money for the six months ended June 30, 2009 was comprised of $705,000 in interest expense on an average balance of $47.0 million in FHLB advances and $11,000 in interest expense on an average balance of $486,000 on a note payable incurred in connection with the acquisition of the operating assets of Hayden Financial Group LLC (now operating as Hayden Wealth Management Group, the Bank's investment advisory and financial planning service division) in the fourth quarter of 2007. This compared to interest expense from FHLB advances of $196,000 on an average balance of $11.0 million in FHLB advances and $15,000 in interest expense on an average balance of $634,000 on Hayden the acquisition note during the six months ended June 30, 2008.

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Provision for Loan Losses. The following table summarizes the activity in the allowance for loan losses and provision for loan losses for the six months ended June 30, 2009 and 2008.

	Six Months Ended June 30, 2009	2008
	(Dollars in thousands)	
Allowance at beginning of period	$ 1,865	$ 1,489
Provision for loan losses	386	79
Charge-offs	166	–
Recoveries	–	–
Net charge-offs	166	–
Allowance at end of period	$ 2,085	$ 1,568

We recorded provisions for loan losses of $386,000 and $79,000 for the six-month periods ended June 30, 2009 and 2008. During the six months ended June 30, 2009 we also charged-off $166,000 against two non-performing non-residential mortgage loans totalling $1.5 million. We did not have any recoveries during the six months ended June 30, 2009 and 2008.

Non-interest Income. Non-interest income decreased by $120,000, or 14.5%, to $707,000 for the six months ended June 30, 2009 from $827,000 for the six months ended June 30, 2008. The decrease was primarily due to decreases of $54,000 in fee income generated by Hayden Wealth Management Group, the Bank's investment advisory and financial planning services division, $35,000 in other non-interest income, and $33,000 in other loan fees and service charges.

Non-interest Expense. Non-interest expense increased by $1.3 million, or 23.1%, to $6.9 million for the six months ended June 30, 2009 from $5.6 million for the six months ended June 30, 2008. The increase resulted primarily from increases relating to the opening of two new branch locations in Massachusetts and FDIC deposit insurance premiums. Specifically, the Company recorded increases of $277,000 in other non-interest expense, $292,000 in salaries and employee benefits, $215,000 in FDIC insurance expense, $145,000 in real estate owned expenses, $131,000 in advertising expense, $105,000 in occupancy expense, $74,000 in equipment expense, and $55,000 in outside data processing expense.

Other non-interest expense increased by $277,000, or 21.1%, to $1.6 million in 2009 from $1.3 million in 2008 due mainly to increases of $269,000 in expenses related to the opening of two branch offices in Massachusetts during the second quarter of 2009, $25,000 in telephone expense, $22,000 in audit and accounting expense, $19,000 in insurance expense, $16,000 in service contracts expense, and $9,000 in directors compensation expense. These increases were partially offset by decreases of $62,000 in legal fees and $15,000 in office supplies expense.

Salaries and employee benefits, which represented 47.9% of the Company's non-interest expense during the six months ended June 30, 2009, increased by $292,000, or 9.7%, to $3.3 million in 2009 from $3.0 million in 2008 due to normal salary increases and an increase in the number of full time equivalent employees from 86 at June 30, 2008 to 90 at June 30, 2009. The increase was due to the addition of one employee at Hayden Wealth Management Group and seven employees at the two new branch offices in Massachusetts, offset by a reduction of four employees at branch offices in the New York area.

FDIC insurance expense increased by $215,000, or 1,791.7%, to $227,000 in 2009 from $12,000 in 2008 due to increased deposit insurance rates in the current period and the special assessment of $205,000 charged as of June 30, 2009.

The real estate owned expense of $145,000 was due to the Bank's recognition of an $86,000 loss in 2009 on the disposition of a foreclosed multi-family property located in Hampton, New Hampshire and operating expenses of $59,000 in connection with the maintenance and operation of a foreclosed property located in Newark, New Jersey. The Bank did not have any real estate owned expense during the six months ended June 30, 2008.

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Advertising expense increased by $131,000, or 131.0%, to $231,000 in 2009 from $100,000 in 2008 due to a marketing campaign in connection with the opening of the two new branch offices in Massachusetts and an increased effort to market the Bank's deposit and investment products and services.

Occupancy expense increased by $105,000, or 19.0%, to $659,000 in 2009 from $554,000 in 2008 due to the addition of two new branch offices and increases in utility expense and real estate tax expense. Equipment expense increased by $74,000, or 27.3%, to $345,000 in 2009 from $271,000 in 2008 due to the addition of two new branch offices and the upgrade of equipment.

Outside data processing expense increased by $55,000, or 16.4%, to $390,000 in 2009 from $335,000 in 2008 due to the addition of two new branch offices and additional services provided in 2009 by the Company's core data processing vendor.

Income Taxes. Income tax expense decreased by $468,000, or 74.5%, to $160,000 for the six months ended June 30, 2009 from $628,000 for the six months ended June 30, 2008. The decrease resulted primarily from a $1.1 million decrease in pre-tax income in 2009 compared to 2008. The effective tax rate was 30.1% for the six months ended June 30, 2009 and 39.2% for the six months ended June 30, 2008. The decrease in effective tax rate was due to the increased portion of pre-tax income during 2009 from tax-exempt sources.

NON PERFORMING ASSETS

The following table provides information with respect to our non-performing assets at the dates indicated.

	At June 30, 2009		At December 31, 2008	
	(Dollars in thousands)			
Non-accrual loans	$ 4,984		$ 1,875	
Loans past due 90 days or more and accruing	-		-	
Total nonaccrual and 90 days or more past due loans	4,984		1,875	
Other non-performing loans	258		1,345	
Total non-performing loans	5,242		3,220	
Real estate owned	631		832	
Total non-performing assets	5,873		4,052	
Troubled debt restructurings	-		-	
Total troubled debt restructurings and non-performing assets	$ 5,873		$ 4,052	
Total non-performing loans to total loans	1.33	%	0.88	%
Total non-performing loans to total assets	1.01	%	0.76	%
Total non-performing assets and troubled debt restructurings to total assets	1.13	%	0.96	%

Non-accrual loans at June 30, 2009 consisted of eight loans in the aggregate – three non-residential mortgage loans, four multi-family mortgage loans and one $1,000 consumer loan.

The three non-accrual non-residential mortgage loans totaled $2.3 million at June 30, 2009. One of the non-accrual non-residential mortgage loans had an outstanding balance of $813,000 and is secured by an office/warehouse industrial facility located in Portland, Connecticut. The second non-accrual non-residential mortgage loan had an outstanding balance of $779,000 and is secured by an office building located in Mamaroneck, New York. The third non-accrual non-residential mortgage loan had an outstanding balance of $669,000 and is secured by two gasoline stations and an automobile repair facility located in Putnam and Westchester Counties, New York.

The four non-accrual multi-family mortgage loans totaled $2.7 million at June 30, 2009. One of the non-accrual multi-family mortgage loans had an outstanding balance of $1.2 million and is secured by seven-unit apartment building located in Cambridge, Massachusetts. Another non-accrual multi-family mortgage loan had an outstanding balance of $656,000 and is secured by a six-unit apartment building located in Brooklyn, New York.

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The third non-accrual multi-family mortgage loan had an outstanding balance of $632,000 and is secured by three apartment buildings with 17 units located in Troy, New York. The fourth non-accrual multi-family mortgage loan had an outstanding balance of $261,000 and is secured by an eleven-unit apartment building located in Elizabeth, New Jersey.

We are in the process of foreclosing on each of these seven non-residential and multi-family properties. Based on a recent fair value analysis of the properties, the Bank established specific valuation allowances of $100,000 against the non-residential mortgage loan secured by the two gasoline stations and an automobile repair facility located in Putnam and Westchester Counties, New York and $66,000 against the non-residential mortgage loan secured by an office building located in Mamaroneck, New York.

At June 30, 2009, we also had one non-accrual consumer loan totaling $1,000. The borrower subsequently brought the loan current in July 2009.

At June 30, 2009, the other non-performing loan consisted of one loan which was not 90 days or more delinquent, but where management had serious doubts about the borrower's ability to comply with contractual loan terms. The loan had an outstanding balance of $258,000 and is secured by a mixed-use building with six apartments and two street level commercial units located in Brooklyn, New York.

At June 30, 2009, we had one foreclosed property with a net balance of $631,000 which consisted of a six unit multi-family building located in Newark, New Jersey. We completed renovation of this property and we are in process of leasing all the units, with the eventual goal of marketing the property for sale when the real estate market has stabilized.

At December 31, 2008, the other non-performing loans consisted of two loans which were not 90 days or more delinquent, but where management had serious doubts about the borrowers' abilities to comply with contractual loan terms. One of the loans, with an outstanding balance of $181,000 as of December 31, 2008, cured its delinquencies and is current as of June 30, 2009. The other loan, secured by a seven-unit apartment building located in Cambridge, Massachusetts with an outstanding balance of $1.2 million as of December 31, 2008, was subsequently reclassified as non-accrual and is described above as a non-performing loan as of June 30, 2009.

Liquidity Management. Liquidity is the ability to meet current and future financial obligations of a short-term nature. Our primary sources of funds consist of deposit inflows, loan repayments, maturities and sales of securities, and borrowings from the Federal Home Loan Bank of New York. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions and competition.

We regularly adjust our investments in liquid assets based upon our assessment of: (1) expected loan demands; (2) expected deposit flows; (3) yields available on interest-earning deposits and securities; and (4) the objectives of our asset/liability management policy.

Our most liquid assets are cash and cash equivalents. The levels of these assets depend on our operating, financing, lending, and investing activities during any given period. Cash and cash equivalents totaled $77.0 million at June 30, 2009 and consist primarily of interest-bearing deposits at other financial institutions and miscellaneous cash items. In addition, certificates of deposits at other financial institutions totaled $15.9 million at June 30, 2009. Securities classified as available for sale provide an additional source of liquidity. Total securities classified as available for sale were $179,000 at June 30, 2009.

At June 30, 2009, we had $24.5 million in loan commitments outstanding, consisting of $16.3 million in unused commercial business lines of credit, $3.4 million in unused real estate equity lines of credit, $2.4 million of real estate loan commitments, $2.3 million in unused loans in process, and $174,000 in consumer lines of credit. Certificates of deposit due within one year of June 30, 2009 totaled $160.5 million. This represented 62.9% of certificates of deposit at June 30, 2009. We believe a large percentage of certificates of deposit that mature within one year reflects customers' hesitancy to invest their funds for long periods in the current interest rate environment. If these maturing deposits do not remain with us, we will be required to seek other sources of funds, including other certificates of deposit and borrowings. Depending on market conditions, we may be required to pay higher rates on such deposits or other borrowings than we currently pay on the certificates of deposit due on or before June 30, 2010. We believe, however, based on past experience, a significant portion of our certificates of deposit will remain with us. We have the ability to attract and retain deposits by adjusting the interest rates offered.

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Our primary investing activities are the origination of loans and the purchase of securities. Our primary financing activities consist of deposit accounts and FHLB advances. At June 30, 2009, we had the ability to borrow $60.8 million, net of $50.0 million in outstanding advances, from the FHLB of New York. At June 30, 2009, we had no overnight advances outstanding. Deposit flows are affected by the overall level of interest rates, the interest rates and products offered by us and our local competitors and other factors. We generally manage the pricing of our deposits to be competitive and to maintain or increase our core deposit relationships depending on our level of real estate loan commitments outstanding. Occasionally, we offer promotional rates on certain deposit products to attract deposits or to lengthen repricing time frames.

The Company is a separate legal entity from the Bank and must provide for its own liquidity. In addition to its operating expenses, the Company is responsible for paying any dividends declared to its shareholders. At June 30, 2009, the Company had liquid assets of $8.7 million.

Capital Management. The Bank is subject to various regulatory capital requirements administered by the Office of Thrift Supervision, including a risk-based capital measure. The risk-based capital guidelines include both a definition of capital and a framework for calculating risk-weighted assets by assigning balance sheet assets and off-balance sheet items to broad risk categories. At June 30, 2009, the Bank exceeded all regulatory capital requirements. The Bank is considered "well capitalized" under regulatory guidelines.

Off-Balance Sheet Arrangements. In the normal course of operations, we engage in a variety of financial transactions that, in accordance with U.S. generally accepted accounting principles, are not recorded in our financial statements. These transactions involve, to varying degrees, elements of credit, interest rate and liquidity risk. Such transactions are used primarily to manage customers' requests for funding and take the form of loan commitments, letters of credit and lines of credit.

For the three months ended June 30, 2009 and the year ended December 31, 2008, we engaged in no off-balance sheet transactions reasonably likely to have a material effect on our financial condition, results of operations or cash flows.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Qualitative Aspects of Market Risk. The Company's most significant form of market risk is interest rate risk. We manage the interest rate sensitivity of our interest-bearing liabilities and interest-earning assets in an effort to minimize the adverse effects of changes in the interest rate environment. Deposit accounts typically react more quickly to changes in market interest rates than mortgage loans because of the shorter maturities of deposits. As a result, sharp increases in interest rates may adversely affect our earnings while decreases in interest rates may beneficially affect our earnings. To reduce the potential volatility of our earnings, we have sought to improve the match between asset and liability maturities and rates, while maintaining an acceptable interest rate spread. Our strategy for managing interest rate risk emphasizes: originating mortgage real estate loans that reprice to market interest rates in three to five years; purchasing securities that typically reprice within a three year time frame to limit exposure to market fluctuations; and, where appropriate, offering higher rates on long term certificates of deposit to lengthen the repricing time frame of our liabilities. We currently do not participate in hedging programs, interest rate swaps or other activities involving the use of derivative financial instruments.

We have an Asset/Liability Committee, comprised of our chief executive officer, chief financial officer, chief mortgage officer, chief retail banking officer and treasurer, whose function is to communicate, coordinate and control all aspects involving asset/liability management. The committee establishes and monitors the volume, maturities, pricing and mix of assets and funding sources with the objective of managing assets and funding sources to provide results that are consistent with liquidity, growth, risk limits and profitability goals.

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Our goal is to manage asset and liability positions to moderate the effects of interest rate fluctuations on net interest income and net income.

Quantitative Aspects of Market Risk. We use an interest rate sensitivity analysis prepared by the Office of Thrift Supervision to review our level of interest rate risk. This analysis measures interest rate risk by computing changes in the net portfolio value of our cash flows from assets, liabilities and off-balance sheet items in the event of a range of assumed changes in market interest rates. Net portfolio value represents the market value of portfolio equity and is equal to the market value of assets minus the market value of liabilities, with adjustments made for off-balance sheet items. These analyses assess the risk of loss in market risk-sensitive instruments in the event of a sudden and sustained 50 to 300 basis point increase or 50 and 100 basis point decrease in market interest rates with no effect given to any steps that we might take to counter the effect of that interest rate movement.

The following table presents the change in our net portfolio value at June 30, 2009 that would occur in the event of an immediate change in interest rates based on Office of Thrift Supervision assumptions, with no effect given to any steps that we might take to counteract that change.

	Net Portfolio Value (Dollars in thousands)			Net Portfolio Value as % of Portfolio Value of Assets	
Basis Point ("bp") Change in Rates	$ Amount	$ Change	% Change	NPV Ratio	Change
300	$ 85,972	$ (2,433)	(3) %	17.39%	0 bp
200	86,828	(1,577)	(2) %	17.40%	1 bp
100	87,681	(724)	(1)%	17.41%	2 bp
50	88,058	(347)	0 %	17.40%	1 bp
0	88,405			17.39%	
(50)	88,614	209	0 %	17.35%	(4) bp
(100)	88,960	555	1 %	17.34%	(4) bp

We and the Office of Thrift Supervision use various assumptions in assessing interest rate risk. These assumptions relate to interest rates, loan prepayment rates, deposit decay rates and the market values of certain assets under differing interest rate scenarios, among others. As with any method of measuring interest rate risk, certain shortcomings are inherent in the methods of analyses presented in the foregoing tables. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates.

Additionally, certain assets, such as adjustable-rate mortgage loans, have features that restrict changes in interest rates on a short-term basis and over the life of the asset. Further, in the event of a change in interest rates, expected rates of prepayments on loans and early withdrawals from certificates could deviate significantly from those assumed in calculating the table. Prepayment rates can have a significant impact on interest income. Because of the large percentage of loans we hold, rising or falling interest rates have a significant impact on the prepayment speeds of our earning assets that in turn affect the rate sensitivity position. When interest rates rise, prepayments tend to slow. When interest rates fall, prepayments tend to rise. Our asset sensitivity would be reduced if prepayments slow and vice versa. While we believe these assumptions to be reasonable, there can be no assurance that assumed prepayment rates will approximate actual future loan repayment activity.

Item 4. Controls and Procedures

The Company's management, including the Company's principal executive officer and principal financial officer, have evaluated the effectiveness of the Company's "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended, (the "Exchange Act"). Based upon their evaluation, the principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective for the purpose of ensuring that the information required to be disclosed in the reports that the Company files or submits under the Exchange Act with the Securities and Exchange Commission (the "SEC") (1) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (2) is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

There were no changes in the Company's internal control over financial reporting during the three months ended June 30, 2009 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we may be party to various legal proceedings incident to our business. At June 30, 2009, we were not a party to any pending legal proceedings that we believe would have a material adverse effect on our financial condition, results of operations or cash flows.

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2008, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks that we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially affect our business, financial condition and/or operating results.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not applicable

Item 3. Defaults Upon Senior Securities

Not applicable

Item 4. Submission Of Matters to a Vote of Security Holders

The Annual Meeting of Stockholders of the Company was held on May 20, 2009. The final results of the matters presented at the meeting are as follows:

1. The following individuals were elected as directors, each for a three-year term:

	Votes For	Votes Withheld
Diane B. Cavanaugh	9,151,591	2,654,467
Charles A. Martinek	9,152,323	2,653,735
Kenneth H. Thomas	9,154,461	2,651,597

2. The appointment of Beard Miller Company, LLP as independent registered public accounting firm for the Company for the fiscal year ending December 31, 2009 was ratified by stockholders by the following vote:

For: 11,778,183; Against: 4,524; Abstain: 23,351

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Item 5. Other Information

None

Item 6. Exhibits

10.1	Participation Agreement under the Northeast Community Bank Supplemental Executive Retirement Plan for Susan Barile.
31.1	CEO certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	CFO certification pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
32.1	CEO and CFO certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Northeast Community Bancorp, Inc.

Date: August 13, 2009	By:	/s/ Kenneth A. Martinek Kenneth A. Martinek President and Chief Executive Officer
Date: August 13, 2009	By:	/s/ Salvatore Randazzo Salvatore Randazzo Executive Vice President and Chief Financial Officer