AKAMAI TECHNOLOGIES INC
Form S-3/A
March 24, 2004

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As filed with the Securities and Exchange Commission on March 24, 2004
Registration Statement No. 333-113513

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Amendment No. 1
to
FORM S-3

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

Akamai Technologies, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**04-3432319**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

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8 Cambridge Center
Cambridge, Massachusetts 02142
(617) 444-3000
(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

Melanie Haratunian
Vice President and General Counsel
Akamai Technologies, Inc.
8 Cambridge Center
Cambridge, Massachusetts 02142
(617) 444-3000
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

Susan W. Murley, Esq.

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Hale and Dorr LLP
60 State Street
Boston, Massachusetts 02109
Telephone: (617) 526-6000
Telecopy: (617) 526-5000

Approximate date of commencement of proposed sale to public: As soon as practicable after this Registration Statement becomes effective.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. o

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. x

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o .

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o .

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. o

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), SHALL DETERMINE.

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The information in this prospectus is not complete and may be changed. The selling securityholders named in this prospectus may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and the selling securityholders named in this prospectus are not soliciting offers to buy these securities in any jurisdiction where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED MARCH 24, 2004

PROSPECTUS

$200,000,000 Principal Amount of 1.0% Convertible Senior Notes

due December 15, 2033

12,944,980 Shares of Common Stock, $0.01 Par Value per Share

Akamai Technologies, Inc.

We issued $200,000,000 aggregate principal amount of our 1.0% Convertible Senior Notes due December 15, 2033, which we refer to as our convertible notes, in private placements on December 12, 2003 and January 7, 2004. The initial purchasers resold the convertible notes to qualified institution buyers in accordance with Rule 144A under the Securities Act of 1933, as amended. This prospectus will be used by the selling securityholders from time to time to resell their convertible notes and the common stock issuable upon the conversion of the convertible notes. We will not receive any of the proceeds from the sale of the convertible notes or the shares of our common stock offered by this prospectus.

The convertible notes bear regular interest at the rate of 1.0% per annum, from December 12, 2003, payable semi-annually in arrears in cash on June 15 and December 15 of each year, beginning June 15, 2004.

The convertible notes will mature on December 15, 2033. We may redeem for cash some or all of the convertible notes at any time on or after December 15, 2010 at a redemption price equal to 100% of the principal amount of the convertible notes being redeemed, plus accrued and unpaid interest, if any.

Holders of the convertible notes have the right to require us to purchase the convertible notes at a purchase price equal to 100% of the principal amount of the convertible notes plus accrued and unpaid interest, if any, on December 15, 2010, 2013, 2018, 2023 or 2028 or upon a change of control event as described in this prospectus.

Holders of convertible notes may convert the convertible notes into shares of our common stock only in the following circumstances:

- during any calendar quarter commencing after March 31, 2004, if the closing sale price of our common stock for at least 20 trading days in the period of 30 consecutive trading days ending on the last trading day of the preceding calendar quarter is more than 120% of the conversion price in effect on such last trading day (initially 120% of $15.45, or $18.54);

- if the convertible notes are called for redemption;

- if we make specified distributions on our common stock or engage in specified transactions; and

- during the five trading day period immediately following any ten consecutive trading day period in which the trading price per $1,000 principal amount of the convertible amount of the convertible notes for each day of such ten day period is less than 95% of the product of the closing sale price per share of our common stock on that day multiplied by the number of shares of our common stock issuable upon conversion of $1,000 principal amount of the convertible notes.

The initial conversion price is $15.45 per share (equivalent to an initial conversion rate of approximately 64.7249 shares per $1,000 principal amount of the convertible notes), subject to adjustment in certain circumstances. The last bid price is reported on NASDAQ on March 5, 2004 was $15.74 per share. The common stock is listed under the symbol AKAM .

The convertible notes will be senior unsecured obligations and will rank, in right of payment, the same as all of our existing and future senior unsecured indebtedness. The convertible notes will rank senior in right of payment of all of our subordinated indebtedness and will be effectively subordinated to any secured indebtedness.

Holders of convertible notes will have the option to require us to purchase for cash all or any portion of convertible notes held by them if a change of control, as defined in this prospectus occurs. The change of control purchase price will be 100% of the principal amount of the convertible notes to be purchased plus any accrued and unpaid interest, if any, to the date of repurchase.

You should read the discussion under Summary of Certain United States Federal Income Tax Considerations beginning on page 34.

For a more detailed description of the convertible notes, see the Description of Convertible Notes beginning on page 13.

Investing in the convertible notes or our common stock involves risks. See Risk Factors beginning on page 4.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is , 2004.

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We have not and the selling security holders have not, authorized anyone to provide you with information different from that contained or incorporated by references in this prospectus. We are not and the selling securityholders are not, offering to sell or seeking offers to buy, the securities in any jurisdiction other than where an offer or sale is permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of the securities.

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PROSPECTUS SUMMARY

You should read the following summary together with more detailed information about us, our convertible notes, our common stock and our financial statements and accompanying notes appearing elsewhere in this prospectus.

AKAMAI TECHNOLOGIES, INC.

We provide services and software that enable the world s leading enterprises and government agencies to extend and control their e-business infrastructure. Akamai s services are designed to enable enterprises and government agencies to extend the reach of their e-business infrastructures by ensuring the highest levels of availability, reliability and performance for all their business processes. Through our extensive distributed computing platform, we offer our customers reliable information flow and robust, confident control of information, enabling the secure delivery of networked information and applications. Our services are built upon our globally distributed platform for content, streaming media, and application delivery, which is comprised of more than 14,000 servers within over 1,000 networks in 71 countries.

Our technology originated from research that our founders began developing at the Massachusetts Institute of Technology, or MIT, in 1995. In 1999, we began selling our content delivery services under the name FreeFlow®. Later that year, we added streaming media delivery services to our portfolio and introduced traffic management services that allow customers to monitor traffic patterns on their websites both on a continual basis and for specific events. In 2000, we began offering a software solution that identifies the geographic location and network origin from which end users access our customer s websites, enabling content providers to customize content without compromising user privacy. In 2001, we commenced commercial sales of our EdgeSuite® offering, a suite of services that allows for high-performance and dynamic delivery of web content and applications to end users, wherever they are located globally. These services include content and application delivery, content targeting and personalization, business intelligence and streaming media. In 2003, we launched our EdgeComputing℠ offering which extends our technology to customer applications. The EdgeComputing service allows enterprises to extend more of their applications into the network, closer to end users, including customers, partners, suppliers, and employees.

Our services are easy to implement and are highly scalable. Historically, our FreeFlow customers selected bandwidth-intensive content, typically media-rich non-text objects such as photographs, banner advertisements and graphics, for delivery over our platform. With the introduction of our EdgeSuite service, customers may dynamically deliver a broader range of content and applications such as customer relationship management tools, pay-per-view video, software updates and entire websites over our platform.

The technology underlying our EdgeSuite and EdgeComputing services enables us to locate applications and content geographically closer to end users. By moving electronic content and applications closer to our customers end users, our services allow enterprises to improve the end-user experience, boost reliability and scalability and reduce the cost of their e-business infrastructure. We believe that our EdgeSuite offering is the only service available in the industry capable of providing the benefits of distributed performance to an enterprise s entire website and all aspects of its applications. Our EdgeSuite service reduces the amount of IP infrastructure required by our customers to maintain a global Internet presence. Site owners maintain a control copy of their applications and content, and our EdgeSuite service provides global delivery, load balancing and storage, thereby enabling businesses to focus valuable resources on strategic matters, rather than tactical infrastructure issues.

The Akamai logo, the Akamai Platform™, EdgeSuite® and EdgeComputing® are trademarks or service marks of Akamai. All other trademarks or trade names in this prospectus are the property of their respective owners.

Our address is Akamai Technologies, Inc., 8 Cambridge Center, Cambridge, Massachusetts 02142, (617) 444-3000.

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The Offering

Issuer	Akamai Technologies, Inc.
Convertible Notes	$200,000,000 aggregate principal amount of 1.0% Convertible Senior Notes due 2033.
Offering Price	100% of the principal amount of each convertible note plus accrued interest, if any, from December 12, 2003. The convertible notes will be issued in integral multiples of $1,000 principal amount.
Maturity	December 15, 2033.
Ranking	The convertible notes will be senior unsecured obligations, will rank, in right of payment, the same as all of our existing and future senior unsecured indebtedness and will rank senior in right of payment to all of our subordinated indebtedness and will be effectively subordinated to any secured indebtedness. In addition, any outstanding liabilities and other obligations of our subsidiaries will be structurally senior to the convertible notes. See Description of Convertible Notes.
Interest	The convertible notes will bear interest at 1.0% per annum on the principal amount, from December 12, 2003, payable semi-annually in arrears in cash on June 15 and December 15 of each year, beginning June 15, 2004.
Contingent Convertibility	You may convert the notes into shares of our common stock at a conversion rate of 64.7249 shares of common stock per $1,000 principal amount of convertible notes (which represents an initial conversion price of $15.45 per share) only in the following circumstances: during any calendar quarter commencing after March 31, 2004, if the closing sale price of our common stock for at least 20 trading days in the period of 30 consecutive trading days ending on the last trading day of the preceding quarter is more than 120% of the conversion price in effect on such last trading day (initially 120% of $15.45, or $18.54); if the convertible notes are called for redemption; if we make specified distributions on our common stock or engage in specified transactions; or during the five trading day period immediately following any ten consecutive trading day period in which the trading price per $1,000 principal amount of the convertible notes for each day of such ten day period is less than 95% of the product of the closing sale price per share of our common stock on that day multiplied by the number of shares of our common stock issuable upon conversion of $1,000 principal amount of the convertible notes. See Description of Convertible Notes.

Redemption of the Convertible Notes at Our Option	We may redeem for cash all or a portion of the convertible notes at any time on or after December 15, 2010 at a price equal to 100% of the principal amount of the convertible notes to be redeemed plus accrued and unpaid interest, if any, to, but excluding, the redemption date. See Description of Convertible Notes.
Repurchase of the Convertible Notes at the Option of the Holder	Holders may require us to repurchase all or a portion of their convertible notes on December 15, 2010, 2013, 2018, 2023 or 2028, at 100% of the principal amount thereof, plus accrued and unpaid interest, if any, to, but excluding, the date of repurchase. See Description of Convertible Notes.
Change in Control	If a Change in Control occurs prior to maturity, a holder may require us to repurchase all or part of its convertible notes at a purchase price equal to 100% of the principal amount thereof, plus accrued and unpaid interest, if any. See Description of Convertible Notes.
Sinking Fund	None.
Registration Rights	We have filed with the SEC, and agreed to use our best efforts to cause to become effective no later than July 9, 2004, a shelf registration statement with respect to the resale of the convertible notes and the shares of our common stock issuable upon conversion of the notes and to use our best efforts to keep such shelf registration statement effective during such period or periods as are specified in Description of Convertible Notes-Registration Rights.
DTC Eligibility	The convertible notes will be issued in book-entry form and will be represented by one or more permanent global certificates deposited with a custodian for and registered in the name of a nominee of The Depository Trust Company, or DTC, in New York, New York. Beneficial interests in any such securities will be shown on, and transfers will be effected only through, records maintained by DTC and its direct and indirect participants. Any such interest may not be exchanged for certificated securities, except in limited circumstances. See Description of Convertible Notes.
NASDAQ National Market Symbol for Common Stock	AKAM

You should refer to the section entitled Risk Factors for an explanation of certain risks of investing in the convertible notes.

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RISK FACTORS

Investing in our securities involves risks that relate to us, the securities being offered under this prospectus, the industry in which we operate, general economic conditions and other matters.

A number of risks that relate to the securities offered under this prospectus are set forth below. Before making an investment decision, you should carefully consider these risks as well as other information we include or incorporate by reference in this prospectus.

Risks Associated with the Convertible Notes

The convertible notes are unsecured and contain no financial covenants.

The convertible notes are not secured by our assets. The indenture governing the convertible notes does not restrict our ability to incur additional debt, including secured debt. The convertible notes will be effectively subordinated to any of our existing or future secured indebtedness to the extent of the assets securing such indebtedness. In addition, the indenture does not contain any financial covenants, restrict our ability to repurchase our securities, pay dividends or make restricted payments or contain covenants or other provisions to afford holders protection in the event of a transaction that substantially increases our level of indebtedness. Furthermore, the indenture contains only limited protections in the event that we are involved in a change in control transaction as defined in the indenture. We could engage in many types of transactions, such as acquisitions, refinancings or recapitalizations, that could substantially affect our capital structure and the value of the convertible notes and our common stock but would not constitute a change in control transaction permitting holders to require us to repurchase their convertible notes under the indenture.

The convertible notes will be effectively subordinated to the liabilities of our subsidiaries.

In the event of the insolvency, bankruptcy, liquidation, reorganization, dissolution or winding up of the business of any of our subsidiaries, creditors of our subsidiaries generally will have the right to be paid in full before any distribution is made to us or the holders of the convertible notes. Accordingly, holders of the convertible notes are effectively subordinated to the claims of our subsidiaries creditors, including trade creditors, to the extent of the assets of the indebted subsidiary. This subordination could adversely affect our ability to pay our obligations on the convertible notes. Our subsidiaries have no obligation to pay any amounts due on the convertible notes or to provide us with funds for our payment obligations, whether by dividends, distributions, loans or other payments.

We may be unable to finance the repurchase of the convertible notes even if required by the holders pursuant to the indenture.

Upon a change in control transaction, holders of the convertible notes may require us to redeem all or a portion of the convertible notes. If a change in control transaction were to occur, we may not have enough funds to pay the redemption price for all tendered convertible notes. Any credit agreements or other agreements relating to our indebtedness may contain provisions that expressly prohibit the repurchase of the convertible notes upon a change in control transaction or may provide that a change in control transaction constitutes an event of default under that agreement. If a change in control transaction occurs at a time when we are prohibited from repurchasing or redeeming convertible notes, we could seek the consent of our lenders to redeem the convertible notes or could attempt to refinance this debt. If we do not obtain a consent, we could not repurchase or redeem the convertible notes. Our failure to redeem tendered convertible notes would constitute an event of default under the indenture, which might constitute a default under the terms of our other indebtedness.

In addition, we will be required to repurchase all or a portion of the outstanding convertible notes at the option of the holders on December 15, 2010, 2013, 2018, 2023 and 2028. However, it is possible that we will not have sufficient funds available at any such time to make the required repurchase of convertible notes and restrictions of our other indebtedness outstanding in the future may not allow such repurchase.

We may not be able to refinance the convertible notes if required or if we so desire.

We may need or desire to refinance all or a portion of our indebtedness on or before maturity. There can be no assurance that we will be able to refinance any of our indebtedness on commercially reasonable terms, if at all. Currently, in order to repay the convertible notes at maturity or upon an earlier redemption or repurchase, we will need to generate funds through our operations or by issuing additional equity or incurring additional indebtedness. We may not be able to generate sufficient funds through operations or raise additional capital or incur additional indebtedness on commercially reasonable terms, if at all.

The contingent conversion features of the convertible notes could result in your receiving less than the value of the common stock into which the notes are convertible.

The convertible notes are convertible into common stock only if specified conditions are met. If the specified conditions for conversion are not met, you may not be able to receive the value of our common stock into which the convertible notes would otherwise be convertible. Therefore, you may not be able to realize the appreciation, if any, in the value of our common stock after the issuance of the convertible notes in this offering.

Our stock price has been volatile and may decline following this offering.

The market price of our common stock has been volatile. Fluctuations in the trading price of our common stock will affect the trading price of the convertible notes. Trading prices may continue to fluctuate in response to a number of events and factors, including the following:

- quarterly variations in operating results and announcements of innovations;
- new products, services and strategic developments by us or our competitors;
- business combinations and investments by us or our competitors;
- variations in our revenue, expenses or profitability;
- changes in financial estimates and recommendations by securities analysts;
- failure to meet the expectations of public market analysts;
- performance by other companies in our industry;
- news reports relating to trends in the content delivery, Internet or other product or service industries; and
- geopolitical conditions such as acts of terrorism or military conflicts.

Any of these events may cause the price of our shares to fall. In addition, the stock market in general and the market prices for technology companies in particular have experienced significant volatility that often has been unrelated to the operating performance of such companies. These broad market and industry fluctuations may adversely affect the market price of our shares, regardless of our operating performance.

Conversion of the notes may affect the trading price of our common stock.

The conversion of some or all of the convertible notes and any sales in the public market of our common stock issuable upon such conversion could adversely affect the prevailing market price of our common stock. In addition, the existence of the convertible notes may encourage short selling by market participants because the conversion of the notes could depress our common stock price.

Provisions of our charter documents, our stockholder rights plan and Delaware law may have anti-takeover effects that could prevent a Change in Control even if the Change in Control would be beneficial to our stockholders.

Provisions of our amended and restated certificate of incorporation, by-laws and Delaware law could make it more difficult for a third party to acquire us, even if doing so would be beneficial to our stockholders. In addition, our Board of Directors has adopted a shareholder rights plan the provisions of which could make it more difficult for a potential acquirer of Akamai to consummate an acquisition transaction. See Description of Capital Stock.

Risks Associated with our Business

Failure to increase our revenue and keep our expenses consistent with revenues could prevent us from achieving and maintaining profitability.

We have never been profitable under generally accepted accounting principles. We have incurred significant losses since inception in 1998 and expect to continue to incur losses through at least the first half of 2004. We have large fixed expenses, and we expect to continue to incur significant bandwidth, sales and marketing, product development, administrative, interest and other expenses. Therefore, we will need to generate significantly higher revenue to achieve and maintain profitability. There are numerous factors that could, standing alone or combined with other factors, impede our ability to increase revenue and/or moderate expenses, including:

- failure to increase sales of our EdgeSuite and EdgeComputing services and related features and functions;
- significant increases in bandwidth costs or other operating expenses;
- any lack of market acceptance of our services due to continuing concerns about commercial use of the Internet, including security, reliability, speed, cost, ease of access, quality of service and regulatory initiatives;
- any failure of our current and planned services and software to operate as expected;
- a failure by us to respond rapidly to technological changes in our industry that could cause our services to become obsolete;
- a continuation of adverse economic conditions worldwide that have contributed to slowdowns in capital expenditures by businesses, particularly capital spending in the information technology market;
- failure of a significant number of customers to pay our fees on a timely basis or at all or to continue to purchase our services in accordance with their contractual commitments; and
- inability to attract high-quality customers to purchase and implement our current and planned services and software.

The market for our services remains relatively new, and our business will suffer if the market does not develop as we expect.

The market for our Internet-related services is relatively new. We cannot be certain that a broad-based market for our services will emerge or be sustainable. Many of our customers are early adopters of new technologies such as those we offer. If we are unable to maintain pricing levels or our market share among these companies, our revenues will not grow ad may decrease. If enterprises that are less aggressive in adopting new technologies are reluctant to purchase our services, we will have fewer opportunities to sell our services and will have difficulty generating growth and profits.

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Our substantial leverage may harm our financial condition and results of operations, and our failure to significantly increase our revenue would seriously harm our business and operating results and could cause us to fail to make interest or principal payments or pay our outstanding indebtedness.

We have significant long-term debt, and we may not be able to make interest or principal payments when due. As of December 31, 2003, our total long-term debt was approximately $386.0 million and our stockholders deficit was approximately $175.4 million. In January 2004, we issued an additional $25.0 million of the convertible senior notes. Our substantial level of indebtedness could adversely affect our future operations, by increasing our vulnerability to adverse changes in general economic and industry conditions and by limiting or prohibiting our ability to obtain additional financing for capital expenditures, acquisitions, and general corporate and other purposes.

In December 2003 and January 2004, we repurchased $99.0 million in principal amount of our 5 1/2% convertible subordinated notes, which we refer to as the 5 1/2% notes. In February 2004, we announced a tender offer to repurchase up to an additional $101.0 million in aggregate principal amount of the 5 1/2% notes. The tender offer period is scheduled to expire on March 24, 2004. There can be no assurance, however, that we will complete the tender offer in whole or in part.

Historically, we have had negative cash flow from operations. For the year ended December 31, 2003, net cash used in operating activities was approximately $18.0 million. As of March 9, 2004, we had $201.0 million in aggregate principal amount of our 5 1/2% notes outstanding. Assuming no additional 5 1/2% notes are converted or redeemed our annual interest payments on our 5 1/2% notes will be approximately $11.1 million and annual interest payment on the convertible notes will be approximately $2.0 million. In addition, if our 5 1/2% notes are converted or if we do not repurchase, redeem, exchange or otherwise repay our outstanding 5 1/2% notes prior to 2007, they will become due.

If we are required to seek additional funding, such funding may not be available on acceptable terms or at all.

If our revenue decreases or grows more slowly than we anticipate or if our operating expenses increase more than we expect or cannot be reduced in the event of lower revenue, we may need to obtain funding from outside sources. If we are unable to obtain this funding, our business would be materially and adversely affected. In addition, even if we were to find outside funding sources, we might be required to issue securities with greater rights than the securities we have outstanding today. We might also be required to take other actions that could lessen the value of our common stock, including borrowing money on terms that are not favorable to us, if at all.

The markets in which we operate are highly competitive and we may be unable to compete successfully against new entrants and established companies with greater resources.

We compete in markets that are new, intensely competitive, highly fragmented and rapidly changing. We have experienced and expect to continue to experience increased competition. Many of our current competitors, as well as a number of our potential competitors, have longer operating histories, greater name recognition, broader customer relationships and industry alliances and substantially greater financial, technical and marketing resources than we do. Our competitors may be able to respond more quickly than we can to new or emerging technologies and changes in customer requirements. Some of our current or potential competitors may bundle their services with other services, software or hardware in a manner that may discourage website owners from purchasing any service we offer or ISPs from installing our servers. Increased competition could result in price and revenue reductions, loss of customers and loss of market share, which could materially and adversely affect our business, financial condition and results of operations.

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If the prices we charge for our services decline over time, our business and financial results are likely to suffer.

Prices we have been charging for some of our services have declined in recent years. We expect that this decline may continue in the future as a result of, among other things, existing and new competition in the markets we address. Consequently, our historical revenue rates may not be indicative of future revenue based on comparable traffic volumes. If we are unable to sell our services at acceptable prices relative to our costs or if we are unsuccessful with our strategy of upselling our higher-priced services to our EdgeSuite delivery customers, our revenue and gross margins will decrease, and our business and financial results will suffer.

Reduction of revenue from Microsoft would cause our business and financial results to suffer.

For the year ended December 31, 2003, Microsoft accounted for more than 10% of our revenue. In September 2003, we entered into an amendment to our content delivery services customer agreement with Microsoft that has a two-year term and includes a minimum usage commitment. Microsoft will have the right to reduce its commitment levels by 50% for the second year of the term and convert the contract to a month-to-month term after the first year if the parties fail to reach agreement as to appropriate price changes after the first year of the term. A significant decline in sales to Microsoft would reduce our revenue and cause our business and financial results to suffer.

Any unplanned interruption in our network or services could lead to significant costs and disruptions that could reduce our revenue and harm our business, financial results and reputation.

Our business is dependent on providing our customers with fast, efficient and reliable distribution of application and content delivery services over the Internet. For our core services, we currently provide a guarantee that our networks will deliver Internet content 24 hours a day, seven days a week, 365 days a year. If we do not meet this standard, our customer does not pay for all or a part of its services on that day. Our network or services could be disrupted by numerous events, including natural disasters, failure or refusal of our third-party network providers to provide the capacity, power losses, and intentional disruptions of our services, such as disruptions caused by software viruses or attacks by unauthorized users. Any widespread loss or interruption of our network or services would reduce our revenue and could harm our business, financial results and reputation.

We may have insufficient transmission capacity which could result in interruptions in our services and loss of revenue.

Our operations are dependent in part upon transmission capacity provided by third-party telecommunications network providers. We believe that we have access to adequate capacity to provide our services; however, there can be no assurance that we are adequately prepared for unexpected increases in bandwidth demands by our customers. In addition, the bandwidth we have contracted to purchase may become unavailable for a variety of reasons. For example, a number of these network providers are operating under the protection of the federal bankruptcy laws. As a result, there is uncertainty about whether such providers, or others that enter into bankruptcy, will be able to continue to provide services to us. Any failure of these network providers to provide the capacity we require, due to financial or other reasons, may result in a reduction in, or interruption of, service to our customers. If we do not have access to third-party transmission capacity, we could lose customers. If we are unable to obtain transmission capacity on terms commercially acceptable to us, our business and financial results could suffer. In addition, our telecommunications and network providers typically provide rack space for our servers. Damage or destruction of, or other denial of access to, a facility where our servers are housed could result in a reduction in, or interruption of, service to our customers.

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Because our services are complex and are deployed in complex environments, they may have errors or defects that could seriously harm our business.

Our services are highly complex and are designed to be deployed in and across numerous large and complex networks. From time to time, we have needed to correct errors and defects in our software. In the future, there may be additional errors and defects in our software that may adversely affect our services. If we are unable to efficiently fix errors or other problems that may be identified, we could experience loss of revenues and market share, damage to our reputation, increased expenses and legal actions by our customers.

If the estimates we make, and the assumptions on which we rely, in preparing our financial statements prove inaccurate, our actual results may be adversely affected.

Our financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments about, including without limitation taxes, revenue recognition, capitalization of internal-use software, contingent obligations, doubtful accounts and restructuring charges, that affect the reported amounts of our assets, liabilities, revenues and expenses, the amounts of charges accrued by us, such as those made in connection with our restructuring charges, and related disclosure of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. If our estimates or the assumptions underlying them are not correct, we may need to accrue additional charges which could adversely affect our results of operations, which in turn could adversely affect our stock price.

If our license agreement with MIT terminates, our business could be adversely affected.

We have licensed technology from MIT covered by various patents, patent applications and copyrights relating to Internet content delivery technology. Some of our technology is based in part on the technology covered by these patents, patent applications and copyrights. Our license is effective for the life of the patents and patent applications; however, under limited circumstances, such as a cessation of our operations due to our insolvency or our material breach of the terms of the license agreement, MIT has the right to terminate our license. A termination of our license agreement with MIT could have a material adverse effect on our business.

We have incurred and could continue to incur substantial costs defending our intellectual property from infringement or a claim of infringement.

Other companies or individuals, including our competitors, may obtain patents or other proprietary rights that would prevent, limit or interfere with our ability to make, use or sell our services. As a result, we may be found to infringe the proprietary rights of others. In the event of a successful claim of infringement against us and our failure or inability to license the infringed technology, our business and operating results would be significantly harmed. Companies in the Internet market are increasingly bringing suits alleging infringement of their proprietary rights, particularly patent rights. We have been named as a defendant in several lawsuits alleging that we have violated other companies intellectual property rights. Any litigation or claims, whether or not valid, could result in substantial costs and diversion of resources and require us to do one or more of the following:

- cease selling, incorporating or using products or services that incorporate the challenged intellectual property;
- pay substantial damages;
- obtain a license from the holder of the infringed intellectual property right, which license may not be available on reasonable terms or at all; and
- redesign products or services.

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If we are forced to take any of these actions, our business may be seriously harmed.

Our business will be adversely affected if we are unable to protect our intellectual property rights from third-party challenges.

We rely on a combination of patent, copyright, trademark and trade secret laws and restrictions on disclosure to protect our intellectual property rights. We have brought numerous lawsuits against entities that we believe are infringing on our intellectual property rights. These legal protections afford only limited protection. Monitoring unauthorized use of our services is difficult and we cannot be certain that the steps we have taken will prevent unauthorized use of our technology, particularly in foreign countries where the laws may not protect our proprietary rights as fully as in the United States. Although we have licensed from other parties proprietary technology covered by patents, we cannot be certain that any such patents will not be challenged, invalidated or circumvented. Furthermore, we cannot be certain that any pending or future patent applications will be granted, that any future patent will not be challenged, invalidated or circumvented, or that rights granted under any patent that may be issued will provide competitive advantages to us.

If we are unable to retain our key employees and hire qualified sales and technical personnel, our ability to compete could be harmed.

Our future success depends upon the continued services of our executive officers and other key technology, sales, marketing and support personnel who have critical industry experience and relationships that they rely on in implementing our business plan. None of our officers or key employees is bound by an employment agreement for any specific term. We have a key person life insurance policy covering only the life of F. Thomson Leighton, our Chief Scientist and a member of our Board of Directors. The loss of the services of any of our key employees could delay the development and introduction of and negatively impact our ability to sell our services.

We face risks associated with international operations that could harm our business.

We have operations in several foreign countries and may continue to expand our sales and support organizations internationally. Such expansion could require us to make significant expenditures. We are increasingly subject to a number of risks associated with international business activities that may increase our costs, lengthen our sales cycle and require significant management attention. These risks include:

- lack of market acceptance of our software and services abroad;
- increased expenses associated with marketing services in foreign countries;
- general economic conditions in international markets;
- currency exchange rate fluctuations;
- unexpected changes in regulatory requirements resulting in unanticipated costs and delays;
- tariffs, export controls and other trade barriers;
- longer accounts receivable payment cycles and difficulties in collecting accounts receivable; and
- potentially adverse tax consequences.

As part of our business strategy, we have entered into and may enter into or seek to enter into business combinations and acquisitions that may be difficult to integrate, disrupt our business, dilute stockholder value or divert management attention.

We have made acquisitions of other companies in the past and may enter into additional business combinations and acquisitions in the future. Acquisitions are typically accompanied by a number of risks, including the difficulty of integrating the operations and personnel of the acquired companies, the potential disruption of our ongoing business, the potential distraction of management, expenses related to the acquisition and potential unknown liabilities associated with acquired businesses. If we are not successful in completing acquisitions that we may pursue in the future, we may be required to reevaluate our business strategy, and we may have incurred substantial expenses and devoted significant management time and resources without a productive result. In addition, with future acquisitions, we could use substantial portions of our available cash or make dilutive issuances of securities. Future acquisitions or attempted acquisitions could have an adverse effect on our ability to become profitable.

Internet-related and other laws could adversely affect our business.

Laws and regulations that apply to communications and commerce over the Internet are becoming more prevalent. In particular, the growth and development of the market for online commerce has prompted calls for more stringent tax, consumer protection and privacy laws, both in the United States and abroad, that may impose additional burdens on companies conducting business online. This could negatively affect the businesses of our customers and reduce their demand for our services. Tax laws that might apply to our servers which are located in many different jurisdictions could require us to pay additional taxes that would adversely affect our profitability. Internet-related laws, however, remain largely unsettled, even in areas where there has been some legislative action. The adoption or modification of laws or regulations relating to the Internet or our operations, or interpretations of existing law, could adversely affect our business.

Terrorist activities and resulting military and other actions could adversely affect our business.

Terrorist attacks in New York, Pennsylvania and Washington, D.C. in September 2001 disrupted commerce throughout the United States and other parts of the world. The continued threat of terrorism within the United States and abroad, and the potential for military action and heightened security measures in response to such threat, may cause significant disruption to commerce throughout the world. To the extent that such disruptions result in delays or cancellations of customer orders, a general decrease in corporate spending on information technology, or our inability to effectively market, sell or operate our services and software, our business and results of operations could be materially and adversely affected.

A class action lawsuit has been filed against us that may be costly to defend and the outcome of which is uncertain and may harm our business.

We are named as a defendant in a purported class action lawsuit filed in 2001 alleging that the underwriters of our initial public offering received undisclosed compensation in connection with our initial public offering of common stock in violation of the Securities Act and the Securities Exchange Act of 1934, as amended, which we refer to as the Exchange Act. This litigation could be expensive and divert the attention of our management and other resources. We can provide no assurance as to the outcome of this action. Any conclusion of these matters in a manner adverse to us could have a material adverse affect on our financial position and results of operations.

We may become involved in other litigation that may adversely affect us.

In the ordinary course of business, we may become involved in litigation, administrative proceedings and governmental proceedings. Such matters can be time-consuming, divert management s attention and resources and cause us to incur significant expenses. Furthermore, there can be no assurance that the results of any of these actions will not have a material adverse effect on our business, results of operations or financial condition.

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RATIO OF EARNINGS TO FIXED CHARGES

We have not recorded earnings for any fiscal year since inception and therefore have no earnings to cover fixed charges. Earnings (loss) consists of loss before provision for income taxes, dividends and accretion to preferred stock redemption value, and losses for investments accounted for under the equity method. Fixed charges consists of interest expense, amortization of deferred financing costs and a portion of rental expense that we believe to be representative of interest. The following table discloses our dollar coverage deficiency. The ratio of earnings to fixed charges is not disclosed since it is a negative number in each year and period.

	For the Years Ended December 31,				
(in thousands)	2003	2002	2001	2000	1999
Fixed charges:					
Interest expense, including amortization of debt expense	$ 18,324	$ 18,357	$ 18,859	$ 8,928	$ 2,145
Estimate of interest within rental expense	1,995	3,168	4,752	3,135	198
Total fixed charges:	20,319	21,525	23,611	12,063	2,343
Earnings:					
Pre-tax loss	(28,652)	(203,945)	(2,432,450)	(885,598)	(57,559)
Fixed charges per above	20,319	21,525	23,611	12,063	2,343
Total loss before fixed charges	(8,333)	(182,420)	(2,408,839)	(873,535)	(55,216)
Deficiency of earnings available to cover fixed charges	$ (28,652)	$ (203,945)	$ (2,432,450)	$ (885,598)	$ (57,559)

SPECIAL NOTE REGARDING FORWARD-LOOKING INFORMATION

This prospectus contains forward-looking statements that involve substantial risks and uncertainties. You can identify these statements by forward-looking words such as anticipate, believe, could, estimate, expect, intend, may, should, will, and would or similar wo carefully read statements that contain these words because they discuss our future expectations, contain projections of our future results of operations or of our financial position or state other forward-looking information. We believe that it is important to communicate our future expectations to our investors. However, there may be events in the future that we are not able to accurately predict or control. The factors listed above in the section captioned Risk Factors, as well as any cautionary language in this prospectus, provide examples of risks, uncertainties and events that may cause our actual results to differ materially from the expectations we describe in our forward-looking statements. Before you invest, you should be aware that the occurrence of the events described in these risk factors and elsewhere in this prospectus could have a material adverse effect on our business, results of operations and financial position.

USE OF PROCEEDS

All of the convertible notes and the shares of common stock issuable upon conversion of the convertible notes are being sold by the selling securityholders or by their pledgees, donees, transferees or other successors in interest. We will not receive any proceeds from the sale of the convertible notes or the shares of our common stock issuable upon conversion of the convertible notes.

The selling securityholders will pay any underwriting discounts and commissions and expenses incurred by the selling securityholders for brokerage, accounting, tax or legal services or any other expenses incurred by the selling securityholders in disposing of the shares. We will bear all other costs, fees and expenses incurred in effecting the registration of the shares covered by this prospectus, including, without limitation, all registration and filing fees, NASDAQ National Market listing fees and fees and expenses of our counsel and our accountants.

DESCRIPTION OF CONVERTIBLE NOTES

General

The convertible notes have been issued under an indenture, dated as of December 12, 2003, between us and U.S. Bank National Association, as trustee. The following description is a summary of the material provisions of the indenture. You can find the definitions of certain terms used in this description under the subheading Definitions. This description does not restate this agreement in its entirety. We urge you to read the indenture and registration rights agreement because they, and not this description, define your rights as holders of the convertible notes.

The convertible notes are senior unsecured obligations and rank, in right of payment, the same as all of our existing and future senior unsecured indebtedness. The convertible notes rank senior in right of payment to all of our subordinated indebtedness and will be effectively subordinated to any secured indebtedness. In addition, any outstanding liabilities and other obligations of our subsidiaries are and will be structurally senior to the convertible notes. The convertible notes are convertible into our common stock as described under the heading Conversion below. The indenture does not contain any financial covenants or restrictions on the payment of dividends, the incurrence of indebtedness or issuance or repurchase of our securities. The indenture contains no covenants or other provisions to afford protection to holders of the convertible notes in the event of a highly leveraged transaction by us except to the extent described under Repurchase at the Option of Holders Repurchase Upon a Change in Control. The convertible notes are not guaranteed by any of our subsidiaries. We are not required to make sinking fund payments with respect to the convertible notes.

Principal, Maturity and Interest

There is outstanding an aggregate principal amount of $200,000,000 of the convertible notes. The convertible notes mature on December 15, 2033. Interest on the convertible notes accrues at a rate of 1.0% per annum from December 12, 2003, payable semiannually on June 15 and December 15, commencing on June 15, 2004. We will make each interest payment to the holders of record of the convertible notes on the immediately preceding June 1 and December 1. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months.

The convertible notes are payable both as to principal and interest on presentation of the convertible notes if in certificated form at the offices or agencies we maintain for such purpose within the City and State of New York or, at our option, payment of interest may be made by check mailed to the holders of the convertible notes at their respective addresses set forth in the register of holders of convertible notes or, if a holder who holds an aggregate principal amount of at least $5.0 million of convertible notes so requests, by wire transfer of immediately available funds to an account previously specified in writing by such holder to us and the trustee. Until otherwise designated by us, our office or agency in New York will be the offices of the trustee maintained for such purpose. The convertible notes are in registered form, without coupons, and in denominations of $1,000 and integral multiples of $1,000.

Ranking

The convertible notes are senior unsecured obligations and rank, in right of payment, the same as all of our existing and future senior unsecured indebtedness. The convertible notes rank senior in right of payment to all of our subordinated indebtedness and will be effectively subordinated to any secured indebtedness. The convertible notes are senior to our outstanding 5 1/2% notes.

The convertible notes are our exclusive obligations. Our right to receive assets of any of our subsidiaries upon their liquidation or reorganization (and the consequent right of the holders of the convertible notes to participate in those assets) is effectively subordinated to the claims of that subsidiary s creditors (including trade creditors), except to the extent that we are recognized as a creditor of that subsidiary, in which case our claims would still be subordinate to any security interests in the assets of that subsidiary and any indebtedness of that subsidiary senior to that held by us.

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The indenture does not limit the amount of additional indebtedness, including any secured indebtedness, that we may create, incur, assume or guarantee, nor does the indenture limit the amount of indebtedness and other liabilities that any of our subsidiaries may create, incur, assume or guarantee.

Conversion

Subject to the conditions described below, the holder of any convertible note may convert the principal amount of the convertible note (or any portion of it that is an integral multiple of $1,000) into shares of our common stock at the conversion price set forth on the cover page of this prospectus, subject to adjustment as described below, which we refer to as the conversion price.

If any convertible notes are converted during the period after any record date but before the next interest payment date, interest on those convertible notes will be paid on the next interest payment date, notwithstanding such conversion, to the holder of record on the record date of those convertible notes. However, any convertible notes that are delivered to us for conversion after any record date but before the next interest payment date must, except as described in the next sentence, be accompanied by a payment equal to the interest payable on such interest payment date on the principal amount of convertible notes being converted. We will not require the payment to us described in the preceding sentence if, during that period between a record date and the next interest payment date, convertible notes are delivered for conversion on or after the date that we have issued a redemption notice and prior to the date of redemption. If any convertible notes are converted after an interest payment date but on or before the next record date, no interest will be paid on those convertible notes. No fractional shares will be issued upon conversion, but a cash adjustment will be made for any fractional shares.

Holders may surrender their convertible notes for conversion into shares of our common stock prior to stated maturity under the following circumstances:

Conversion Upon Satisfaction of Market Price Condition

A holder may surrender any of its convertible notes for conversion into shares of our common stock during any calendar quarter commencing after March 31, 2004 if the closing sale price of our common stock for at least 20 trading days in the period of 30 consecutive trading days ending on the last trading day of the previous quarter is more than 120% of the conversion price per share of common stock on such last trading day.

The closing sale price of our common stock on any trading day generally means the closing per share sale price (or, if no closing sale price is reported, the average of the bid and ask prices or, if more than one in either case, the average of the average bid and the average ask prices) on such date on the principal national securities exchange on which our common stock is listed or, if our common stock is not listed on a national securities exchange, as reported by the NASDAQ system or otherwise as provided in the indenture.

Conversion Upon Redemption

A holder may surrender for conversion any convertible note called for redemption at any time prior to the close of business two business days prior to the redemption date, even if it is not otherwise convertible at such time.

Conversion Upon Specified Corporate Transactions

If we elect to:

distribute to all holders of our common stock certain rights entitling them to purchase shares of our common stock at less than the current market price of our common stock as of the business day prior to the date of declaration for such distribution or distribute to all holders of our common stock our assets, debt securities or certain rights to purchase our securities, which distribution has a per share value exceeding 15% of the closing sale price of our common stock on the trading day preceding the declaration date for such distribution,

we must notify the holders of the convertible notes at least 20 days prior to the ex-dividend date or such distribution. Once we have given such notice, holders may surrender their convertible notes for conversion at any time until the earlier of the close of business on the business day prior to the ex-dividend date or our announcement that such distribution will not take place, even if the convertible notes are not otherwise convertible at such time; provided that a holder may not exercise this right to convert if the holder will otherwise participate in the distribution without conversion.

If we are party to a consolidation, merger or binding share exchange pursuant to which our common stock would be converted into cash, securities or other property (other than if such property consists of shares of voting common stock of the surviving person that are, or upon issuance will be, traded on a United States national securities exchange or approved for trading on an established automated over-the-counter trading market in the United States, and such shares represent at least 95% of the aggregate fair market value (as determined by our board of directors) of such property), a holder may surrender its convertible notes for conversion at any time from and after the date which is 15 days prior to the anticipated effective date of the transaction until 15 days after the actual effective date of such transaction. If we are a party to a consolidation, merger or binding share exchange pursuant to which our common stock is converted into cash, securities or other property, then at the effective time of the transaction, the right to convert a convertible note into common stock will be changed into a right to convert it into the kind and amount of cash, securities or other property which the holder would have received if the holder had converted its convertible notes immediately prior to the transaction. If the transaction also constitutes a Change in Control, a holder can require us to repurchase all or a portion of its convertible notes as described below under Repurchase at the Option of Holders Repurchase Upon a Change in Control.

Conversion Upon Satisfaction of Trading Price Condition

A holder may surrender any of its convertible notes for conversion into shares of our common stock during the five trading day period immediately following any ten consecutive trading day period in which the trading price per $1,000 principal amount of the convertible notes (as determined following a request by a holder of the convertible notes in accordance with the procedures described below) for each day of such ten day period is less than 95% of the product of the closing sale price of our common stock on that day multiplied by the number of shares of our common stock issuable upon conversion of $1,000 principal amount of the convertible notes; provided, however, that if, on the day before any conversion pursuant to this 95% price condition that is on or after December 15, 2028, the closing sale price of our common stock is greater than 100% but less than 120% of the conversion price, then a holder surrendering convertible notes for such conversion will receive, in lieu of a number of shares of our common stock based on the conversion price, an amount in common stock equal to the principal amount of such holder s convertible notes so surrendered plus accrued and unpaid interest as of the conversion date (which we refer to as a principal value conversion). Any shares of our common stock delivered will be valued at the greater of (x) the conversion price on the conversion date and (y) the average closing sale price of our common stock for a five trading day period commencing on the third trading day after the conversion date. We will deliver the shares to such holder on the ninth trading day following the conversion date.

We define the trading price of the convertible notes on any date of determination as the average of the secondary market bid quotations per $1,000 principal amount of convertible notes obtained by the conversion agent for $5,000,000 in principal amount of the convertible notes at approximately 3:30 p.m., New York City time, on such determination date from three independent nationally recognized securities dealers we select, provided that if at least three such bids cannot reasonably be obtained by the conversion agent, but two such bids are obtained, then the average of the two bids shall be used, and if only one such bid can reasonably be obtained by the conversion agent, this one bid shall be used. If the conversion agent cannot reasonably obtain at least one bid for $5,000,000 in principal amount of the convertible notes from a nationally recognized securities dealer or, in our reasonable judgment, the bid quotations are not

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indicative of the secondary market value of the convertible notes, then the trading price of the convertible notes will be deemed to be equal to the product of the number of shares of our common stock issuable upon conversion of $1,000 principal amount of the convertible notes on such date of determination and the average of the closing sale prices for the 10 consecutive trading days ending on, and including such date of determination, subject to adjustment to account for any events requiring an adjustment to the conversion price. The conversion agent shall have no obligation to determine the trading price of the convertible notes unless we have requested such determination; and we shall have no obligation to make such request unless a holder provides us with reasonable evidence that the trading price of the convertible notes is less than 95% of the product of the closing sale price of our common stock and the number of shares issuable upon conversion of $1,000 principal amount of the convertible notes; at which time, we shall instruct the conversion agent to determine the trading price of the convertible notes beginning on the next trading day and on each successive trading day until the trading price is greater than or equal to 95% of the product of the closing sale price of our common stock and the number of shares of our common stock issuable upon conversion of $1,000 principal amount of the convertible notes.

Conversion Procedures

You will not receive any cash payment representing accrued and unpaid interest upon conversion of a convertible note. Instead, upon conversion we will deliver to you a fixed number of shares of our common stock and any cash payment to account for fractional shares. The cash payment for fractional shares will be based on the sale price of our common stock on the trading day immediately prior to the conversion date. Delivery of shares of common stock will be deemed to satisfy our obligation to pay the principal amount of the convertible notes, including accrued interest. Accrued and unpaid interest will be deemed paid in full rather than canceled, extinguished or forfeited. We will not adjust the conversion price to account for the accrued interest. The trustee will initially act as the conversion agent.

If a holder wishes to exercise its conversion right, such holder must deliver an irrevocable conversion notice, together, if the convertible notes are in certificated form, with the certificated security, to the conversion agent who will, on the holder s behalf, convert the convertible notes into shares of our common stock. Holders may obtain copies of the required form of the conversion notice from the conversion agent.

Conversion Price Adjustments

The conversion price is subject to adjustment upon the occurrence of certain events, including:

(1) the issuance of shares of common stock as a dividend or distribution on the common stock;

(2) the subdivision or combination of the outstanding common stock;

(3) the issuance to substantially all holders of common stock of rights or warrants to subscribe for or purchase common stock (or securities convertible into common stock) at a price per share less than the then current market price per share, as defined;

(4) the distribution of shares of our capital stock (other than common stock), evidences of indebtedness or other assets (excluding dividends in cash, except as described in clause (5) below) to all holders of common stock;

(5) the distribution, by dividend or otherwise, of cash to all holders of common stock;

(6) the payment of an Excess Payment in respect of a tender offer or other negotiated transaction by us or any of our subsidiaries for common stock;

(7) the distribution to substantially all holders of common stock of rights or warrants to subscribe for securities (other than those referred to in clause (3) above). In the event of a distribution to substantially all holders of common stock of rights to subscribe for additional shares of our capital stock (other than those referred to in clause (3) above), we may, instead of making any adjustment in the conversion price, make proper provision so that each holder of a convertible note who converts the convertible note after the record date for the distribution and prior to the expiration

or redemption of the rights will be entitled to receive upon that conversion, in addition to shares of common stock, an appropriate number of rights.

No adjustment of the conversion price will be made until cumulative adjustments amount to one percent or more of the conversion price as last adjusted. However, we will carry forward any adjustments that are less than one percent of the conversion price. Except as described above in this section, we will not adjust the conversion price.

If we reclassify or change our outstanding common stock, or consolidate with or merge into or transfer or lease all or substantially all of our assets to any person, or we are a party to a merger that reclassifies or changes our outstanding common stock, the convertible notes will become convertible into the kind and amount of securities, cash or other assets that the holders of the convertible notes would have owned immediately after the transaction if the holders had converted the convertible notes immediately before the effective date of the transaction.

The indenture also provides that if rights, warrants or options expire unexercised, the conversion price shall be readjusted to take into account the actual number of warrants, rights or options which were exercised.

In the indenture, the current market price per share of common stock on any date is deemed to be the average of the daily closing sale prices for the shorter of (1) 10 consecutive trading days ending on the last full trading day on the exchange or market referred to in determining the daily market prices prior to the time of determination (as defined in the indenture) or (2) the period commencing on the date next succeeding the first public announcement of the issuance of rights or warrants or distribution through the last full trading day prior to the time of determination.

We will be permitted to make such reductions in the conversion price as we, in our discretion, determine to be advisable in order that any stock dividend, subdivision of shares, distribution or rights to purchase stock or securities or distribution of securities convertible into or exchangeable for stock made by us to our stockholders will not be taxable to the recipients.

To the extent that we have a rights plan in effect, upon conversion of the convertible notes into common stock, the holder will receive, in addition to the shares of common stock, the rights under the rights plan, whether or not a rights certificate has been issued separate from the common stock issued at the time of conversion, subject to the exceptions set forth in the plan, and no adjustments to the conversion price will be made, except in limited circumstances. Our existing rights agreement and the rights under it are described under Description of Capital Stock. The conversion price will not be adjusted as a result of the distribution of separate certificates representing rights under this or any other future stockholders rights plan or the exercise of rights in accordance with such plan.

Optional Redemption

At any time on or after December 15, 2010, we may redeem any portion of the convertible notes, in whole or in part, on at least 30 days but no more than 60 days notice, for cash at a redemption price equal to 100% of the principal amount, together with accrued and unpaid interest, to, but excluding, the redemption date.

Selection and Notice

If less than all of the convertible notes are to be redeemed at any time, selection of convertible notes for redemption will be made by the trustee in compliance with the requirements of any securities exchange on which the convertible notes are listed. In the absence of any requirements of any securities exchange or if the convertible notes are not listed, selection of the convertible note to be redeemed will be made by lot, pro rata or any other method the trustee considers fair and appropriate, provided that no convertible notes of $1,000 or less will be redeemed in part. Notice of redemption will be mailed by first class mail at least 30 but not more than 60 days before the redemption date to each holder of convertible notes to be redeemed at its registered address. If any convertible note is to be redeemed in part only, the notice of redemption that relates to that convertible note will state the portion of the principal amount to be redeemed. A new convertible note in principal amount equal to the unredeemed portion will be issued in the name of the holder upon cancellation of the original convertible note. On and after the redemption date, interest ceases to accrue on convertible notes or portions of them called for redemption.

Repurchase at the Option of Holders

Repurchase at Designated Times

Holders of the convertible notes have the right to require us to repurchase the convertible notes on December 15, 2010, December 15, 2013, December 15, 2018, December 15, 2023 and December 15, 2028, each of which we refer to as a repurchase date. We will be required to repurchase any outstanding convertible notes for which a holder delivers a written repurchase notice to the paying agent. This notice must be delivered during the period beginning at any time from the opening of business on the date that is 20 business days prior to the relevant repurchase date until the close of business two business days prior to the repurchase date. If the repurchase notice is given and withdrawn during such period, we will not be obligated to repurchase the related convertible notes. Our repurchase obligation will be subject to some additional conditions as described in the indenture. Also, our ability to satisfy our repurchase obligations may be affected by the factors described in Risk Factors under the caption We may be unable to finance the repurchase of the convertible notes even if required by the holders pursuant to the indenture.

The repurchase price payable will be equal to 100% of the principal amount of the convertible notes to be repurchased plus any accrued and unpaid interest to such repurchase date. We will pay the repurchase price and any accrued and unpaid interest in cash. A holder s notice electing to require us to repurchase its convertible notes must state:

- if certificated convertible notes have been issued, the convertible notes certificate numbers, or if not certificated, a holder s notice must comply with appropriate DTC procedures; and

- the portion of the principal amount of convertible notes to be repurchased, in multiples of $1,000.

You may withdraw any repurchase notice by a written notice of withdrawal delivered to the paying agent prior to the close of business on the date that is two business days prior to the repurchase date. The notice of withdrawal must state:

- the principal amount of the withdrawn convertible notes;

- if certificated convertible notes have been issued, the certificate numbers of the withdrawn convertible notes, or if not certificated, your notice must comply with appropriate DTC procedures; and

- the principal amount, if any, which remains subject to the repurchase notice.

A holder must either effect book-entry transfer or deliver the convertible notes, together with necessary endorsements, to the office of the paying agent after delivery of the repurchase notice and prior to the close of business on the date which is two business days prior to the applicable repurchase date to receive payment of the repurchase price. You will receive payment on the repurchase date or the time of book-entry transfer or the delivery of the convertible notes. If the paying agent holds money or securities sufficient to pay the repurchase price of the convertible notes for which proper and timely notice have been provided electing to have us repurchase such convertible notes on the business day following the applicable repurchase date, then:

- such convertible notes will cease to be outstanding;

- interest will cease to accrue on such convertible notes; and

- all other rights of the holder of such convertible notes will terminate.

This will be the case whether or not book-entry transfer of the convertible notes is made or whether or not the convertible note is delivered to the paying agent.

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Repurchase Upon a Change in Control

If a Change in Control, which is further described below, occurs, each holder of convertible notes will have the right to require us to repurchase all or any part of the holder s convertible notes on the date fixed by us that is not less than 30 days nor more than 45 days after we give notice of the Change in Control. We will repurchase such convertible notes for an amount in cash equal to 100% of the principal amount, plus accrued and unpaid interest, if any, to the date of repurchase.

A Change in Control means the occurrence of one or more of the following events:

(1) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all or substantially all of our assets to any Person or group of related Persons, other than to any of our wholly-owned subsidiaries, as defined in Section 13(d) of the Exchange Act, or a Group (whether or not otherwise in compliance with the provisions of the indenture);

(2) the approval by the holders of our capital stock of any plan or proposal for our liquidation or dissolution (whether or not otherwise in compliance with the provisions of the indenture);

(3) any Person or Group shall become the beneficial owner (as defined in Rule 13d-3 under the Exchange Act) of shares representing more than 50% of the aggregate ordinary voting power represented by our issued and outstanding voting stock;

(4) the first day on which a majority of the members of our board of directors are not continuing directors (as described below); or

(5) any consolidation by us with, or merger by us with or into, another Person or any consolidation by another Person with, or merger by another Person with or into, us, in any such event other than pursuant to a transaction in which the Persons that beneficially owned (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, the shares of our voting stock immediately prior to such transaction, beneficially own, directly or indirectly, immediately after such transaction, shares of voting stock of the continuing or surviving corporation representing at least a majority of the total voting power of all outstanding classes of voting stock of the continuing or surviving corporation in substantially the same proportion as such ownership immediately prior to the transaction.

The definition of a Change in Control includes a phrase relating to the sale, lease, exchange or other transfer of all or substantially all of our assets. Although there is a developing body of case law interpreting the phrase substantially all, there is no precise definition of the phrase under applicable law. Accordingly, the ability of a holder of convertible notes to require us to repurchase such convertible notes as a result of a sale, lease, exchange or other transfer of less than all of our assets to another person or Group may be uncertain.

The term continuing directors means, as of any date of determination, any member of our board of directors who:

(1) was a member of such board of directors on the date of the original issuance of the convertible notes; or

(2) was nominated for election or elected to such board of directors with the approval of: (A) a majority of the continuing directors who were members of such board at the time of such nomination or election, or (B) a nominating committee, a majority of which committee shall be the continuing directors who were members of such board at the time of such nomination or election.

The term beneficial owner will be determined in accordance with Rules 13d-3 and 13d-5 promulgated by the SEC under the Exchange Act or any successor provision, except that a person shall be deemed to have beneficial ownership of all shares of our common stock that the person has the right to acquire, whether exercisable immediately or only after the passage of time.

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On or before the 30th day after the Change in Control, we must mail to the trustee and all holders of the convertible notes a notice of the occurrence of a Change in Control, stating, among other things:

(1) that the Change in Control offer is being made under the covenant entitled Repurchase at the Option of Holder Repurchase Upon a Change in Control and that all convertible notes tendered will be accepted for payment;

(2) the repurchase price and the repurchase date, which date will be no earlier than 30 days nor later than 45 days from the date the notice is mailed;

(3) that interest will continue to accrue on any convertible notes not tendered, as provided in the convertible notes;

(4) that, unless we default in the payment of the repurchase price, with respect to all convertible notes accepted for payment under the Change in Control offer, interest will cease to accrue after the repurchase date;

(5) that holders electing to have any convertible notes repurchased under a Change in Control offer will be required to surrender the convertible notes, with the form entitled Option of Holder to Elect Repurchase on the reverse of the convertible notes completed, to the paying agent at the address specified in the notice prior to the close of business on the third business day preceding the repurchase date;

(6) that holders will be entitled to withdraw their election if the payment agent receives, not later than the close of business on the second business day preceding the repurchase date, a telegram, telex, facsimile transmission or letter setting forth the name of the holder, the principal amount of convertible notes delivered for repurchase, and a statement that the holder is withdrawing his election to have the convertible notes repurchased; and

(7) that holders whose convertible notes are being repurchased only in part will be issued new convertible notes equal in principal amount to the unrepurchased portion of the convertible notes surrendered, which unrepurchased portion must be equal to $1,000 or an integral multiple thereof in principal amount.

We will comply with the requirements of Rules 13e-4 and 14e-1 under the Exchange Act and any other securities laws and regulations to the extent those laws and regulations are applicable in connection with the repurchase of the convertible notes in connection with a Change in Control. On the repurchase date, we will, to the extent lawful:

(1) accept for payment convertible notes or portions of convertible notes tendered under the Change in Control offer;

(2) deposit with the paying agent an amount equal to the repurchase price in respect of all convertible notes or portions of convertible notes tendered; and

(3) deliver or cause to be delivered to the trustee the convertible notes accepted together with an Officers Certificate stating the convertible notes or portions of convertible notes tendered to us.

The paying agent will promptly mail or deliver to each holder of convertible notes accepted payment in an amount equal to the repurchase price for the convertible notes. The trustee will promptly authenticate and mail to each holder a new convertible note equal in principal amount to any unrepurchased portion of the convertible notes surrendered, if any; provided that each new convertible note will be in a principal amount of $1,000 or an integral multiple of $1,000. We will publicly announce the results of the Change in Control offer on or as soon as practicable after the repurchase date.

Our obligation to make a Change in Control offer will be satisfied if a third party makes the Change in Control offer in the manner and at the times and otherwise in compliance in all material respects with the requirements applicable to a Change in Control offer made by us and repurchases all convertible notes properly tendered and not withdrawn under the Change in Control offer.

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Except as described above, the indenture does not contain any other provision that permits the holders of the convertible notes to require that we repurchase or redeem the convertible notes in the event of a takeover, recapitalization or similar restructuring. The Change in Control offer requirement of the convertible notes may, in certain circumstances, make more difficult or discourage a takeover of us, and, thus, the removal of incumbent management. Management has not entered into any agreement or plan involving a Change in Control, although it is possible that we would decide to do so in the future. Subject to the limitations discussed below, we could, in the future, enter into various transactions including acquisitions, refinancings or other recapitalizations, that would not constitute a Change in Control under the indenture, but that could increase the amount of indebtedness outstanding at the time or otherwise affect our capital structure or credit ratings.

Limitation on Merger, Sale or Consolidation

The indenture provides that we may not, directly or indirectly, consolidate with or merge with or into, or sell, lease or otherwise dispose of all or substantially all of our assets, on a consolidated basis, whether in a single transaction or a series of related transactions, to another person or group of affiliated persons, other than to our wholly-owned subsidiaries, unless:

(1) either:

(a) in the case of a merger or consolidation, we are the surviving entity; or

(b) the resulting, surviving or transferee entity is a corporation organized under the laws of the United States, any state thereof or the District of Columbia and expressly assumes by supplemental indenture all of our obligations in connection with the convertible notes and the indenture; and

(2) no Default or Event of Default shall exist immediately before or after giving effect on a pro forma basis to such transaction.

Upon any permitted consolidation or merger or any permitted sale, lease or other disposition of all or substantially all of our assets in accordance with the foregoing, the successor corporation formed by such consolidation or into which we are merged or to which such sale, lease or other disposition is made, shall succeed to, and be substituted for, and may exercise every right and power of, us under the indenture with the same effect as if such successor corporation had been named therein in the same manner as we are named, and, when a successor corporation duly assumes all of our obligations under the convertible notes and the indenture, we will be released from our obligations under the indenture and the convertible notes, except as to any obligations that arise from or as a result of such transaction.

For purposes of the foregoing, the transfer, by lease, assignment, sale or otherwise, of all or substantially all of the properties and assets of one or more subsidiaries, which properties and assets, if held by us instead of such subsidiary, would constitute all or substantially all of our properties and assets, shall be deemed to be the transfer of all or substantially all of our properties and assets. This Limitation on Merger, Sale or Consolidation covenant will not apply to a sale, assignment, transfer, conveyance or other disposition of assets between or among us and any of our wholly-owned subsidiaries.

Limitation on Status as Investment Company

The indenture provides that we will not, and will not permit any subsidiary to, conduct our or its business in a fashion that would cause us to be required to register as an investment company (as that term is defined in the Investment Company Act of 1940, as amended).

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Events of Default

The indenture provides that each of the following constitutes an Event of Default:

(1) a default for 30 days in the payment when due of interest on the convertible notes;

(2) a default in the payment of principal of any convertible note when due at its stated maturity, upon optional redemption, in connection with a repurchase of convertible notes at the option of a holder, in connection with a Change in Control offer or otherwise;

(3) the failure by us to comply for 30 days after notice with any of our obligations under the covenants described under Repurchase at the Option of Holders and Limitation on Merger, Sale or Consolidation (in each case, other than a failure to repurchase convertible notes in connection with a repurchase at the option of a holder or repurchase convertible notes in connection with a Change in Control offer);

(4) the failure by us for 60 days after notice to comply with any other covenants and agreements contained in the indenture or the convertible notes;

(5) the failure by us or any Significant Subsidiary to make any payment at final stated maturity, including any applicable grace period, in respect of our Indebtedness (other than non-recourse obligations) in an amount in excess of $15 million, and continuance of such failure for 30 days after written notice is given to us by the trustee or to us and the trustee by the holders of at least 25% in aggregate principal amount of convertible notes outstanding;

(6) a default by us or any Significant Subsidiary with respect to any of our Indebtedness (other than non-recourse obligations), which default results in the acceleration of Indebtedness in an amount in excess of $15 million;

(7) failure by us or any subsidiary of us that is a Significant Subsidiary or any group of two or more subsidiaries that, taken as a whole, would constitute a Significant Subsidiary to pay final judgments for the payment of money (other than any judgment as to which a reputable insurance company has accepted liability subject to customary terms) aggregating in excess of $5.0 million, which judgments are not paid, wired, discharged or stayed within 60 days after their entry; and

(8) certain events of bankruptcy or insolvency with respect to us or any of our subsidiaries that is a Significant Subsidiary or any group of two or more subsidiaries that, taken as a whole, would constitute a Significant Subsidiary.

If any Event of Default occurs and is continuing, the trustee or the holders of at least 25% in aggregate principal amount of the then outstanding convertible notes may declare all the convertible notes to be due and payable immediately. Notwithstanding the foregoing, in the case of an Event of Default arising from certain events of bankruptcy, insolvency or reorganization, with respect to us or any Significant Subsidiary, all outstanding convertible notes will become due and payable without further action or notice. Holders of the convertible notes may not enforce the indenture or the convertible notes except as provided in the indenture. Subject to certain limitations, holders of a majority in principal amount of the then outstanding convertible notes may direct the trustee in its exercise of any trust or power. The trustee may withhold from holders of the convertible notes notice of any continuing Default or Event of Default, except a Default or Event of Default relating to the payment of principal or interest, if it determines that withholding notice is in their interest.

In the event of a declaration of acceleration of the convertible notes because an Event of Default has occurred and is continuing as a result of the acceleration of any Indebtedness described in clause (6) above, the declaration of acceleration of the convertible notes will be automatically annulled if:

(1) the holders of any Indebtedness described in such clause (6) have rescinded or annulled the declaration of acceleration in respect of that Indebtedness or such Indebtedness has been discharged within 30 days after the date of the declaration;

(2) the annulment of the acceleration of the convertible notes would not conflict with any judgment or decree of a court of competent jurisdiction; and

(3) all existing Events of Default have been cured or waived except nonpayment of principal or interest on the convertible notes that has become due solely because of the acceleration of the convertible notes.

The holders of a majority in aggregate principal amount of the then outstanding convertible notes by notice to the trustee may on behalf of all of the holders waive any existing Default or Event of Default and its consequences under the indenture except a continuing Default or Event of Default in the payment of interest on or the principal of the convertible notes.

We are required to deliver to the trustee annually a statement regarding compliance with the indenture, and upon becoming aware of any Default or Event of Default, to deliver to the trustee a statement specifying such Default or Event of Default.

No Personal Liability of Directors, Officers, Employees and Shareholders

None of our directors, officers, employees, incorporators or shareholders, in their capacity as such, has any liability for any of our obligations under the convertible notes or the indenture or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each holder of the convertible notes by accepting a convertible note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the convertible notes. Such waiver may not be effective to waive liabilities under the federal securities laws, and it is the view of the SEC that a waiver of such liabilities is against public policy.

Unclaimed Money; Prescription

If money deposited with the trustee or paying agent for the payment of principal or interest remains unclaimed for two years, the trustee and the paying agent shall pay the money back to us at our written request. After that, holders of convertible notes entitled to the money must look to us for payment unless an abandoned property law designates another person and all liability of the trustee and the paying agent will cease. Other than as set forth in this paragraph, the indenture does not provide for any prescription period for the payment of interest and principal on the convertible notes.

Book-Entry, Delivery and Form

The convertible notes were initially offered and sold to qualified institutional buyers in reliance on Rule 144A. We refer to these convertible notes as Rule 144A Notes. Except as set forth below, we issued the convertible notes in registered, global form, without coupons, in minimum denominations of $1,000, and integral multiples of $1,000 in excess thereof.

Rule 144A Notes initially are represented by one or more convertible notes in registered form without interest coupons. We refer to these convertible notes as the Global Notes. The Global Notes were deposited upon issuance with the trustee as custodian for DTC, in New York, New York, and registered in the name of DTC or its nominee, in each case for credit to an account of a direct or indirect participant in DTC as described below.

Except as set forth below, the Global Notes may be transferred, in whole or in part, only to another DTC nominee or to a successor of DTC or its nominee. Beneficial interests in the Global Notes may not be exchanged for convertible notes in certificated form except in the limited circumstances described below. See Exchange of Global Notes for Certificated Notes. Except in the limited circumstances described below, owners of beneficial interests in the Global Notes will not be entitled to receive physical delivery of convertible notes in certificated form.

Rule 144A Notes (including beneficial interests in the Global Notes) are subject to certain restrictions on transfer and bear a restrictive legend. In addition, transfers of beneficial interests in Global

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Notes are subject to the applicable rules and procedures of DTC and its direct and indirect participants, which may change from time to time.

Depository Procedures

The following description of the operations and procedures of DTC are provided solely as a matter of convenience. These operations and procedures are solely within the control of the respective settlement systems and are subject to changes by them. We take no responsibility for these operations and procedures and urge investors to contact the system or their participants directly to discuss these matters.

DTC has advised us that DTC is a limited-purpose trust company created to hold securities for its participating organizations (collectively, the Participants) and to facilitate the clearance and settlement of transactions in those securities between Participants through electronic book-entry changes in accounts of its Participants. The Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. Access to DTC s system is also available to other entities such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Participant, either directly or indirectly (collectively, the Indirect Participants). Persons who are not Participants may beneficially own securities held by or on behalf of DTC only through the Participants or the Indirect Participants. The ownership interests in, and transfers of ownership interests in, each security held by or on behalf of DTC are recorded on the records of the Participants and Indirect Participants.

DTC has also advised us that, pursuant to procedures established by it:

(1) upon deposit of the Global Notes, DTC will credit the accounts of Participants designated by the initial purchaser of the convertible notes with portions of the principal amount of Global Notes; and

(2) ownership of these interests in the Global Notes will be shown on, and the transfer of ownership thereof will be effected only through, records maintained by DTC (with respect to other owners of beneficial interest in the Global Notes).

Investors in the Global Notes who are Participants in DTC s system may hold their interests therein directly through DTC. Investors in the Global Notes who are not Participants may hold their interests therein indirectly through organizations which are Participants in such system. All interests in a Global Note are subject to the procedures and requirements of DTC. The laws of some states require that certain persons take physical delivery in definitive form of securities that they own. Consequently, the ability to transfer beneficial interests in a Global Note to such persons will be limited to that extent. Because DTC can act only on behalf of Participants, which in turn act on behalf of Indirect Participants, the ability of a person having beneficial interests in a Global Note to pledge such interests to persons that do not participate in the DTC system, or otherwise take actions in respect of such interests, may be affected by the lack of a physical certificate evidencing such interests.

Except as described below, owners of interests in the Global Notes will not have convertible notes registered in their names, will not receive physical delivery of convertible notes in certificated form and will not be considered the registered owners or holders thereof under the indenture for any purpose.

Payments in respect of the principal, premium, and special interest, if any, and interest on a Global Note registered in the name of DTC or its nominee will be payable to DTC in its capacity as the registered holder under the indenture. Under the terms of the indenture, we and the trustee will treat the persons in whose names the convertible notes, including the Global Notes, are registered as the owners thereof for the purpose of receiving payments and for all other purposes. Consequently, neither we, the trustee, nor any agent of ours or the trustee has or will have any responsibility or liability for:

(1) any aspect of DTC s records or any Participant s or Indirect Participant s records relating to or payments made on account of beneficial ownership interest in the Global Notes or for maintaining, supervising or reviewing any of DTC s records or any Participant s or Indirect Participant s records relating to the beneficial ownership interests in the Global Notes; or

(2) any other matter relating to the actions and practices of DTC or any of its Participants or Indirect Participants.

DTC has advised us that its current practice, upon receipt of any payment in respect of securities such as the convertible notes (including principal and interest), is to credit the accounts of the relevant Participants with the payment on the payment date unless DTC has reason to believe it will not receive payment on such payment date. Each relevant Participant is credited with an amount proportionate to its beneficial ownership of an interest in the principal amount of the relevant security as shown on the records of DTC. Payments by the Participants and the Indirect Participants to the beneficial owners of convertible notes will be governed by standing instructions and customary practices and will be the responsibility of the Participants or the Indirect Participants and will not be the responsibility of DTC, the trustee or us. Neither we nor the trustee will be liable for any delay by DTC or any of its Participants in identifying the beneficial owners of the convertible notes, and we and the trustee may conclusively rely on and will be protected in relying on instructions from DTC or its nominee for all purposes.

Transfers between Participants in DTC will be effected in accordance with DTC s procedures, and will be settled in same-day funds.

DTC has advised us that it will take any action permitted to be taken by a holder of convertible notes only at the direction of one or more Participants to whose account DTC has credited the interests in the Global Notes and only in respect of such portion of the aggregate principal amount of the convertible notes as to which such Participant or Participants has or have given such direction. However, if there is an event of default under the convertible notes, DTC reserves the right to exchange the Global Notes for legended convertible notes in certificated form, and to distribute such convertible notes to its Participants.

Exchange Of Global Notes For Certificated Notes

A Global Note is exchangeable for definitive convertible notes, which we refer to as Certificated Notes, in registered certificated form under the following circumstances:

(1) if DTC (a) notifies us that it is unwilling or unable to continue as depositary for the Global Notes and we fail to appoint a successor depositary or (b) has ceased to be a clearing agency registered under the Exchange Act;

(2) if we, at our option, notify the trustee in writing that we elect to cause the issuance of the Certificated Notes; or

(3) if there shall have occurred and be continuing an Event of Default with respect to the convertible notes.

In all cases, Certificated Notes delivered in exchange for any Global Note or beneficial interests in Global Notes will be registered in the names, and issued in any approved denominations, requested by or on behalf of the depositary (in accordance with its customary procedures) and will bear the restrictive legend(s) required by applicable law.

Same Day Settlement and Payment

We will make payments in respect of the convertible notes represented by the Global Notes (including principal, premium, if any, and interest and special interest, if any) by wire transfer of immediately available funds to the accounts specified by the Global Note holder. We will make all payments of principal, interest, premium and special interest, if any, with respect to Certificated Notes by wire transfer of immediately available funds to the accounts specified by the holders thereof or, if no such account is specified or permitted to be specified, by mailing a check to each such holder s registered address. The convertible notes represented by the Global Notes are expected to be eligible to be traded in the PORTAL market and to trade in DTC s Same-Day Funds Settlement System, and any permitted secondary market trading activity in such convertible notes will, therefore, be required by DTC to be settled in immediately available funds. We expect that secondary trading in any Certificated Notes will also be settled in immediately available funds.

Transfer and Exchange

A holder may transfer or exchange interests in the convertible notes in accordance with procedures described in Book-Entry, Delivery and Form. The registrar and the trustee may require a holder, among other things, to furnish appropriate endorsements and transfer documents, and we may require a holder to pay any taxes and fees required by law or permitted by the indenture. We are not required to transfer or exchange any convertible note selected for redemption. Also, we are not required to transfer or exchange any convertible note for a period of 15 days before a selection of convertible notes to be redeemed. The registered holder of a convertible note will be treated as the owner of it for all purposes.

Amendment, Supplement and Waiver

Except as provided in the next succeeding paragraph, the indenture or the convertible notes may be amended or supplemented with the consent of the holders of at least a majority in aggregate principal amount of the then outstanding convertible notes, as applicable, including consents obtained in connection with a tender offer or exchange offer for the convertible notes, and any existing default or noncompliance with any provision of the indenture or the convertible notes may be waived with the consent of the holders of a majority in aggregate principal amount of then outstanding convertible notes, including consents obtained in connection with a tender offer or exchange offer for the convertible notes.

Without the consent of each holder affected, an amendment or waiver may not:

(1) reduce the amount of convertible notes whose holders must consent to an amendment, supplement or waiver;

(2) reduce the principal of or change the fixed maturity of any convertible note, alter the provisions with respect to the optional redemption of the convertible notes in a manner adverse to the holders or alter the provisions with respect to repurchase of the convertible notes at the option of the holders;

(3) reduce the rate of or change the time for payment or accrual of interest on any convertible note;

(4) waive a default in the payment of principal of or interest on any convertible notes, except a rescission of acceleration of the convertible notes by the holders of at least a majority in aggregate principal amount of the convertible notes and a waiver of the payment default that resulted from such acceleration;

(5) make any convertible note payable in money other than that stated in the convertible notes or the indenture;

(6) make any change in the provisions of the indenture relating to waivers of past Events of Default or the rights of holders of convertible notes to receive payments of principal of or interest on the convertible notes;

(7) waive a redemption payment with respect to any convertible note;

(8) impair the right to convert the convertible notes into common stock;

(9) modify the conversion provisions of the indenture in a manner adverse to the holders of the convertible notes; or

(10) make any change in the foregoing amendment and waiver provisions.

Notwithstanding the foregoing, without the consent of any holder of convertible notes, we and the trustee may amend or supplement the indenture or the convertible notes to cure any ambiguity, defect or inconsistency, to provide for uncertificated convertible notes in addition to or in place of certificated convertible notes, to provide for the assumption of our obligations to holders of the convertible notes in the case of a merger or consolidation or certain transfers or leases, to make any change that would provide any additional rights or benefits to the holders of the convertible notes or that does not adversely affect the legal rights under the indenture of any such holder, or to comply with requirements of the SEC in order to maintain the qualification of the indenture under the Trust Indenture Act of 1939, as amended.

Governing Law and Judgments

The convertible notes and the indenture will be governed exclusively by and construed in accordance with the laws of the State of New York without giving effect to applicable principles of conflicts of laws to the extent that the application of the law of another jurisdiction would be required thereby.

We will submit to the jurisdiction of the United States federal and New York state courts located in the Borough of Manhattan, City and State of New York for purposes of all legal actions and proceedings instituted in connection with the convertible notes and the indenture. We have appointed CT Corporation System as our authorized agent upon which process may be served in any such action.

Concerning the Trustee

The indenture contains limitations on the rights of the trustee, should it become a creditor of us, to obtain payment of claims in certain cases, or to realize on certain property received in respect of any such claim as security or otherwise. The trustee will be permitted to engage in other transactions; however, if it acquires any conflicting interest it must eliminate such conflict within 90 days, apply to the SEC for permission to continue or resign.

The holders of the majority in aggregate principal amount of the then outstanding convertible notes will have the right to direct the time, method and place of conducting any proceeding for exercising any remedy available to the trustee under the indenture, subject to certain exceptions. The indenture provides that if an Event of Default occurs, which is not cured or waived, the trustee will be required, in the exercise of its power, to use the degree of care of a prudent man in the conduct of his own affairs. Subject to these provisions, the trustee will be under no obligation to exercise any of its rights or powers under the indenture at the request of any holder of convertible notes, unless such holder has offered to the trustee security and indemnity satisfactory to it against any loss, liability or expense.

Definitions

Set forth below are selected defined terms used in the indenture. Please refer to the indenture for a full definition of all terms, as well as certain other terms used in this description of the convertible notes for which no definition is provided.

Default means any event that is or with the passage of time or the giving of notice or both would be an Event of Default.

Excess Payment means the excess of (A) the aggregate of the cash and value of other consideration paid by us or any of our subsidiaries with respect to our shares acquired in a tender offer or other negotiated transaction over (B) the market value of such acquired shares (by reference to the per share value of the shares remaining outstanding) after giving effect to the completion of a tender offer or other negotiated transaction.

Exchange Rate Contract means, with respect to any Person, any currency swap agreements, forward exchange rate agreements, foreign currency futures or options, exchange rate collar agreements, exchange rate insurance and other agreements or arrangements, or combination thereof, the principal purpose of which is to provide protection against fluctuations in currency exchange rates. An Exchange Rate Contract may also include an Interest Rate Agreement.

GAAP means generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and

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statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other entity as approved by a significant segment of the accounting profession, which are in effect on the Issuance Date and are applied on a consistent basis.

Guarantee means a guarantee, other than by endorsement of negotiable instruments for collection in the ordinary course of business, direct or indirect, in any manner, including, without limitation, letters of credit and reimbursement agreements in respect thereof, of all or any part of any Indebtedness.

Indebtedness means, with respect to any Person, any indebtedness of such Person, whether or not contingent, in respect of borrowed money or evidenced by bonds, notes, debentures or similar instruments or letters of credit, or reimbursement agreements in respect thereof, or representing the balance deferred and unpaid of the purchase price of any property (which purchase price is due more than six months after the placing into service or delivery of such property) including pursuant to capital leases and sale-and-leaseback transactions, or representing any hedging obligations under an Exchange Rate Contract or an Interest Rate Agreement, except any such balance that constitutes an accrued expense or trade payable, if and to the extent any of the foregoing indebtedness, other than obligations under an Exchange Rate Contract or an Interest Rate Agreement, would appear as a liability upon a balance sheet of such Person prepared in accordance with GAAP, and also includes, to the extent not otherwise included, the Guarantee of items which would be included within this definition if incurred directly by such Person. The amount of any Indebtedness outstanding as of any date shall be the accreted value thereof, in the case of any Indebtedness issued with original issue discount. Indebtedness shall not include liabilities for taxes of any kind.

Interest Rate Agreement means, with respect to any Person, any interest rate swap agreement, interest rate cap agreement, interest rate collar agreement or other similar agreement the principal purpose of which is to protect the party indicated therein against fluctuations in interest rates.

Issuance Date means the date on which the convertible notes are first authenticated and issued.

Person means person within the meaning of Sections 13(d)(3) and 14(d)(2) of the Exchange Act or any successor provision to either of the foregoing.

Significant Subsidiary means any of our subsidiaries that is a significant subsidiary as defined in Rule 1-02(w) of Regulation S-X under the Securities Act and the Exchange Act, as such regulation is in effect on the date of the indenture.

Registration Rights

Pursuant to a registration rights agreement, we have filed a shelf registration statement with the SEC, of which this prospectus is a part, with respect to resales of the convertible notes and the common stock issuable upon conversion of the convertible notes. We agreed to use our reasonable best efforts to cause such shelf registration statement to be declared effective by the SEC prior to July 9, 2004, and to use our reasonable best efforts to keep the shelf registration statement continuously effective under the Securities Act until December 12, 2005.

We are permitted to suspend use of the prospectus that is part of the shelf registration statement during certain periods of time and in certain circumstances relating to pending corporate developments and public filings with the SEC and similar events. If the shelf registration statement ceases to be effective or usable for more than 60 days in the aggregate during any 12-month period in connection with resales of the convertible notes or the common stock issuable upon the conversion of the convertible notes during the periods specified in the registration rights agreement, then we will pay special interest to each holder of transfer restricted securities as further described below. With respect to the first 90 consecutive-day period immediately following the unavailability of the shelf registration statement, we will pay an amount equal to an increase in the annual interest on the convertible notes of 0.25% and with respect to any subsequent period, we will pay additional amounts equal to an increase in the annual interest rate on the convertible notes of 0.25% until the shelf registration statement again becomes available for use by holders of transfer restricted securities. All accrued special interest will be paid by us on each subsequent interest payment date in cash. Such payment will be made to the holder of the global notes by wire transfer of immediately available funds or by federal funds check and to holders of certificated notes, if any, by wire transfer to the accounts specified by them to the extent permitted under the indenture or by mailing checks to their registered addresses if no such accounts have been specified by them. Following the cure of all Registration Defaults, the accrual of special interest will cease.

Each convertible note and the common stock issuable upon conversion of the convertible note are considered to be transfer restricted securities until:

the date on which such convertible note or the common stock issuable upon conversion thereof has been effectively registered under the Securities Act and disposed of in accordance with the shelf registration statement,

the date on which such convertible note or the common stock issuable upon conversion thereof is distributed to the public pursuant to Rule 144 under the Securities Act (or any similar provision then in effect) or is salable pursuant to Rule 144(k) under the Act, or

the date on which such convertible note or the common stock issuable upon conversion thereof ceases to be outstanding.

We will provide to each holder of convertible notes, or the common stock issuable upon conversion of the convertible notes, who is named in this prospectus or a related prospectus supplement, copies of this prospectus or a related prospectus supplement, notify each such holder when such shelf registration statement for the convertible notes or the common stock issuable upon conversion thereof has become effective and take certain other actions as required to permit unrestricted resales of the convertible notes or the common stock issuable upon conversion thereof.

A holder of the convertible notes or the common stock issuable upon conversion thereof that sells such securities pursuant to a this prospectus generally will be required to:

be named as a selling security holder in this prospectus or a related prospectus supplement,

deliver a prospectus to purchasers,

be subject to certain of the civil liability provisions under the Securities Act in connection with such sales, and

be bound by the provisions of the registration rights agreement which are applicable to such holder, including certain indemnification and contribution rights and obligations.

DESCRIPTION OF OTHER INDEBTEDNESS

5 1/2% Convertible Subordinated Notes Due 2007

As of December 5, 2003, we had outstanding $300 million in aggregate principal amount of our 5 1/2% notes. Interest on these 5 1/2% notes accrues at a rate of 5 1/2% and is payable semi-annually on January 1 and July 1, commencing on January 1, 2001. In December 2003 and January 2004, we repurchased $99.0 million in principal amount of the 5 1/2% notes.

The 5 1/2% notes are general unsecured obligations, subordinated in right of payment to all our existing and future senior or secured indebtedness. The 5 1/2% notes are convertible into shares of our common stock. The convertible notes offered under this memorandum are senior to our 5 1/2% notes. The holder of any 5 1/2% note has the right, exercisable at any time following the date of original issuance of the 5 1/2% note and prior to its maturity, to convert the principal amount of the 5 1/2% note into shares of our common stock at a conversion price of $115.47 per share. The indenture which was executed in connection with the issuance of the 5 1/2% notes contains a fundamental change provision and covenants that govern the 5 1/2% notes.

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In February 2004, we announced a tender offer to repurchase up to $101.1 million in aggregate principal amount of the 5 1/2% notes. The tender offer period is scheduled to expire on March 24, 2004. There can be no assurance, however, that we will complete the tender offer in whole or in part.

DESCRIPTION OF CAPITAL STOCK

Our authorized capital stock consists of 700,000,000 shares of common stock, $0.01 par value per share, and 5,000,000 shares of preferred stock, $0.01 par value per share, of which 700,000 shares have been designated as shares of Series A Junior Participating Preferred Stock, par value $.01 per share. As of March 4, 2004, we had 122,633,463 shares of common stock outstanding held by 589 stockholders of record. As of March 4, 2004, no shares of Series A Junior Participating Preferred Stock were issued or outstanding.

Common Stock

Holders of our common stock are entitled to one vote for each share held on matters submitted to a vote of stockholders. Holders of our common stock do not have cumulative voting rights. Accordingly, holders of a majority of the shares of common stock entitled to vote in any election of directors may elect all of the directors standing for election. Holders of common stock are entitled to receive their proportionate share of any dividends declared by the board of directors, subject to any preferential dividend rights of outstanding preferred stock. Upon our liquidation, dissolution or winding up, the holders of common stock are entitled to receive ratably our net assets available after the payment of all debts and other liabilities and subject to the preferential rights of any outstanding preferred stock. The common stock has no preemptive, subscription, redemption or conversion rights. All outstanding shares of common stock are fully paid and non-assessable. The rights, preferences and privileges of the common stock are subject to the rights of the holders of shares of any series of preferred stock which we may designate and issue in the future.

Stock Purchase Rights and Series A Junior Participating Preferred Stock

On September 10, 2002, our Board of Directors declared a dividend of one preferred stock purchase right, which we refer to collectively as the Rights, for each outstanding share of our common stock to stockholders of record at the close of business on September 23, 2002, which we refer to as the Record Date. Each Right entitles the registered holder to purchase from us one one-thousandth of a share of Series A Junior Participating Preferred Stock, which we call the Series A Junior Participating Preferred Stock, at a purchase price of $65.00 in cash, subject to adjustment. The description and terms of the Rights are set forth in the Rights Agreement dated September 10, 2002, as amended on January 29, 2004, between the Company and EquiServe Trust Company, N.A., as Rights Agent.

Initially, the Rights are not exercisable and will be attached to all certificates representing outstanding shares of common stock, and no separate certificates representing the rights will be distributed. The Rights will separate from the common stock, and the Distribution Date will occur, upon the earlier of (i) 10 business days following the later of (a) the first date of a public announcement that a person or group of affiliated or associated persons, or an Acquiring Person, has acquired, or obtained the right to acquire, beneficial ownership of 15% or more of the outstanding shares of common stock or (b) the first date on which one of our executive officers has actual knowledge that an Acquiring Person has become such (we refer to such date as the Stock Acquisition Date), or (ii) 10 business days following the commencement of a tender offer or exchange offer that would result in a person or group beneficially owning 15% or more of the outstanding shares of common stock. The Distribution Date may be deferred in circumstances determined by the Board of Directors. In addition, certain inadvertent acquisitions will not trigger the occurrence of the Distribution Date. Until the Distribution Date (or earlier redemption or expiration of the Rights), (i) the Rights will be evidenced by the common stock certificates outstanding on the record date, together with the summary of rights set forth in the Rights Agreement to be mailed to stockholders, or by new common stock certificates issued after the Record Date that contain a notation incorporating the

Rights Agreement by reference, (ii) the Rights will be transferred with and only with such common stock certificates; and (iii) the surrender for transfer of any certificates for common stock outstanding (with or without a copy of the summary of rights or such notation) will also constitute the transfer of the Rights associated with the common stock represented by such certificate.

The Rights will not be exercisable until the Distribution Date and will expire upon the close of business on September 10, 2012, which we refer to as the Final Expiration Date, unless earlier redeemed or converted as described below. As soon as practicable after the Distribution Date, separate rights certificates will be mailed to holders of record of the common stock as of the close of business on the Distribution Date and, thereafter, the separate rights certificates alone will represent the Rights. Except as otherwise determined by the Board of Directors, and except for shares of common stock issued upon exercise, conversion or exchange of then outstanding options, convertible or exchangeable securities or other contingent obligations to issue shares or pursuant to any employee benefit plan or arrangement, only shares of common stock issued prior to the Distribution Date will be issued with Rights.

In the event that any person becomes an Acquiring Person, unless the event causing the 15% threshold to be crossed is a Permitted Offer (as defined in the Rights Agreement), then, promptly following the first occurrence of such event, each holder of a Right (except as provided below and in Section 7(e) of the Rights Agreement) shall thereafter have the right to receive, upon exercise, that number of shares of our common stock (or, in certain circumstances, cash, property or other securities of Akamai) which equals the exercise price of the Right divided by 50% of the Current Market Price (as defined in the Rights Agreement) per share of common stock at the date of the occurrence of such event. However, Rights are not exercisable following such event until such time as the Rights are no longer redeemable by us as described below. Notwithstanding any of the foregoing, following the occurrence of such event, all Rights that are, or (under certain circumstances specified in the Rights Agreement) were, beneficially owned by any Acquiring Person will be null and void. The event summarized in this paragraph is referred to by us as a Section 11(a)(ii) Event.

For example, at an exercise price of $65.00 per Right, each Right not owned by an Acquiring Person (or by certain related parties) following a Section 11(a)(ii) Event would entitle its holder to purchase for $65.00 such number of shares of common stock (or other consideration, as noted above) as equals $65.00 divided by one-half of the current market price (as defined in the Rights Agreement) of the common stock. Assuming that the common stock had a market price of $13.00 per share at such time, the holder of each valid Right would be entitled to purchase four shares of common stock, having a market value of 10 × $13.00, or $130.00, for $65.00.

In the event that, at any time after any person becomes an Acquiring Person, (i) we are consolidated with, or merged with and into, another entity and we are not the surviving entity of such consolidation or merger (other than a consolidation or merger which follows a Permitted Offer) or we are the surviving entity, but shares of our outstanding common stock are changed or exchanged for stock or securities (of any other person) or cash or any other property, or (ii) more than 50% of our assets or earning power is sold or transferred, each holder of a Right (except Rights which previously have been voided as set forth above) shall thereafter have the right to receive, upon exercise, that number of shares of common stock of the acquiring company which equals the exercise price of the Right divided by 50% of the Current Market Price of such common stock at the date of the occurrence of the event. The events summarized in this paragraph are referred to by us as Section 13 Events. A Section 11(a)(ii) Event and Section 13 Events are collectively referred to by us as Triggering Events.

For example, at an exercise price of $65.00 per Right, each valid Right following a Section 13 Event would entitle its holder to purchase for $65.00 such number of shares of common stock of the acquiring company as equals $65.00 divided by one-half of the Current Market Price of such common stock. Assuming that such common stock had a market price of $13.00 per share at such time, the holder of each valid Right would be entitled to purchase four shares of common stock of the acquiring company, having a market value of 10 × $13.00, or $130.00, for $65.00.

At any time after the occurrence of a Section 11(a)(ii) Event, when no person owns a majority of our common stock, our Board of Directors may exchange the Rights (other than Rights owned by such Acquiring Person which have become void), in whole or in part, at an exchange ratio of one share of common stock, or one one-thousandth of a share of Series A Junior Participating Preferred Stock (or of a share of a class or series of our preferred stock having equivalent rights, preferences and privileges), per Right (subject to adjustment).

The Purchase Price payable, and the number of units of Series A Junior Participating Preferred Stock or other securities or property issuable, upon exercise of the Rights are subject to adjustment from time to time to prevent dilution (i) in the event of a stock dividend on, or a subdivision, combination or reclassification of, the Series A Junior Participating Preferred Stock, (ii) if holders of the Series A Junior Participating Preferred Stock are granted certain rights or warrants to subscribe for Series A Junior Participating Preferred Stock or convertible securities at less than the then-Current Market Price of the Series A Junior Participating Preferred Stock, or (iii) upon the distribution to holders of the Series A Junior Participating Preferred Stock of evidences of indebtedness or assets (excluding regular periodic cash dividends paid out of earnings or retained earnings) or of subscription rights or warrants (other than those referred to above). The number of Rights associated with each share of common stock is also subject to adjustment in the event of a stock split of our common stock or a stock dividend on our common stock payable in common stock or subdivisions, consolidations or combinations of the common stock occurring, in any such case, prior to the Distribution Date.

With certain exceptions, no adjustment in the Purchase Price will be required until cumulative adjustments amount to at least 1% of the Purchase Price. No fractional shares of Series A Junior Participating Preferred Stock (other than fractions which are integral multiples of one one-thousandth of a share of Series A Junior Participating Preferred Stock) will be issued and, in lieu thereof, an adjustment in cash will be made based on the market price of the Series A Junior Participating Preferred Stock on the last trading date prior to the date of exercise.

Series A Junior Participating Preferred Stock purchasable upon exercise of the Rights will not be redeemable. Each share of Series A Junior Participating Preferred Stock will be entitled to receive, when, as and if declared by the Board of Directors, a minimum preferential quarterly dividend payment of $10 per share or, if greater, an aggregate dividend of 1,000 times the dividend declared per share of common stock. In the event of liquidation, the holders of the Series A Junior Participating Preferred Stock will be entitled to a minimum preferential liquidation payment of $1,000 per share, plus an amount equal to accrued and unpaid dividends, and will be entitled to an aggregate payment of 1,000 times the payment made per share of common stock. Each share of Series A Junior Participating Preferred Stock will have 1,000 votes, voting together with the Common Stock. In the event of any merger, consolidation or other transaction in which common stock is changed or exchanged, each share of Series A Junior Participating Preferred Stock will be entitled to receive 1,000 times the amount received per share of common stock. These rights are protected by customary antidilution provisions. Because of the nature of the Series A Junior Participating Preferred Stock s dividend, liquidation and voting rights, the value of one one-thousandth of a share of Series A Junior Participating Preferred Stock purchasable upon exercise of each Right should approximate the value of one share of common stock.

At any time prior to the earlier of the tenth business day (or such later date as may be determined by our Board of Directors) after the Stock Acquisition Date, we may redeem the Rights in whole, but not in part, at a price of $0.001 per Right (the Redemption Price), payable in cash or stock. Immediately upon the redemption of the Rights or such earlier time as established by our Board of Directors in the resolution ordering the redemption of the Rights, the Rights will terminate and the only right of the holders of Rights will be to receive the Redemption Price. The Rights may also be redeemable following certain other circumstances specified in the Rights Agreement.

Until a Right is exercised, the holder thereof, as such, will have no rights as a stockholder of Akamai, including, without limitation, the right to vote or to receive dividends. Although the distribution of the Rights should not be taxable to stockholders or to us, stockholders may, depending upon the

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circumstances, recognize taxable income in the event that the Rights become exercisable for Akamai common stock (or other consideration) or for common stock of the acquiring company as set forth above.

Any provision of the Rights Agreement, other than the Redemption Price, may be amended by our Board of Directors prior to such time as the Rights are no longer redeemable. Once the Rights are no longer redeemable, our Board of Directors authority to amend the Rights is limited to correcting ambiguities or defective or inconsistent provisions in a manner that does not adversely affect the interest of holders of Rights.

Other Preferred Stock

Our board of directors is authorized to issue shares of additional shares of preferred stock in one or more series without stockholder approval. The board has discretion to determine the rights, preferences, privileges and restrictions, including voting rights, dividend rights, conversion rights, redemption privileges and liquidation preferences of each series of preferred stock.

The purpose of authorizing the board of directors to issue preferred stock and determine its rights and preferences is to eliminate delays associated with a stockholder vote on specific issuances. The board s ability to issue preferred stock will provide desirable flexibility in connection with possible acquisitions and other corporate purposes and could make it more difficult for a third party to acquire, or could discourage a third party from acquiring, a majority of our outstanding voting stock. The issuance of preferred stock with voting and conversion rights may adversely affect the voting power of the holders of common stock. We have no present plans to issue any shares of preferred stock.

Delaware Law and our Charter and By-law Provisions; Anti-Takeover Effects

We are subject to the provisions of Section 203 of the General Corporation Law of Delaware. Section 203 prohibits a publicly held Delaware corporation from engaging in a business combination with an interested stockholder for three years after the date of the transaction in which the person became an interested stockholder, unless the business combination is approved in a prescribed manner. A business combination includes mergers, asset sales and other transactions resulting in a financial benefit to the interested stockholder. An interested stockholder is a person who, together with affiliates and associates, owns, or within three years did own, 15% or more of the corporation s voting stock.

Our certificate of incorporation and by-laws provide:

That the board of directors be divided into three classes, as nearly equal in size as possible, with no class having more than one director more than any other class, with staggered three-year terms;

That directors may be removed only for cause by the vote of the holders of at least 66% of the shares of our capital stock entitled to vote; and

That any vacancy on the board of directors, however occurring, including a vacancy resulting from an enlargement of the board, may only be filled by vote of a majority of the directors then in office.

The classification of the board of directors and the limitations on the removal of directors and filling of vacancies could make it more difficult for a third party to acquire, or discourage a third party from acquiring, us.

The certificate of incorporation and by-laws also provide that:

Any action required or permitted to be taken by the stockholders at an annual meeting or special meeting of stockholders may only be taken if it is properly brought before such meeting and may not be taken by written action in lieu of a meeting; and

Special meetings of the stockholders may only be called by the chairman of the board of directors, the president, or by the board of directors.

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Our by-laws will also provide that, in order for any matter to be considered properly brought before a meeting, a stockholder must comply with requirements regarding advance notice to us.

These provisions could delay until the next stockholders meeting stockholder actions which are favored by the holders of a majority of our outstanding voting securities. These provisions may also discourage another person or entity from making a tender offer for our common stock, because such person or entity, even if it acquired a majority of our outstanding voting securities, would be able to take action as a stockholder only at a duly called stockholders meeting, and not by written consent.

Delaware law provides that the vote of a majority of the shares entitled to vote on any matter is required to amend a corporation s certificate of incorporation or by-laws, unless a corporation s certificate of incorporation or by-laws, as the case may be, requires a greater percentage. Our certificate of incorporation requires the vote of the holders of at least 75% of the shares of our capital stock entitled to vote to amend or repeal any of the foregoing provisions of our certificate of incorporation. Generally, our by-laws may be amended or repealed by a majority vote of the board of directors or the holders of a majority of the shares of our capital stock issued and outstanding and entitled to vote. Changes to our by-laws regarding special meetings of stockholders, written actions of stockholders in lieu of a meeting, and the election, removal and classification of members of the board of directors require the vote of the holders of at least 75% of the shares of our capital stock entitled to vote. The stockholder vote would be in addition to any separate class vote that might in the future be required pursuant to the terms of any series preferred stock that might be then outstanding.

Limitation of Liability and Indemnification

Our certificate of incorporation provides that our directors and officers shall be indemnified by us except to the extent prohibited by Delaware law. This indemnification covers all expenses and liabilities reasonably incurred in connection with their services for or on behalf of us. In addition, our certificate of incorporation provides that our directors will not be personally liable for monetary damages to us or to our stockholders for breaches of their fiduciary duty as directors, unless they violated their duty of loyalty to us or our stockholders, acted in bad faith, knowingly or intentionally violated the law, authorized illegal dividends or redemptions or derived an improper personal benefit from their action as directors.

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is EquiServe Trust Company, N.A.

SUMMARY OF CERTAIN UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS

The following discussion describes the material U.S. federal tax consequences of the ownership and disposition of the convertible notes and of our common stock into which the convertible notes may be converted. This discussion assumes that the convertible notes are properly characterized as indebtedness for U.S. federal income tax purposes and that the convertible notes and common stock received upon the conversion of the convertible notes cannot be integrated with any other financial instrument.

This summary is based on the Internal Revenue Code of 1986, as amended, which we refer to as the Code, administrative pronouncements, judicial decisions and final, temporary and proposed Treasury regulations, changes to any of which subsequent to the date of this prospectus may affect the tax consequences described herein, possibly with retroactive effect.

This discussion applies only to holders that hold the convertible notes and our common stock as capital assets within the meaning of Section 1221 of the Code (that is, for investment purposes).

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This discussion does not describe all of the tax consequences that may be relevant to a holder in light of its particular circumstances or to holders subject to special rules, such as:

- certain financial institutions;
- insurance companies;
- dealers and certain traders in securities;
- persons holding the convertible notes or our common stock as part of a straddle, hedge, conversion, constructive sale, or similar transaction;
- United States Holders (as defined below) whose functional currency is not the U.S. dollar;
- certain former citizens or residents of the United States;
- partnerships or other entities classified as partnerships for U.S. federal income tax purposes; and
- persons subject to the alternative minimum tax.

Persons considering the purchase of the convertible notes are urged to consult their tax advisers with regard to the application of the U.S. federal income tax laws to their particular situations as well as any tax consequences arising under the laws of any state, local or foreign taxing jurisdiction or under tax treaties.

Tax Opinion

We have received the opinion of Hale and Dorr LLP (the Opinion) to the effect that the statements of law and legal conclusions regarding the United States federal income tax consequences set forth in the section entitled Summary of Certain United States Federal Income Tax Considerations, subject to the limitations, qualifications and assumptions set forth therein, constitute Hale and Dorr s opinion as to such tax consequences.

The Opinion is based upon assumptions and limitations set forth above with respect to this discussion as well as the assumptions noted in the Opinion. The Opinion will not preclude the Internal Revenue Service or a court from adopting a contrary position. We will not seek a ruling from the Internal Revenue Service as to the U.S. federal income tax treatment of ownership of the convertible notes and our common stock.

The Opinion is attached as exhibit 8.1 to the registration statement of which this prospectus is a part.

Tax Consequences to United States Holders

As used herein, the term United States Holder means a beneficial owner of a convertible note or our common stock that is for U.S. federal income tax purposes:

- a citizen or resident of the United States, including an alien individual who is a lawful permanent resident of the United States or who meets the substantial presence residency test under U.S. federal income tax laws;
- a corporation, or other entity taxable as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States or of any political subdivision thereof;
- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust if (1) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or (2) a valid election is in place to treat the trust as a U.S. person.

As used in this discussion, the term Non-United States Holder means a beneficial owner of a convertible note or our common stock that is not a United States Holder.

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Taxation of Interest

Interest paid on the convertible notes will be included in the income of a United States Holder as ordinary income at the time it is received or accrued, in accordance with the holder s regular method of tax accounting.

Additional Interest

If the amount or timing of any payments on a note is contingent, the note could be subject to special rules that apply to contingent payment debt instruments. These rules generally require a United States holder to accrue interest income at a rate higher than the stated interest rate on the note and to treat as interest income, which is taxed as ordinary income (rather than capital gain), any gain recognized on a sale, exchange, repurchase or retirement of the note before the resolution of the contingencies.

If the convertible notes are not registered with the SEC within prescribed time periods or in certain other circumstances described above in Description of the Convertible Notes Registration Rights , holders will be entitled to the payment of additional interest. Notwithstanding the possibility of such contingent payments, under applicable Treasury Regulations, payments on a note that are subject to either a remote or incidental contingency may be ignored. We believe that the prospect of the foregoing payments being made should be considered as a remote and/or incidental contingency so that the payments should be ignored.

Therefore, for purposes of filing tax or information returns with the Internal Revenue Service, we will not treat the convertible notes as contingent payment debt instruments. Our determination that the convertible notes are not contingent payment debt instruments is binding on each holder unless the holder explicitly discloses in the manner required by applicable Treasury Regulations that its determination is different from ours. Our determination is not, however, binding on the Internal Revenue Service. It is possible that the Internal Revenue Service may make a different determination, in which case the timing and amount of income inclusions by a holder may be affected. This discussion assumes that the convertible notes are not subject to the contingent payment debt instrument rules.

Amortizable Bond Premium on Notes

If a United States Holder purchases a note for an amount in excess of all amounts payable on the note after the purchase date, other than payments of qualified stated interest and an amount attributable to a convertible notes conversion feature, the excess will constitute bond premium. The bond premium on a note will be the excess of the adjusted tax basis in the note upon purchase over the note s principal amount.

A United States Holder generally may elect to amortize the bond premium over the term of the note on a constant yield method. The amount amortized in any year will be treated as a reduction of interest income from the note for that year. If the amortizable bond premium allocable to a year exceeds the amount of interest allocable to that year, the excess would be allowed as a deduction for that year but only to the extent of the United States Holder s prior interest inclusions with respect to the note.

Because the convertible notes are redeemable at our option on or after December 15, 2010 (see Description of Convertible Notes Optional Redemption), special rules will apply which require a United States Holder to determine the yield and maturity of a convertible note for purposes of calculating and amortizing bond premium by assuming that we will exercise our option to redeem the convertible note in a manner that maximizes his or her yield. If we do not exercise our option to redeem the convertible note in the manner assumed, then solely for purposes of calculating and amortizing any remaining bond premium, United States Holders must treat the convertible note as retired and reissued on the deemed redemption date for its adjusted purchase price as of that date. The adjusted purchase price of the convertible note is a United States Holder s initial investment in the convertible note, decreased by the amount attributable to the conversion feature and by the amount of any payments, other than qualified stated interest payments, received with respect to such convertible note and any bond premium previously amortized by the holder.

If a United States Holder does not elect to amortize bond premium, the bond premium on a convertible note will decrease the gain or increase the loss that the holder otherwise recognizes on the convertible note s disposition. Any election to amortize bond premium applies to all debt obligations, other than debt obligations the interest on which is excludable from gross income, that a United States Holder holds at the beginning of the first taxable year to which the election applies or that the holder thereafter acquires. A United States Holder may not revoke an election to amortize bond premium without the consent of the IRS.

We urge holders to consult with their tax advisors regarding the consequences of amortizable bond premium and any relevant elections.

Market Discount on Notes

If a United States Holder purchases a convertible note other than at original issue and his or her adjusted tax basis upon purchase is less than the convertible note s principal amount, then the holder will be treated as having purchased that convertible note at a market discount equal to the difference. The foregoing does not apply if the amount of the market discount is less than the de minimis amount specified under the Code. Under the market discount rules, a United States Holder will be required to treat any gain on the sale, exchange, redemption, retirement or other taxable disposition of a convertible note, or any appreciation in a convertible note in the case of a nontaxable disposition, such as a gift, as ordinary income to the extent of the market discount that has not previously been included in income and that is treated as having accrued on the convertible note at the time of the payment or disposition. In addition, a United States Holder may be required to defer, until the maturity of the convertible note or earlier taxable disposition, the deduction of all or a portion of interest expense on any indebtedness incurred or continued to purchase or carry the convertible note.

Any market discount will be considered to accrue evenly during the period from the day after purchase to the maturity date of the convertible note, unless the United States Holder elects to accrue the market discount on a constant yield method. A United States Holder may also elect to include market discount in income currently as it accrues, on either an even or constant yield method. In that event, the holder s basis in the convertible note will increase by the amounts he or she so includes in income. If a United States Holder makes the election to include market discount in income currently, the rules described above regarding ordinary income on dispositions and deferral of interest deductions will not apply. This election to include market discount in income currently, once made, applies to all market discount obligations acquired on or after the first taxable year to which the election applies. A United States Holder may not revoke a market discount election without the consent of the IRS. We urge holders to consult with their tax advisors regarding these market discount elections.

Holders should consult their own tax advisors concerning the existence of, and tax consequences of, market discount.

Sale, Exchange, Repurchase or Retirement of Convertible Notes

Upon a sale, exchange, repurchase or retirement of a convertible note (other than a conversion into our common stock), a United States Holder will generally recognize taxable gain or loss equal to the difference between the amount realized on the sale, exchange, repurchase or retirement (other than amounts representing accrued and unpaid interest) and such United States Holder s adjusted tax basis in the convertible note. A United States Holder s adjusted tax basis in a convertible note will generally be equal to the holder s purchase price for the convertible note (decreased by any principal payments the holder receives with respect to the convertible note).

Gain or loss recognized on the sale, exchange, repurchase or retirement of a convertible note generally will be capital gain or loss and will be long-term capital gain or loss if at the time of the sale, exchange,

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repurchase or retirement the convertible note has been held for more than one year. Any amounts attributable to accrued interest, however, will be taxed as interest income (as discussed above under Tax Consequences to United States Holders Taxation of Interest) to the extent the holder has not previously included such amounts in the holder s taxable income. The deductibility of capital losses is subject to limitations.

Conversion of Convertible Notes into Common Stock

A United States Holder s conversion of a note into our common stock generally will not be a taxable event, except that the receipt of cash in lieu of a fractional share of our common stock will result in capital gain or loss (measured by the difference between the cash received in lieu of the fractional share and the United States Holder s tax basis attributable to the fractional share).

A United States Holder s adjusted tax basis in our common stock received upon a conversion of a note will be the same as the United States Holder s adjusted tax basis in the note at the time of the conversion, reduced by any basis attributable to a fractional share. The United States Holder s holding period for the common stock received will include the holding period of the note converted.

Constructive Dividends

If at any time we decrease the conversion price, either at our discretion or pursuant to the anti-dilution provisions of the indenture, the decrease may be deemed to be the payment of a taxable stock dividend to the United States Holders of the convertible notes, although the holder would not receive cash or other property. Generally, a reasonable decrease in the conversion price in the event of stock dividends or distributions of rights to our stockholders to subscribe for our common stock will not be a taxable dividend. In certain circumstances, the failure to adjust the conversion price may result in a deemed distribution to the holders of our common stock. Any constructive taxable stock dividend on the convertible notes may not be eligible under recently enacted legislation for taxation at lower rates.

Taxation of Distributions on Common Stock

Distributions, if any, paid on our common stock after a conversion, other than certain pro rata distributions of common stock, will be treated as a dividend to the extent paid out of current or accumulated earnings and profits (as determined under U.S. federal income tax principles) and will be includible in income by the United States Holder and taxable as ordinary income when received or accrued, in accordance with such United States Holder s method of accounting. If a distribution exceeds our current and accumulated earnings and profits, the excess will be first treated as a tax-free return of the United States Holder s investment, up to the United States Holder s tax basis in the common stock. Any remaining excess will be treated as capital gain. If the United States Holder is a U.S. corporation, it generally would be able to claim a deduction equal to a portion of any dividends received.

Under recently enacted legislation, dividends received by noncorporate United States Holders on common stock may be subject to U.S. federal income tax at lower rates than other types of ordinary income if certain holding period requirements and other conditions are met. United States Holders should consult their own tax advisers regarding the implications of this new legislation in their particular circumstances.

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Sale or Other Disposition of Common Stock

Unless a nonrecognition provision applies, gain or loss realized by a United States Holder on the sale or other disposition of our common stock received upon conversion of a note will be recognized as capital gain or loss for U.S. federal income tax purposes, and will be long-term capital gain or loss if the United States Holder held the common stock for more than one year. The amount of the United States Holder s gain or loss will be equal to the difference between the United States Holder s adjusrgin-left:0pt;text-indent:-0pt;" --> If our allowance for loan losses is not sufficient to absorb actual losses or if we are required to increase our allowance, our financial condition and results of operations could be adversely affected.

We are exposed to the risk that our borrowers may default on their obligations. A borrower's default on its obligations under one or more loans of the Bank may result in lost principal and interest income and increased operating expenses as a result of the allocation of management time and resources to the collection and work-out of the loan. In certain situations, where collection efforts are unsuccessful or acceptable work-out arrangements cannot be reached, the Bank may have to write off the loan in whole or in part. In such situations, the Bank may acquire real estate or other assets, if any, that secure the loan through foreclosure or other similar available remedies, and often the amount owed under the defaulted loan exceeds the value of the assets acquired.

We periodically make a determination of an allowance for loan losses based on available information, including, but not limited to, our historical loss experience, the quality of the loan portfolio, certain economic conditions, the value of the underlying collateral, expected cash flows from purchased loans, and the level of non-accruing and criticized loans. We rely on our loan quality reviews, our experience and our evaluation of economic conditions, among other factors, in determining the amount of provision required for the allowance for loan losses. Provisions to this allowance result in an expense for the period. If, as a result of general economic conditions, previously incorrect assumptions, or an increase in defaulted loans, we determine that additional increases in the allowance for loan losses are necessary, we will incur additional expenses.

Determining the allowance for loan losses inherently involves a high degree of subjectivity and requires us to make significant estimates of current credit risks and future trends, all of which may undergo material changes. At any time, there are likely to be loans in our portfolio that will result in losses but that have not been identified as nonperforming or potential problem credits. We cannot be sure that we will be able to identify deteriorating credits before they become nonperforming assets or that we will be able to limit losses on those loans that are identified. We have in the past been, and in the future may be, required to increase our allowance for loan losses for any of several reasons. State and federal regulators, in reviewing our loan portfolio as part of a regulatory examination, may request that we increase our allowance for loan losses. Changes in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of our control, may require an increase in our allowance for loan losses. In addition, if charge-offs in future periods exceed those estimated in our determination of our allowance for loan losses, we will need additional increases in our allowance for loan losses. Any increases in our allowance for loan losses will result in a decrease in our net income and, possibly, our capital, and could have an adverse effect on our financial condition and results of operations.

A significant portion of loans held in our loan portfolio were originated by third parties, and such loans may not have been subject to the same level of due diligence that Northeast Bank would have conducted had it originated the loans.

At June 30, 2015, 32.6% of the loans held in our loan portfolio were originated by third parties, and therefore may not have been subject to the same level of due diligence that Northeast Bank would have conducted had it originated the loans. Although the Loan Acquisition and Servicing Group conducts a comprehensive review of all loans that it purchases, loans originated by third parties may lack current financial information and may have incomplete legal documentation and outdated appraisals. As a result, the Loan Acquisition and Servicing Group may not have information with respect to an acquired loan which, if known at the time of acquisition, would have caused it to reduce its bid price or not bid for the loan at all. This may adversely affect our yield on loans or cause us to increase our provision for loan losses.

Our experience with loans held in our loan portfolio that were originated by third parties is limited.

At June 30, 2015, the 32.6% of the loans held in our loan portfolio that were originated by third parties had been held by us for approximately 1.6 years, calculated on a weighted average basis. Consequently, we have had only a relatively short period of time to evaluate the performance of those loans and the price at which we purchased them. Further experience with these loans may provide us with information that could cause us to increase our provision for loan losses.

Our loan portfolio includes commercial loans, which are generally riskier than other types of loans.

At June 30, 2015, our commercial real estate mortgage and commercial business loan portfolios comprised 77.1% of total loans. Commercial loans generally carry larger loan balances and involve a higher risk of nonpayment or late payment than residential mortgage loans. These loans, and purchased loans in particular, may lack standardized terms and may include a balloon payment feature. Moreover, some of these loans may be secured by assets located outside of the Community Banking Division's market area. The ability of a borrower to make or refinance a balloon payment may be affected by a number of factors, including the financial condition of the borrower, prevailing economic conditions and prevailing interest rates. Repayment of these loans is generally more dependent on the economy and the successful operation of a business. Because of the risks associated with commercial loans, we may experience higher rates of default than if the portfolio were more heavily weighted toward residential mortgage loans. Higher rates of default could have an adverse effect on our financial condition and results of operations.

Environmental liability associated with our lending activities could result in losses.

In the course of business, we may acquire, through foreclosure, properties securing loans we have originated or purchased that are in default. Particularly in commercial real estate lending, there is a risk that hazardous substances could be discovered on these properties. In this event, we might be required to remove these substances from the affected properties at our sole cost and expense. The cost of this removal could substantially exceed the value of affected properties. We may not have adequate remedies against the prior owner or other responsible parties and could find it difficult or impossible to sell the affected properties. These events could have an adverse effect on our financial condition and results of operations.

We may not be able to attract and retain qualified key employees, which could adversely affect our business prospects, including our competitive position and results of operations.

Our success is dependent upon our ability to attract and retain highly skilled individuals. There is significant competition for those individuals with the experience and skills required to conduct many of our business activities. We may not be able to hire or retain the key personnel that we depend upon for success. The unexpected loss of services of one or more of these or other key personnel could have a material adverse impact on our business because of their skills, knowledge of the markets in which we operate, years of industry experience and the difficulty of promptly finding qualified replacement personnel.

We are subject to liquidity risk.

Liquidity is the ability to meet cash flow needs on a timely basis at a reasonable cost. Our liquidity is used principally to originate or purchase loans, to repay deposit liabilities and other liabilities when they come due, and to fund operating costs. Customer demand for non-maturity deposits can be difficult to predict. Changes in market interest rates, increased competition within our markets, and other factors may make deposit gathering more difficult. Disruptions in the capital markets or interest rate changes may make the terms of wholesale funding sources which include Federal Home Loan Bank advances, the Federal Reserve's Borrower-in-Custody program, securities sold under repurchase agreements, federal funds purchased and brokered certificates of deposit less favorable and may make it difficult to sell securities when needed to provide additional liquidity. As a result, there is a risk that the cost of funding will increase or that we will not have sufficient funds to meet our obligations when they come due.

We are subject to security and operational risks relating to our use of technology.

Communication and information systems are critical to the conduct of our business because we use these systems to manage our customer relationships and process accounting and financial reporting information. Although we have established policies and procedures to prevent or limit the impact of system failures, interruptions and security breaches, including cyber security breaches, there can be no assurance that such events will not occur or that they will be adequately addressed if they do. In addition, any compromise of our security systems could prevent customers from using our website and our online banking services, both of which involve the transmission of confidential information. Although we rely on security and processing systems to provide the security and authentication necessary to securely transmit data, these precautions may not protect our systems from compromises or breaches of security. Information security risks have increased significantly due to the use of online, telephone and mobile banking channels by clients and the increased sophistication and activities of organized crime, hackers, terrorists and other external parties. The occurrence of any failures, interruptions or security breaches of our information systems could damage our reputation, result in the loss of business, subject us to increased regulatory scrutiny or expose us to civil litigation and possible financial liability, including the costs of customer notification and remediation efforts. Any of these occurrences could have an adverse effect on our financial condition and results of operations.

We rely on other companies to provide key components of our business infrastructure.

Third party vendors provide key components of our business infrastructure such as internet connections, network access and core application processing. While we have selected these third party vendors carefully, we do not control their actions. Any problems caused by these third parties, including as a result of their not providing us their services for any reason or their performing their services

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poorly, could adversely affect our ability to deliver products and services to our customers or otherwise conduct our business efficiently and effectively. Replacing these third party vendors could also entail significant delay and expense.

Damage to our reputation could significantly harm our business, including our competitive position and business prospects.

We are dependent on our reputation within our market area, as a trusted and responsible financial company, for all aspects of our relationships with customers, employees, vendors, third-party service providers, and others, with whom we conduct business or potential future business. Our ability to attract and retain customers and employees could be adversely affected if our reputation is damaged. Our actual or perceived failure to address various issues could give rise to reputational risk that could cause harm to us and our business prospects. These issues also include, but are not limited to, legal and regulatory requirements; properly maintaining customer and employee personal information; record keeping; money-laundering; sales and trading practices; ethical issues; appropriately addressing potential conflicts of interest; and the proper identification of the legal, reputational, credit, liquidity and market risks inherent in our products. Failure to appropriately address any of these issues could also give rise to additional regulatory restrictions and legal risks, which could, among other consequences, increase the size and number of litigation claims and damages asserted or subject us to enforcement actions, fines and penalties and cause us to incur related costs and expenses.

Internal controls may fail or be circumvented.

Effective controls over financial reporting are necessary to help ensure reliable financial reporting and prevent fraud. Management is responsible for maintaining an effective system of internal control and assessing system effectiveness. Our system of internal control is a process designed to provide reasonable, not absolute, assurance that system objectives are being met. Failure or circumvention of the system of internal control could have an adverse effect on our business, profitability, and financial condition, and could further result in regulatory actions and loss of investor confidence.

Difficult economic conditions, both in the Community Banking Division's market area and more generally, could adversely affect our financial condition and results of operations.

Our Community Banking Division primarily serves individuals and businesses located in western and south-central Maine. As a result, a significant portion of our earnings are closely tied to the economy of Maine. In addition, our loan portfolio includes commercial loans acquired by the Loan Acquisition and Servicing Group that are secured by assets located nationwide. Deterioration in the economic conditions of the Community Banking Division's market area in Maine, and deterioration of the economy nationally could result in the following consequences:

- Loan delinquencies may increase;
- Problem assets and foreclosures may increase;
- Demand for our products and services may decline;
- Collateral for our loans may decline in value, in turn reducing a customer's borrowing power and reducing the value of collateral securing a loan; and
- The net worth and liquidity of loan guarantors may decline, impairing their ability to honor commitments to us.

Our future growth, if any, may require us to raise additional capital, but that capital may not be available when we need it.

As a bank, we are required by regulatory authorities to maintain adequate levels of capital to support our operations. In addition, in conjunction with the regulatory approvals received for the merger with FHB Formation LLC, we committed to maintain a Tier 1 leverage ratio of at least 10% and a total risk-based capital ratio of at least 15%. We may need to raise additional capital to support our operations or our growth, if any. Our ability to raise additional capital will depend, in part, on conditions in the capital markets and our financial performance at that time. Accordingly, we may be unable to raise additional capital, if and when needed, on acceptable terms, or at all. If we cannot raise additional capital when needed, our ability to further expand our operations through internal growth and acquisitions could be materially impaired. In addition, if we decide to raise additional equity capital, investors' interests could be diluted. Our failure to meet any applicable regulatory guideline related to our lending activities or any capital requirement otherwise imposed upon us or to satisfy any other regulatory requirement could subject us to certain activity restrictions or to a variety of enforcement remedies available to the regulatory authorities, including limitations on our ability to pay dividends or pursue acquisitions, the issuance by regulatory authorities of a capital directive to increase capital and the termination of deposit insurance by the FDIC.

The soundness of other financial institutions could adversely affect us.

Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services institutions are interrelated as a result of trading, clearing, counterparty and other relationships. We have exposure to many different counterparties, and we routinely execute transactions with counterparties in the financial industry, including brokers and dealers, other commercial banks, investment banks, mutual and hedge funds, and other financial institutions. As a result, defaults by, or even rumors or questions about, one or more financial services institutions, or the financial services industry generally, could lead to market-wide liquidity problems and losses or defaults by us or by other institutions and organizations. Many of these transactions expose us to credit risk in the event of default of our counterparty or client. In addition, our credit risk may be exacerbated when the collateral held by us cannot be liquidated or is liquidated at prices not sufficient to recover the full amount of the financial instrument exposure due to us. There is no assurance that any such losses would not materially and adversely affect our results of operations.

Risks Associated With the Industry

Competition in the financial services industry is intense and could result in us losing business or experiencing reduced margins.

Our future growth and success will depend on our ability to continue to compete effectively in the Community Banking Division's market area, in the markets in which the Loan Acquisition and Servicing Group and the SBA National group operate and in the markets in which ableBanking operates. We face aggressive competition from other domestic and foreign lending institutions and from numerous other providers of financial services. The ability of non-banking financial institutions to provide services previously limited to commercial banks has intensified competition. Because non-banking financial institutions are not subject to the same regulatory restrictions as banks and bank holding companies, they can often operate with greater flexibility and lower cost structures. Securities firms and insurance companies that elect to become financial holding companies may acquire banks and other financial institutions. This may significantly change the competitive environment in which we conduct our business. Some of our competitors have significantly greater financial resources and/or face fewer regulatory constraints. As a result of these various sources of competition, we could lose business to competitors or could be forced to price products and services on less advantageous terms to retain or attract clients, either of which would adversely affect its profitability.

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Changes in interest rates could adversely affect our net interest income and profitability.

The majority of our assets and liabilities are monetary in nature. As a result, our earnings and growth are significantly affected by interest rates, which are subject to the influence of economic conditions generally, both domestic and foreign, to events in the capital markets and also to the monetary and fiscal policies of the United States and its agencies, particularly the Federal Reserve. The nature and timing of any changes in such policies or general economic conditions and their effect on us cannot be controlled and are extremely difficult to predict. Changes in interest rates can affect our net interest income as well as the value of our assets and liabilities. Net interest income is the difference between (i) interest income on interest-earning assets, such as loans and securities, and (ii) interest expense on interest-bearing liabilities, such as deposits and borrowings. Changes in market interest rates, changes in the relationships between short-term and long-term market interest rates, or the yield curve, or changes in the relationships between different interest rate indices can affect the interest rates charged on interest-earning assets differently than the interest rates paid on interest-bearing liabilities. This difference could result in an increase in interest expense relative to interest income, and therefore reduce our net interest income. Further, declines in market interest rates may trigger loan prepayments, which in many cases are within our customers' discretion, and which in turn may serve to reduce our net interest income if we are unable to lend those funds to other borrowers or invest the funds at the same or higher interest rates.

We operate in a highly regulated industry, and laws and regulations, or changes in them, could limit or restrict our activities and could have an adverse impact in our operations.

We are subject to regulation and supervision by the Federal Reserve, and our banking subsidiary, Northeast Bank, is subject to regulation and supervision by the FDIC and the Maine Bureau of Financial Institutions. Federal and state laws and regulations govern numerous matters, including changes in the ownership or control of banks and bank holding companies, maintenance of adequate capital and the financial condition of a financial institution, permissible types, amounts and terms of extensions of credit and investments, permissible non-banking activities, the level of reserves against deposits and restrictions on dividend payments. The Federal Reserve, the FDIC and the Maine Bureau of Financial Institutions have the power to issue cease and desist orders to prevent or remedy unsafe or unsound practices or violations of law by banks subject to their regulation, and the Federal Reserve possesses similar powers with respect to bank holding companies. These and other restrictions limit the manner in which we and Northeast Bank may conduct business and obtain financing.

Because our business is highly regulated, the laws, rules, regulations, and supervisory guidance and policies applicable to us are subject to regular modification and change. It is impossible to predict the competitive impact that any such changes would have on the banking and financial services industry in general or on our business in particular. Such changes may, among other things, increase the cost of doing business, limit permissible activities, or affect the competitive balance between banks and other financial institutions. The Dodd-Frank Act instituted major changes to the banking and financial institutions regulatory regimes in light of government intervention in the financial services sector following the 2008 financial crisis. Other changes to statutes, regulations, or regulatory policies, including changes in interpretation or implementation of statutes, regulations, or policies, could affect us in substantial and unpredictable ways. Such changes could subject us to additional costs, limit the types of financial services and products we may offer, and/or increase the ability of non-banks to offer competing financial services and products, among other things. Failure to comply with laws, regulations, or policies could result in sanctions by regulatory agencies, civil money penalties, and/or reputation damage, which could have a material adverse effect on our business, financial condition, and results of operations. See "Supervision and Regulation" in Item 1, "Business."

Additional requirements imposed by the Dodd-Frank Act could adversely affect us.

Current and future legal and regulatory requirements, restrictions, and regulations, including those imposed under the Dodd-Frank Act, may adversely impact our profitability and may have a material and adverse effect on our business, financial condition, and results of operations, may require us to invest significant management attention and resources to evaluate and make any changes required by the legislation and related regulations and may make it more difficult for us to attract and retain qualified executive officers and employees. The Dodd-Frank Act comprehensively reformed the regulation of financial institutions, products and services. Certain provisions of the Dodd-Frank Act that affect deposit insurance assessments, the payment of interest on demand deposits and interchange fees could increase the costs associated with our banking subsidiaries' deposit-generating activities, as well as place limitations on the revenues that those deposits may generate. In addition, the Dodd-Frank Act established the CFPB. The CFPB has the authority to prescribe rules for all depository institutions governing the provision of consumer financial products and services, which may result in rules and regulations that reduce the profitability of such products and services or impose greater costs on the Company and its subsidiaries. The Dodd-Frank Act also established new minimum mortgage underwriting standards for residential mortgages, and the regulatory agencies have focused on the examination and supervision of mortgage lending and servicing activities. See "Supervision and Regulation The Dodd-Frank Act" in Item 1, "Business."

We are subject to more stringent capital requirements.

The federal banking agencies issued a joint final rule, or the "Final Capital Rule," that implemented the Basel III capital standards and established the minimum capital levels required under the Dodd-Frank Act. As of January 1, 2015, we became required to comply with the Final Capital Rule. The Final Capital Rule established a minimum common equity Tier I capital ratio of 6.5% of risk-weighted assets for a "well capitalized" institution and increased the minimum Tier I capital ratio for a "well capitalized" institution from 6.0% to 8.0%. Additionally, subject to a transition period, the Final Capital Rule requires an institution to maintain a 2.5% common equity Tier I capital conservation buffer over the 6.5% minimum risk-based capital requirement to avoid restrictions on the ability to pay dividends, discretionary bonuses, and engage in share repurchases. The Final Capital Rule permanently grandfathers trust preferred securities issued before May 19, 2010, subject to a limit of 25% of Tier I capital. The Final Capital Rule increased the required capital for certain categories of assets, including high-volatility construction real estate loans and certain exposures related to securitizations; however, the Final Capital Rule retained the current capital treatment of residential mortgages. Under the Final Capital Rule, we made a one-time, permanent election to continue to exclude accumulated other comprehensive income from capital in March 2015. Implementation of these standards, or any other new regulations, may adversely affect our ability to pay dividends, or require us to reduce business levels or raise capital, including in ways that may adversely affect our results of operations or financial condition.

The FDIC's assessment rates could adversely affect our financial condition and results of operations.

The FDIC insures deposits at FDIC-insured depository institutions, such as Northeast Bank, up to applicable limits. As a result of recent economic conditions and the enactment of the Dodd-Frank Act, the FDIC has increased deposit insurance assessment rates. If these increases are insufficient for the deposit insurance fund of the FDIC to meet its funding requirements, there may need to be further special assessments or increases in deposit insurance premiums. We are generally unable to control the amount of premiums that we are required to pay for FDIC insurance. If there are additional bank or financial institution failures, we may be required to pay even higher FDIC premiums than the recently increased levels. Any future additional assessments, increases or required prepayments in FDIC insurance premiums may materially adversely affect results of operations, including by reducing our profitability or limiting our ability to pursue certain business opportunities.

Changes in accounting standards can materially impact our financial statements.

Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. From time to time, the Financial Accounting Standards Board or regulatory authorities change the financial accounting and reporting standards that govern the preparation of our financial statements. These changes can be hard to predict and can materially impact how we record and report our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, resulting in our restating prior period financial statements.

We may incur fines, penalties and other negative consequences from regulatory violations, possibly even inadvertent or unintentional violations.

We maintain systems and procedures designed to ensure that we comply with applicable laws and regulations. However, some legal/regulatory frameworks provide for the imposition of fines or penalties for noncompliance even though the noncompliance was inadvertent or unintentional and even though there was in place at the time systems and procedures designed to ensure compliance. For example, we are subject to regulations issued by the Office of Foreign Assets Control, or "OFAC," that prohibit financial institutions from participating in the transfer of property belonging to the governments of certain foreign countries and designated nationals of those countries and certain other persons or entities whose interest in property is blocked by OFAC-administered sanctions. OFAC may impose penalties for inadvertent or unintentional violations even if reasonable processes are in place to prevent the violations. There may be other negative consequences resulting from a finding of noncompliance, including restrictions on certain activities. Such a finding may also damage our reputation as described below and could restrict the ability of institutional investment managers to invest in our securities.

Risks Associated With Our Common Stock

Market volatility has affected and may continue to affect the value of our common stock.

The performance of our common stock has been and may continue to be affected by many factors, including volatility in the credit, mortgage and housing markets, and the markets with respect to financial institutions generally. Government action and changes in government regulations, such as the Dodd-Frank Act, may affect the value of our common stock. More general market fluctuations, industry factors and general economic and political conditions and events, such as economic slowdowns or interest rate changes could also cause the value of our common stock to decrease regardless of our operating results.

Our common stock trading volume may not provide adequate liquidity for investors.

Our voting common stock is listed on the NASDAQ Global Market. The average daily trading volume for Northeast voting common stock is less than the corresponding trading volume for larger financial institutions. Due to this relatively low trading volume, significant sales of Northeast voting common stock, or the expectation of these sales, may place significant downward pressure on the market price of Northeast voting common stock. No assurance can be given that a more active trading market in our common stock will develop in the foreseeable future or can be maintained. There can also be no assurance that the offering will result in a material increase in the "float" for our common stock, which we define as the aggregate market value of our voting common stock held by shareholders who are not affiliates of Northeast, because our affiliates may purchase shares of voting common stock in the offering.

There is a limited market for and restrictions on the transferability of our non-voting common stock.

Our non-voting common stock is not and will not be listed on any exchange. Additionally, the non-voting common stock can only be transferred in certain limited circumstances set forth in our articles of incorporation. Accordingly, holders of our non-voting common stock may be required to bear the economic consequences of holding such non-voting common stock for an indefinite period of time.

If we defer payments of interest on our outstanding junior subordinated debt securities or if certain defaults relating to those debt securities occur, we will be prohibited from declaring or paying dividends or distributions on, and from making liquidation payments with respect to, our common stock.

As of June 30, 2015, we had outstanding $16.5 million in aggregate principal amount of junior subordinated debt securities issued in connection with the sale of trust preferred securities by affiliates of ours that are statutory business trusts. We have also guaranteed those trust preferred securities. The indenture under which the junior subordinated debt securities were issued, together with the guarantee, prohibits us, subject to limited exceptions, from declaring or paying any dividends or distributions on, or redeeming, repurchasing, acquiring or making any liquidation payments with respect to, any of our capital stock (including the Series A preferred stock and our common stock) at any time when (i) there shall have occurred and be continuing an event of default under the indenture; (ii) we are in default with respect to payment of any obligations under the guarantee; or (iii) we have elected to defer payment of interest on the junior subordinated debt securities. In that regard, we are entitled, at our option but subject to certain conditions, to defer payments of interest on the junior subordinated debt securities from time to time for up to five years.

Events of default under the indenture generally consist of our failure to pay interest on the junior subordinated debt securities under certain circumstances, our failure to pay any principal of or premium on such junior subordinated debt securities when due, our failure to comply with certain covenants under the indenture, and certain events of bankruptcy, insolvency or liquidation relating to us.

As a result of these provisions, if we were to elect to defer payments of interest on the junior subordinated debt securities, or if any of the other events described in clause (i) or (ii) of the first paragraph of this risk factor were to occur, we would be prohibited from declaring or paying any dividends on the Series A preferred stock and our common stock, from redeeming, repurchasing or otherwise acquiring any of the Series A preferred stock or our common stock, and from making any payments to holders of the Series A preferred stock or our common stock in the event of our liquidation, which would likely have a material adverse effect on the market value of our common stock.

We are dependent upon our subsidiaries for dividends, distributions and other payments.

We are a separate and distinct legal entity from Northeast Bank, and depend on dividends, distributions and other payments from Northeast Bank to fund dividend payments on our common stock and to fund all payments on our other obligations. We and Northeast Bank are subject to laws that authorize regulatory authorities to block or reduce the flow of funds from Northeast Bank to us. Regulatory action of that kind could impede access to the funds that Northeast needs in order to make payments on its obligations or dividend payments. In addition, if Northeast Bank does not maintain sufficient capital levels or its earnings are not sufficient to make dividend payments to us, we may not be able to make dividend payments to our common and preferred shareholders. Further, our right to participate in a distribution of assets upon a subsidiary's liquidation or reorganization is subject to the prior claims of Northeast Bank's creditors.

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We may not be able to pay dividends and, if we pay dividends, we cannot guarantee the amount and frequency of such dividends.

The continued payment of dividends on shares of our common stock will depend upon our debt and equity structure, earnings and financial condition, need for capital in connection with possible future acquisitions, growth and other factors, including economic conditions, regulatory restrictions, and tax considerations. We cannot guarantee that we will pay dividends or, if we pay dividends, the amount and frequency of these dividends.

We may issue additional shares of common or preferred stock in the future, which could dilute a shareholder's ownership of common stock.

Our articles of incorporation authorize our board of directors, generally without shareholder approval, to, among other things, issue additional shares of common or preferred stock. The issuance of any additional shares of common or preferred stock could be dilutive to a shareholder's ownership of our common stock. To the extent that we issue options or warrants to purchase common stock in the future and the options or warrants are exercised, our shareholders may experience further dilution. Holders of shares of our common stock have no preemptive rights that entitle holders to purchase their pro rata share of any offering of shares of any class or series and, therefore, shareholders may not be permitted to invest in future issuances of Northeast common or preferred stock. We are required by federal and state regulatory authorities to maintain adequate levels of capital to support our operations. Accordingly, regulatory requirements and/or deterioration in our asset quality may require us to sell common stock to raise capital under circumstances and at prices that result in substantial dilution.

We may issue debt and equity securities that are senior to our common stock as to distributions and in liquidation, which could negatively affect the value of our common stock.

In the future, we may increase our capital resources by entering into debt or debt-like financing or issuing debt or equity securities, which could include issuances of senior notes, subordinated notes, preferred stock or common stock. In the event of our liquidation, our lenders and holders of its debt or preferred securities would receive a distribution of our available assets before distributions to the holders of Northeast common stock. Our decision to incur debt and issue securities in future offerings will depend on market conditions and other factors beyond our control. We cannot predict or estimate the amount, timing or nature of our future offerings and debt financings. Future offerings could reduce the value of shares of our common stock and dilute a shareholder's interest in Northeast.

Our common stock is not insured by any governmental entity.

Our common stock is not a deposit account or other obligation of any bank and is not insured by the FDIC or any other governmental entity.

Anti-takeover provisions could negatively impact our shareholders.

Federal law imposes restrictions, including regulatory approval requirements, on persons seeking to acquire control over Northeast. Provisions of Maine law and provisions of our articles of incorporation and by-laws could make it more difficult for a third party to acquire control of us or have the effect of discouraging a third party from attempting to acquire control of us. We have a classified board of directors, meaning that approximately one-third of our directors are elected annually. Additionally, our articles of organization authorize our board of directors to issue preferred stock without shareholder approval and such preferred stock could be issued as a defensive measure in response to a takeover proposal. Other provisions that could make it more difficult for a third party to acquire us even if an acquisition might be in the best interest of our shareholders include supermajority voting requirements to remove a director from office without cause; restrictions on shareholders calling a special meeting; a requirement that only directors may fill a board vacancy; and provisions regarding the timing and content of shareholder proposals and nominations.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

At June 30, 2015, the Company conducted its business from its main office in Lewiston, Maine and an office in Boston, Massachusetts. The Company also conducts business from its ten full-service bank branches and six loan production offices located in western and south-central Maine and southern New Hampshire.

In addition to its Lewiston, Maine, and Boston, Massachusetts, offices, the Company leases eleven of its other locations. For information regarding the Company's lease commitments, please refer to "Lease Obligations" under Note 15 of the Notes to the Consolidated Financial Statements in Item 8 of this Annual Report.

Item 3. Legal Proceedings

From time to time, the Company and its subsidiaries are subject to certain legal proceedings and claims in the ordinary course of business. Management presently believes that the ultimate outcome of these proceedings, individually and in the aggregate, will not be material to the Company or its consolidated financial position. The Company establishes reserves for specific legal matters when it determines that the likelihood of an unfavorable outcome is probable and the loss is reasonably estimable. Legal proceedings are subject to inherent uncertainties, and unfavorable rulings could occur that could cause the Company to establish litigation reserves or could have, individually or in the aggregate, a material adverse effect on its business, financial condition, or operating results.

Item 4. Mine Safety Disclosures

Not applicable.

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PART II

Item 5. Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

(a) The Company's voting common stock currently trades on the NASDAQ under the symbol "NBN." There is no established public trading market for the Company's non-voting common stock. As of the close of business on September 18, 2015, there were approximately 368 registered shareholders of record.

The following table sets forth the high and low closing sale prices of the Company's voting common stock, as reported on NASDAQ, and quarterly dividends paid on the Company's voting and non-voting common stock during the periods indicated.

Fiscal year ended June 30, 2015	High	Low	Dividend Paid
Jul 1 - Sep 30	$ 9.60	$ 9.19	$ 0.01
Oct 1 - Dec 31	9.68	8.79	0.01
Jan 1 - Mar 31	9.73	8.92	0.01
Apr 1 - Jun 30	10.25	9.14	0.01

Fiscal year ended June 30, 2014	High	Low	Dividend Paid
Jul 1 - Sep 30	$ 10.79	$ 9.53	$ 0.09
Oct 1 - Dec 31	10.23	9.37	0.09
Jan 1 - Mar 31	9.74	9.16	0.09
Apr 1 - Jun 30	10.00	9.30	0.01

On September 18, 2015, the last reported sale price of the Company's voting common stock, as reported on NASDAQ was $10.50. Holders of the Company's voting and non-voting common stock are entitled to receive dividends when and if declared by the Board of Directors out of funds legally available. The amount and timing of future dividends payable on the Company's voting and non-voting common stock will depend on, among other things, the financial condition of the Company, regulatory considerations, and other factors. The Company is a legal entity separate from the Bank, but its revenues are derived primarily from the Bank. Accordingly, the ability of the Company to pay cash dividends on its stock in the future generally will be dependent upon the earnings of the Bank and the Bank's ability to pay dividends to the Company. The payment of dividends by the Bank will depend on a number of factors, including capital requirements, regulatory limitations, the Bank's results of operations and financial condition, tax considerations, and general economic conditions. National banking laws regulate and restrict the ability of the Bank to pay dividends to the Company. See "Item 1. Business Supervision and Regulation."

Information regarding securities authorized for issuance under our equity compensation plans will be included in the Proxy Statement relating to our 2015 Annual Meeting of Shareholders and is incorporated herein by reference.

(b) Not applicable.

(c) On April 23, 2014, the Company announced that its Board of Directors authorized the Company to purchase up to 870,000 shares of its common stock, representing 8.3% of the Company's outstanding common shares and approximately $8.4 million based on the Company's closing stock price on April 22, 2014. Such purchases will be made in open market or in privately negotiated transactions from time to time and in such amounts as market conditions warrant. The timing and actual number of shares repurchased will depend on a variety of factors including price, corporate and regulatory requirements, market conditions, and other corporate liquidity requirements and priorities. The stock repurchase program may be suspended or terminated at any time without prior notice, and will expire on April 23, 2016.

On April 30, 2015, The Board of Directors voted to amend the existing stock repurchase program to authorize the Company to purchase an additional 500,000 shares of its common stock, representing 5.1% of the Company's outstanding common shares or approximately $4.7 million based on the Company's closing price on April 29, 2015. Such purchases will be made in open market or in privately negotiated transactions from time to time and in such amounts as market conditions warrant. The timing and actual number of shares repurchased will depend on a variety of factors including price, corporate and regulatory requirements, market conditions, and other corporate liquidity requirements and priorities. The stock repurchase program may be suspended or terminated at any time without prior notice, and will expire on April 30, 2017.

(d) The following table sets forth information with respect to purchases made by us of our common stock during the year ended June 30, 2015.

Period	Total Number of Shares Purchased(1)	Weighted Average Price Per share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Maximum Number of Shares that May Yet Be Purchased Under the Program(2)
Jul. 1 - Jul. 31	2,100	$ 9.23	293,300	576,700
Aug. 1 - Aug. 31	12,300	9.34	305,600	564,400
Sep. 1 - Sep. 30			305,600	564,400
Oct. 1 - Oct. 31	1,800	9.03	307,400	562,600
Nov. 1 - Nov. 30	36,900	9.05	344,300	525,700
Dec. 1 - Dec. 31	395,586	9.14	739,886	130,114
Jan. 1 - Jan. 31	10,150	9.27	750,036	119,964
Feb. 1 - Feb. 28	11,500	9.25	761,536	108,464
Mar. 1 - Mar. 31	9,600	9.29	771,136	98,864
Apr. 1 - Apr. 30	13,400	9.37	784,536	585,464
May 1 - May 31	37,930	9.76	822,466	547,534
Jun. 1 - Jun. 30	179,396	9.91	1,001,862	368,138

(1) Based on trade date, not settlement date

(2) On April 30, 2015, The Board of Directors voted to amend the existing stock repurchase program to authorize the Company to purchase an additional 500,000 shares of its common stock, representing 5.1% of the Company's outstanding common shares or approximately $4.7 million based on the Company's closing price on April 29, 2015. On that date, 86,664 shares remained available for repurchase under the existing program, prior to the 500,000 share increase in the repurchase plan. The amended stock repurchase program will expire on April 30, 2017.

Item 6. Selected Financial Data

The following table sets forth our selected financial and operating data on a historical basis. The data set forth below does not purport to be complete. It should be read in conjunction with, and is

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qualified in its entirety by, the more detailed information, including the Company's Consolidated Financial Statements and related notes, appearing elsewhere herein.

	Successor Company(1)					Predecessor Company(2)
	Twelve Months Ended June 30, 2015	Twelve Months Ended June 30, 2014	Twelve Months Ended June 30, 2013	Twelve Months Ended June 30, 2012	184 Days Ended June 30, 2011	181 Days Ended Dec. 28, 2010
	(Dollars in thousands, except per share data)					
Selected operations data:						
Interest and dividend income	$ 44,588	$ 38,371	$ 36,543	$ 27,014	$ 13,304	$ 14,378
Interest expense	7,220	6,653	6,596	6,317	3,207	5,877
Net interest income	37,368	31,718	29,947	20,697	10,097	8,501
Provision for loan losses	717	531	1,122	946	707	912
Noninterest income(3)	7,089	4,869	8,514	5,782	17,569	3,034
Net securities gains (losses)			792	1,111	1,200	17
Noninterest expense(4)	32,604	31,777	31,955	25,680	15,807	8,429
Income before income taxes	11,136	4,279	6,176	964	12,352	2,211
Income tax expense (benefit)	3,995	1,579	1,881	102	(108)	646
Net income from continuing operations	7,141	2,700	4,295	862	12,460	1,565
Net income (loss) from discontinued operations		(8)	125	1,301	92	231
Net income	$ 7,141	$ 2,692	$ 4,420	$ 2,163	$ 12,552	$ 1,796
Consolidated per share data:						
Earnings:						
Basic:						
Continuing operations	$ 0.72	$ 0.26	$ 0.38	$ 0.11	$ 3.49	$ 0.62
Discontinued operations	0.00	0.00	0.01	0.30	0.03	0.10
Net income	$ 0.72	$ 0.26	$ 0.39	$ 0.41	$ 3.52	$ 0.72
Diluted:						
Continuing operations	$ 0.72	$ 0.26	$ 0.38	$ 0.11	$ 3.44	$ 0.61
Discontinued operations	0.00	0.00	0.01	0.30	0.03	0.10
Net income	$ 0.72	$ 0.26	$ 0.39	$ 0.41	$ 3.47	$ 0.71
Cash dividends	$ 0.04	$ 0.28	$ 0.36	$ 0.36	$ 0.18	$ 0.18
Book value	11.77	11.05	10.89	11.07	17.33	19.79
Selected balance sheet data:						
Total assets	$ 850,830	$ 761,931	$ 670,639	$ 669,196	$ 596,393	$ 627,984
Loans	612,137	516,416	435,376	356,254	309,913	367,284
Deposits	674,759	574,329	484,623	422,188	401,118	374,617
Borrowings	52,568	66,005	64,069	120,859	126,706	199,326
Total stockholders' equity	112,839	112,066	113,802	119,139	64,954	50,366
Other ratios:						
Return on average assets	0.89%	0.37%	0.64%	0.36%	4.09%	0.57%
Return on average equity	6.35%	2.39%	3.79%	3.03%	38.23%	7.03%
Efficiency ratio	73.34%	86.85%	81.41%	93.08%	54.76%	72.97%
Average equity to average total assets	14.00%	15.38%	16.93%	11.90%	10.69%	8.18%

Common dividend payout ratio	5.56%	107.69%	92.25%	71.26%	5.02%	25.02%
Tier 1 leverage capital ratio	14.42%	15.90%	17.78%	19.91%	10.35%	N/A
Total risk-based capital ratio	20.04%	23.69%	27.54%	33.34%	18.99%	N/A

(1) "Successor Company" means Northeast Bancorp and its subsidiary after the closing of the merger with FHB Formation LLC on December 29, 2010.

(2) "Predecessor Company" means Northeast Bancorp and its subsidiary before the closing of the merger with FHB Formation LLC on December 29, 2010.

(3) Includes primarily fees for deposits, investment brokerage services to customers through the second quarter of fiscal 2014, and gains on the sale of loans. In the 184 days ended June 30, 2011, the total further includes a bargain purchase gain $15.4 million.

(4) Includes salaries, employee benefits, occupancy and equipment, and other expenses. In the 184 days ended June 30, 2011, the total includes merger expenses totaling $3.2 million.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Northeast Bancorp (the "Company") is a Maine corporation and a bank holding company registered with the Federal Reserve under the Bank Holding Company Act of 1956. The Company also is a registered Maine financial institution holding company, and is subject to regulation by both the Maine Bureau of Financial Institutions (the "Bureau") and the Federal Reserve. The Company's principal asset is the capital stock of Northeast Bank (the "Bank"), a Maine state-chartered universal bank, which is regulated by the Federal Deposit Insurance Corporation ("FDIC") and the Bureau. The Company's results of operations are primarily dependent on the results of the operations of the Bank.

The Management's Discussion and Analysis of Financial Condition and Results of Operations, which follows, presents a review of the consolidated operating results of the Company for the fiscal year ended June 30, 2015 ("fiscal 2015") and the fiscal year ended June 30, 2014 ("fiscal 2014"). This discussion and analysis is intended to assist you in understanding the results of our operations and financial condition. You should read this discussion together with your review of the Company's Consolidated Financial Statements and related notes and other statistical information included in this report. Certain amounts in the periods prior to fiscal 2015 have been reclassified to conform to the fiscal 2015 presentation.

Overview

Financial Presentation

On December 29, 2010, the merger (the "Merger") of the Company and FHB Formation LLC, a Delaware limited liability company ("FHB"), was consummated. As a result of the Merger, the surviving company received a capital contribution of $16.2 million (in addition to the approximately $13.1 million in cash consideration paid to former shareholders), and the former members of FHB collectively acquired approximately 60% of our outstanding common stock. The Company applied the acquisition method of accounting, as described in Accounting Standards Codification ("ASC") 805, *Business Combinations* ("ASC 805") to the Merger, which represents an acquisition by FHB of Northeast, with Northeast as the surviving company (the "Successor Company"). In the application of ASC 805 to this transaction, the following was considered:

Identify the Accounting Acquirer

FHB was identified as the accounting acquirer. FHB, which was incorporated on March 9, 2009, acquired a controlling financial interest of approximately 60% of the Successor Company's total outstanding voting and non-voting common stock in exchange for contributed capital and cash consideration.

In the evaluation and identification of FHB as the accounting acquirer, it was concluded that FHB was a substantive entity involved in significant pre-merger activities, including the following: raising capital; incurring debt; incurring operating expenses; leasing office space; hiring staff to develop the surviving company's business plan; retaining professional services firms; and identifying acquisition targets and negotiating potential transactions, including the Merger.

Determine the Acquisition Date

December 29, 2010, the closing date of the Merger, was the date that FHB gained control of the combined entity.

Recognize assets acquired and liabilities assumed

Because neither Northeast Bancorp, the Predecessor Company (the acquired company), nor FHB (the accounting acquirer) exist as separate entities after the Merger, a new basis of accounting at fair value for the Successor Company's assets and liabilities was established in the consolidated financial statements. At the acquisition date, the Successor Company recognized the identifiable assets acquired and the liabilities assumed based on their then fair values in accordance with ASC Topic 820, *Fair Value Measurement* ("ASC 820"). The Successor Company recognized a bargain purchase gain as the difference between the total purchase price and the net assets acquired.

As a result of application of the acquisition method of accounting to Northeast Bancorp after the merger on December 29, 2010, the Company's financial statements from the periods prior to the transaction date are not directly comparable to the financial statements for periods subsequent to the transaction date. To make this distinction, the Company has labeled balances and results of operations prior to the transaction date as "Predecessor Company" and balances and results of operations for periods subsequent to the transaction date as "Successor Company." The lack of comparability arises from the assets and liabilities having new accounting bases as a result of recording them at their fair values as of the transaction date rather than at historical cost basis. To denote this lack of comparability, a heavy black line has been placed between the Successor Company and Predecessor Company columns in the discussion herein.

In connection with the transaction, as part of the regulatory approval process the Company made certain commitments to the Board of Governors of the Federal Reserve System (the "Federal Reserve"), the most significant of which are, (i) maintain a Tier 1 leverage ratio of at least 10%, (ii) maintain a total risk-based capital ratio of at least 15%, (iii) limit purchased loans to 40% of total loans, (iv) fund 100% of the Company's loans with core deposits (defined as non-maturity deposits and non-brokered insured time deposits), and (v) hold commercial real estate loans (including owner-occupied commercial real estate) to within 300% of total risk-based capital. On June 28, 2013, the Federal Reserve approved the amendment of the commitment to hold commercial real estate loans to within 300% of total risk-based capital to exclude owner-occupied commercial real estate loans. All other commitments made to the Federal Reserve in connection with the merger remain unchanged. The Company and the Bank are currently in compliance with all commitments to the Federal Reserve. The Company's compliance ratios at June 30, 2015 are as follows:

Condition		**Ratio**
(i)	Tier 1 leverage ratio	14.42%
(ii)	Total risk-based capital ratio	20.04%
(iii)	Ratio of purchased loans to total loans	32.61%
(iv)	Ratio of loans to core deposits	91.85%
(v)	Ratio of non-owner occupied commercial real estate loans to total risk-based capital	188.49%

As a result of the sale of the Company's insurance agency business in the first quarter of fiscal 2012 and discontinuation of further significant business activities in the insurance agency segment, the Company has classified the results of its insurance agency division as discontinued operations in the Company's consolidated financial statements and discussion herein.

The Company concluded all investment brokerage activities in the second quarter of fiscal 2014. Accordingly, operations associated with these activities have been classified as discontinued operations in all periods in the Company's consolidated financial statements and discussion herein.

Fiscal 2015 Financial Highlights

The Company's financial and strategic highlights for fiscal 2015 include the following:

- Earned net income of $7.1 million, or $0.72 per diluted share, from continuing operations as compared to $2.7 million, or $0.26 per diluted share, from continuing operations in fiscal 2014.

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LASG purchased loans totaling $82.7 million and originated loans totaling $82.5 million, earning average portfolio yields of 13.0% and 6.4%, respectively. The purchased loan yield of 13.0% includes regularly scheduled interest and accretion, and accelerated accretion and fees recognized on loan payoffs. The Company also monitors the "total return" on its purchased loan portfolio, a measure that includes gains on sales of purchased loans, as well as interest, scheduled accretion and accelerated accretion and fees. On this basis, the purchased loan portfolio earned a total return of 13.3% for fiscal 2015. An overview of the LASG portfolio follows:

	June 30, 2015				June 30, 2014			
	Purchased	Originated	Secured Loans to Broker-Dealers	Total LASG	Purchased	Originated	Secured Loans to Broker-Dealers	Total LASG
	(Dollars in thousands)							
Loans purchased or originated during the period:								
Unpaid principal balance	$ 93,694	$ 82,502	$ 48,000	$ 224,196	$ 91,288	$ 54,225	$ 12,000	$ 157,513
Net investment basis	82,654	82,502	48,000	213,156	79,823	54,225	12,000	146,048
Loan returns during the period:								
Yield	13.00%	6.44%	0.47%	9.73%	11.43%	7.49%	0.61%	9.70%
Total Return(1)	13.33%	6.75%	0.48%	10.02%	11.76%	8.48%	0.61%	10.11%
Total loans as of period end:								
Unpaid principal balance	$ 239,933	$ 118,416	$ 60,000	$ 418,349	$ 242,631	$ 65,558	$ 12,000	$ 320,219
Net investment basis	$ 202,592	$ 118,261	$ 60,011	$ 380,864	$ 203,450	$ 65,561	$ 12,000	$ 281,011

(1) The total return on purchased loans represents scheduled accretion, accelerated accretion, gains on asset sales, and other noninterest income recorded during the period divided by the average invested balance, on an annualized basis.

Increased the Company's core deposit base by $100.4 million, mainly the result of increases in money market accounts attracted through the Bank's online-only ableBanking division.

Launched the Company's SBA National program in November of 2014, and originated $33.6 million in SBA-guaranteed loans through June 30, 2015.

Results of Operations Continuing Operations

General

Net income for the year ended June 30, 2015 was $7.1 million, a $4.4 million increase from $2.7 million for the year ended June 30, 2014

Items of significance affecting the Company's earnings included:

An increase in net interest and dividend income before provision for loan losses, which grew to $37.4 million compared to $31.7 million for the year ended June 30, 2014, principally due to an 18.5% increase in loans outstanding and an increase in transactional interest income realized

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from the purchased loan portfolio. The following table summarizes interest income and related yields recognized on the Company's loans.

	Year Ended June 30,					
	2015			2014		
	Average Balance	Interest Income	Yield	Average Balance	Interest Income	Yield
	(Dollars in thousands)					
Community Banking Division	$ 236,128	$ 11,747	4.97%	$ 246,853	$ 12,926	5.24%
LASG:						
Originated	76,448	4,924	6.44%	47,494	3,558	7.49%
Purchased	203,822	26,500	13.00%	178,377	20,388	11.43%
Secured Loans to Broker-Dealers	44,942	212	0.47%	22,389	137	0.61%
Total LASG	325,212	31,636	9.73%	248,260	24,083	9.70%
Total	$ 561,340	$ 43,383	7.73%	$ 495,113	$ 37,009	7.47%

The yield on purchased loans in each period shown was increased by unscheduled loan payoffs, which resulted in immediate recognition of the prepaid loans' discount in interest income. The following table details the "total return" on purchased loans, which includes total transactional income of $9.9 million for the year ended June 30, 2015, an increase of $4.5 million from the year ended June 30, 2014. The following table summarizes the total return recognized on the purchased loan portfolio:

	Year Ended June 30,			
	2015		2014	
	Income	Return(1)	Income	Return(1)
	(Dollars in thousands)			
Regularly scheduled interest and accretion	$ 17,327	8.48%	$ 15,682	8.75%
Transactional income:				
Gains on loan sales	190	0.09%	576	0.32%
Gain on sale of real estate owned	607	0.30%	100	0.06%
Other noninterest income	(69)	0.03%	4	0.00%
Accelerated accretion and loan fees	9,173	4.49%	4,706	2.63%
Total transactional income	9,901	4.85%	5,386	3.01%
Total	$ 27,228	13.33%	$ 21,068	11.76%

(1) The total return represents scheduled interest and accretion, accelerated accretion, net gains on asset sales, and other noninterest income recorded during the period divided by the average invested balance, on an annualized basis.

An increase of $2.2 million in noninterest income, principally resulting from an increase of $1.8 million in gains realized on sale of portfolio loans. The year ended June 30, 2015 includes gains realized on sale of SBA loans of $2.6 million.

An increase of $827 thousand in noninterest expense, principally due to an increase in salaries and employee benefits of $1.0 million, the result of increases in employee head count, benefits costs and stock-based compensation expense.

Professional fees also contributed to the overall increase, rising $373 thousand due primarily to fees for temporary consulting services. Offsetting these increases were decreases in occupancy and equipment expense of $509 thousand, the result of a reduction in software maintenance and depreciation expense following the conversion of the Bank's core systems platform to an outsourced model in May 2014.

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Net Interest Income

The following table sets forth average balance sheets, average yields and costs, and certain other information for the periods indicated:

	Year Ended June 30,								
	2015			2014			2013		
	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate
	(Dollars in thousands)								
Assets:									
Interest-earning assets:									
Investment securities(1)	$ 108,204	$ 913	0.84%	$ 115,849	$ 1,048	0.90%	$ 131,199	$ 1,138	0.87%
Loans(2)(3)	561,340	43,383	7.73%	495,113	37,009	7.47%	384,310	35,017	9.11%
Regulatory stock	4,102	67	1.63%	5,620	123	2.19%	5,398	75	1.39%
Short-term investments(4)	92,354	225	0.24%	78,838	191	0.24%	127,781	313	0.24%
Total interest-earning assets	766,000	44,588	5.82%	695,420	38,371	5.52%	648,688	36,543	5.63%
Cash and due from banks	2,704			2,876			3,065		
Other non-interest earning assets	33,741			33,958			37,206		
Total assets	$ 802,445			$ 732,254			$ 688,959		
Liabilities & Stockholders' Equity:									
Interest-bearing liabilities:									
NOW accounts	$ 63,181	$ 162	0.26%	$ 61,146	$ 162	0.26%	$ 55,763	$ 153	0.27%
Money market accounts	133,266	1,002	0.75%	85,333	447	0.52%	63,931	337	0.53%
Savings accounts	34,495	46	0.13%	34,391	44	0.13%	31,939	44	0.14%
Time deposits	340,046	3,800	1.12%	314,848	3,470	1.10%	280,059	3,564	1.27%
Total interest-bearing deposits	570,988	5,010	0.88%	495,718	4,123	0.83%	431,692	4,098	0.95%
Short-term borrowings	2,578	29	1.12%	2,230	24	1.08%	1,472	19	1.29%
Borrowed funds	45,661	1,463	3.20%	58,468	1,741	2.98%	75,633	1,710	2.26%
Junior subordinated debentures	8,531	718	8.42%	8,352	765	9.16%	8,185	769	9.40%
Total interest-bearing liabilities	627,758	7,220	1.15%	564,768	6,653	1.18%	516,982	6,596	1.28%
Interest-bearing liabilities of discontinued operations									
Non-interest bearing liabilities:									
Demand deposits and escrow accounts	54,940			50,890			49,343		
Other liabilities	7,370			3,962			5,982		
Total liabilities	690,068			619,620			572,307		
Stockholders' equity	112,377			112,634			116,652		
Total liabilities and stockholders' equity	$ 802,445			$ 732,254			$ 688,959		
Net interest income		$ 37,368			$ 31,718			$ 29,947	

Interest rate spread	4.67%	4.34%	4.36%
Net interest margin(5)	4.88%	4.56%	4.62%

(1) Interest income and yield are stated on a fully tax-equivalent basis using a 34% tax rate.

(2) Includes loans held for sale.

(3) Nonaccrual loans are included in the computation of average, but unpaid interest has not been included for purposes of determining interest income.

(4) Short term investments include FHLB overnight deposits and other interest-bearing deposits.

(5) Net interest margin is calculated as net income divided by total interest-earning assets.

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The following table presents the extent to which changes in volume and interest rates of interest earning assets and interest bearing liabilities have affected the Company's interest income and interest expense during the periods indicated. Information is provided in each category with respect to (i) changes attributable to changes in volume (changes in volume multiplied by prior period rate), (ii) changes attributable to changes in rates (changes in rates multiplied by prior period volume) and (iii) changes attributable to a combination of changes in rate and volume (change in rates multiplied by the changes in volume). Changes attributable to the combined impact of volume and rate have been allocated proportionately to the changes due to volume and the changes due to rate.

	Year Ended June 30, 2015 Compared to the Year Ended June 30, 2014		
	Change Due to Volume	**Change Due to Rate**	**Total Change**
	(Dollars in thousands)		
Interest earning assets:			
Investment securities	$ (67)	$ (68)	$ (135)
Loans	5,084	1,290	6,374
Regulatory stock	(29)	(27)	(56)
Short-term investments	33	1	34
Total increase in interest income	5,021	1,196	6,217
Interest-bearing liabilities:			
Interest-bearing deposits	612	275	887
Short-term borrowings	4	1	5
Borrowed funds	(403)	125	(278)
Junior subordinated debentures	16	(63)	(47)
Total increase in interest expense	229	338	567
Total increase in net interest and dividend income	$ 4,792	$ 858	$ 5,650

	Year Ended June 30, 2014 Compared to the Year Ended June 30, 2013		
	Change Due to Volume	**Change Due to Rate**	**Total Change**
	(Dollars in thousands)		
Interest earning assets:			
Investment securities	$ (137)	$ 47	$ (90)
Loans	8,978	(6,986)	1,992
Regulatory stock	3	45	48
Short-term investments	(119)	(3)	(122)
Total increase in interest income	8,725	(6,897)	1,828
Interest bearing liabilities:			
Interest bearing deposits	540	(515)	25
Short-term borrowings	8	(3)	5
Borrowed funds	(439)	470	31
Junior subordinated debentures	16	(20)	(4)
Total increase in interest expense	125	(68)	57
Total increase in net interest and dividend income	$ 8,600	$ (6,829)	$ 1,771

For the year ended June 30, 2015, the $4.8 million volume-related change in net interest income was mainly the result of the increase in loans, which grew by $66.2 million on average compared to fiscal 2014. The rate-related change in fiscal 2015 compared to fiscal 2014 was principally due to the purchased loan yield differential, offset in part by a decline in yields on the originated loan portfolios. For fiscal 2015, the 4.88% net interest margin earned was 32 basis points higher than that earned for the year ended June 30, 2014. The net interest margin increased during fiscal 2015 principally due to the increased loan volume and increase in transactional income on purchased loans.

The following table summarizes the effects of accretion of fair value adjustments on the net interest margin, for the periods indicated:

Accretion (Amortization) of Merger Fair Value Adjustments

	Year Ended June 30,					
	2015			2014		
	Average Balance	Income (Expense)	Effect on Yield / Rate	Average Balance	Income (Expense)	Effect on Yield / Rate
	(Dollars in thousands)					
Interest-earning assets:						
Investment securities	$ 108,204	$	0.00%	$ 115,849	$	0.00%
Loans	561,340	201	0.07%	495,113	174	0.04%
Other interest-earning assets	96,456		0.00%	84,458		0.00%
Total interest-earning assets	$ 766,000	$ 201	0.05%	$ 695,420	$ 174	0.03%
Interest-bearing liabilities:						
Interest-bearing deposits	570,988	171	0.06%	495,718	560	0.11%
Short-term borrowings	2,578		0.00%	2,230		0.00%
Borrowed funds	45,661	136	0.59%	58,468	414	0.71%
Junior subordinated debentures	8,531		0.00%	8,352		0.00%
Total interest-bearing liabilities	$ 627,758	$ 307	0.10%	$ 564,768	$ 974	0.17%
Total effect of noncash accretion on:						
Net interest income		$ 508			$ 1,148	
Net interest margin		0.07%			0.17%	

The Company's total cost of funds improved to 1.06% in fiscal 2015, down from 1.08% in fiscal 2014, principally due to a 3 basis point decrease in the cost of interest-bearing liabilities.

Provision for Loan Losses

Quarterly, the Company determines the amount of its allowance for loan losses adequate to provide for losses inherent in the Company's loan portfolios, with the provision for loan losses determined by the net periodic change in the allowance for loan losses. For acquired loans accounted for under ASC 310-30, a provision for loan loss is recorded when estimates of future cash flows decrease due to credit deterioration.

The provision for loan losses for periods subsequent to the Merger reflects the impact of adjusting loans to their then fair values, as well as the elimination of the allowance for loan losses in accordance with the acquisition method of accounting. Subsequent to the Merger, the provision for loan losses has been recorded based on estimates of inherent losses in newly originated loans and for incremental reserves required for pre-merger loans based on estimates of deteriorated credit quality post-merger.

The provision for loan losses for the fiscal year ended June 30, 2015 was $717 thousand. This compares to a provision for loan losses of $531 thousand for the year ended June 30, 2014. At June 30, 2015 and 2014, the allowance for loan losses was $1.9 million and $1.4 million, respectively, and the ratio of allowance for loan losses to total loans was 0.31% and 0.26%, respectively. Net charge-offs for

the fiscal year ended June 30, 2015 totaled $158 thousand, representing approximately 0.03% of the Company's average portfolio loan balance during the fiscal year. This compares to $307 thousand, or 0.06%, in fiscal 2014, representing a decrease of $151 thousand in fiscal 2015, the result of improved net charge-off trends in all loan segments.

For additional information on the allowance for loan losses, see "Asset Quality."

Noninterest Income

Noninterest income for the fiscal year ended June 30, 2015 totaled $7.1 million, an increase of $2.2 million, or 45.6%, from fiscal 2014. When compared to fiscal 2014, the increase was principally due to the following:

An increase of $1.8 million in gains realized on sale of portfolio loans. The year ended June 30, 2015 includes gains realized on sale of SBA loans of $2.6 million and gains realized on sale of LASG loans of $200 thousand, compared to a $408 thousand gain on sale of SBA loans and $496 thousand gain on sale of LASG purchased loans in the year ended June 30, 2014;

A $227 thousand increase in gains on residential loans originated for sale, an increase correlated to the volume of loans originated for portfolio in fiscal 2015; and

A $365 thousand increase in net gains recognized on Real Estate Owned/Other Assets Acquired ("REO/OAA").

Noninterest Expense

Noninterest expense for the fiscal year ended June 30, 2015 totaled $32.6 million, an increase of $827 thousand, or 2.6%, from fiscal 2014. When compared to fiscal 2014, the changes of significance are:

An increase of $1.0 million in salaries and employee benefits, principally due to increased employee head count, as well as higher employee benefits and stock-based compensation;

An increase of $373 thousand in professional fees, due primarily to fees for temporary consulting services;

A $250 thousand legal settlement recovery that was recognized in the quarter ended September 30, 2013, with no similar recovery in the year ended June 30, 2015;

A decrease of $509 thousand in occupancy and equipment expense, the result of a reduction in software maintenance and depreciation expense following the conversion of the Bank's core systems platform to an outsourced model in May 2014;

A decrease of $157 thousand in intangible asset amortization. The company's core deposit intangible is amortized on an accelerated basis, therefore, the expense decreases annually; and

A decrease of $183 thousand in other noninterest expense, the reduction mainly due to non-recurring core conversion expenses incurred in fiscal 2014.

Income Taxes

Income tax expense for the fiscal year ended June 30, 2015 totaled $4.0 million, representing 35.9% of pretax income, as compared to $1.6 million, or 36.9% of pretax income, in fiscal 2014. The decrease in the Company's effective tax rate was principally due to an increase in the prior year related to changes in state apportionment.

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Results of Operations Discontinued Operations

Overview

The Company concluded all investment brokerage activities in the second quarter of fiscal 2014. Accordingly, operations associated with these activities have been classified as discontinued operations for all periods shown in the accompanying consolidated statements of income. The Company recorded no net loss from discontinued operations in fiscal 2015, compared to a net loss of $8 thousand in fiscal 2014.

Financial Condition

Overview

The Company's total assets grew to $850.8 million at June 30, 2015, representing an increase of $88.9 million, or 11.7%, compared to $761.9 million at June 30, 2014. Significant changes in the Company's balance sheet components include:

Loans increased by $95.7 million, or 18.5%, compared to June 30, 2014, principally due to net growth of $99.9 million in commercial loans purchased or originated by the LASG, offset by a $4.2 million decrease in loans originated by the Bank's Community Banking Division;

Deposits increased by $100.4 million from June 30, 2014 and borrowings decreased $13.4 million from June 30, 2014. Non-maturity deposits increased by $96.7 million, or 41.6%, for the year while time deposits grew by $3.8 million or 1.1%. The increase was mainly the result of increases in money market accounts attracted through the Bank's online-only ableBanking division. The decrease in borrowings was primarily due a decrease of $12.6 million in FHLB advances outstanding; and

Stockholders' equity increased by $773 thousand from June 30, 2014, due principally to earnings of $7.1 million, as well as $705 thousand of scheduled amortization of stock-based compensation, offset by $6.7 million in share repurchases (representing 710,662 shares), a decrease in accumulated other comprehensive income of $5 thousand and $402 thousand in dividends paid on common stock.

Cash and Cash Equivalents

Cash and cash equivalents increased $7.6 million, or 9.2%, to $89.9 million at June 30, 2015 as compared to $82.3 million at June 30, 2014. This increase was principally the result of deposit growth of $100.4 million, partially offset by loan growth of $95.7 million.

Investments Securities

The available-for-sale securities portfolio totaled $101.9 million and $113.9 million at June 30, 2015 and 2014, respectively. Mortgage-backed securities and U.S. Government-sponsored enterprise bonds totaling $12.4 million were pledged for outstanding borrowings at June 30, 2015.

At June 30, 2015, the Company's investment portfolio was comprised entirely of U.S. Government-sponsored enterprise bonds and mortgage-backed securities guaranteed by government agencies. Generally, funds retained by the Company as a result of increases in deposits or decreases in loans, to the extent not immediately deployed by the Bank, are invested in securities held in its investment

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portfolio, which serves as a source of liquidity for the Company. The composition of the Company's securities portfolio at the dates indicated follows.

	June 30, 2015		June 30, 2014		June 30, 2013	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in thousands)					
U.S. Government agency securities	$ 48,191	$ 48,230	$ 48,415	$ 48,418	$ 45,289	$ 45,333
Agency mortgage-backed securities	54,553	53,678	66,744	65,463	78,944	76,264
	$ 102,744	$ 101,908	$ 115,159	$ 113,881	$ 124,233	$ 121,597

The table below sets forth certain information regarding the contractual maturities and weighted average yields of the Company's securities portfolio at June 30, 2015. Actual maturities of mortgage-backed securities will differ from contractual maturities due both to scheduled amortization and prepayments.

	Within One Year		After One Year Through Five Years		After Five Years Through Ten Years		After Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
	(Dollars in thousands)									
U.S. Government agency securities	$ 36,142	0.42%	12,088	0.54%		0.00%		0.00%	48,230	0.45%
Agency mortgage-backed securities		0.00%		0.00%	26,119	0.93%	27,559	1.47%	53,678	1.20%
	$ 36,142	0.42%	$ 12,088	0.54%	$ 26,119	0.93%	$ 27,559	1.47%	$ 101,908	0.85%

Management reviews the portfolio of investments on an ongoing basis to determine if there have been any other-than-temporary declines in value. No other-than-temporary impairment expense was recognized during fiscal 2015 or fiscal 2014.

Loans

Loans, including loans held-for-sale, totaled $621.2 million at June 30, 2015, compared to $528.4 million at June 30, 2014. The increase of $92.8 million, or 17.6%, at June 30, 2015, was principally due to net increases of $32.6 million in commercial real estate and $81.3 in commercial business, offset by a net decreases of $16.0 million in residential loans, $2.2 million in consumer loans and $2.9 million in loans held for sale. During fiscal 2015, the LASG purchased $82.7 million in loans, consisting principally of commercial real estate loans. Additionally, during fiscal 2015, the LASG originated $130.5 million in loans, which included $48.0 million of secured commercial business loans to broker-dealers.

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The composition of the Company's loan portfolio (excluding loans held-for-sale) at the dates indicated is as follows:

	June 30, 2015		June 30, 2014		June 30, 2013		June 30, 2012		June 30, 2011	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
	(Dollars in thousands)									
Residential real estate	$ 132,669	21.67%	$ 148,634	28.79%	$ 127,829	29.36%	$ 137,571	38.61%	$ 145,477	46.94%
Commercial real estate	348,676	56.96%	316,067	61.20%	264,448	60.74%	180,735	50.74%	117,761	38.00%
Construction		0.00%	31	0.01%	42	0.01%	1,187	0.33%	2,015	0.65%
Commercial business	123,133	20.12%	41,800	8.09%	29,720	6.83%	19,612	5.51%	22,225	7.17%
Consumer and other	7,659	1.25%	9,884	1.91%	13,337	3.06%	17,149	4.81%	22,435	7.24%
Total loans	612,137	100.00%	516,416	100.00%	435,376	100.00%	356,254	100.00%	309,913	100.00%
Less: Allowance for loan losses	1,926		1,367		1,143		824		437	
Loans, net	$ 610,211		$ 515,049		$ 434,233		$ 355,430		$ 309,476	

The Company's loan portfolio (excluding loans held-for-sale) by lending division follows:

	June 30, 2015				
	Community Banking Division	LASG	SBA National	Total	Percent of Total
	(Dollars in thousands)				
Originated loans:					
Residential real estate	$ 106,138	$ 137	$	$ 106,275	17.36%
Home equity	24,326			24,326	3.97%
Commercial real estate: non-owner occupied	48,933	53,051	3,865	105,849	17.29%
Commercial real estate: owner occupied	21,657	16,507	4,461	42,625	6.96%
Construction					0.00%
Commercial business	11,597	108,577	2,637	122,811	20.06%
Consumer	7,659			7,659	1.25%
Subtotal	220,310	178,272	10,963	409,545	66.90%
Purchased loans:					
Residential real estate		2,068		2,068	0.34%
Commercial business		273		273	0.04%
Commercial real estate: non-owner occupied		128,182		128,182	20.94%
Commercial real estate: owner occupied		72,069		72,069	11.77%
Subtotal		202,592		202,592	33.10%
Total	$ 220,310	$ 380,864	10,963	$ 612,137	100.00%

	June 30, 2014				
	Community Banking Division	LASG	SBA National	Total	Percent of Total
	(Dollars in thousands)				
Originated loans:					
Residential real estate	$ 116,660	$ 312	$	$ 116,972	22.66%
Home equity	27,975			27,975	5.42%
Commercial real estate: non-owner occupied	46,191	33,969		80,160	15.52%
Commercial real estate: owner occupied	24,319	11,907		36,426	7.05%
Construction	31			31	0.01%
Commercial business	10,145	31,373		41,518	8.04%
Consumer	9,884			9,884	1.91%
Subtotal	235,405	77,561		312,966	60.61%
Purchased loans:					
Residential real estate		3,687		3,687	0.71%
Commercial business		282		282	0.05%
Commercial real estate: non-owner occupied		133,581		133,581	25.87%
Commercial real estate: owner occupied		65,900		65,900	12.76%
Subtotal		203,450		203,450	39.39%
Total	$ 235,405	$ 281,011		$ 516,416	100.00%

The following table summarizes the scheduled maturity of the Company's loan portfolio at June 30, 2015. Demand loans, loans having no stated repayment schedule, and overdraft loans are reported as being due in less than one year.

	Scheduled Loan Maturities				
	Within One Year	After One Year Through Five Years	After Five Years Through Ten Years	After Ten Years	Total
	(Dollars in thousands)				
Mortgages:					
Residential:					
Originated	$ 3,914	$ 12,268	$ 13,228	$ 101,190	$ 130,600
Purchased	540	320		1,208	2,068
Commercial:					
Originated	14,349	58,826	27,528	47,722	148,425
Purchased	29,827	59,962	25,588	84,874	200,251
Non-mortgage loans:					
Commercial:					
Originated	65,509	43,198	12,762	1,392	122,861
Purchased	8	245	20		273
Consumer and other	257	1,682	3,504	2,216	7,659
Total loans	$ 114,404	$ 176,501	$ 82,630	$ 238,602	$ 612,137

	Loans Due After One Year, by Interest Rate Type		
	Predetermined rate	Floating or Adjustable	Total
	(Dollars in thousands)		
Mortgages:			
Residential:			
Originated	$ 62,794	$ 63,892	$ 126,686
Purchased	17	1,511	1,528
Commercial:			
Originated	37,901	96,175	134,076
Purchased	74,743	95,680	170,423
Non-mortgage loans:			
Commercial:			
Originated	28,559	28,793	57,352
Purchased	20	245	265
Consumer and other	7,403		7,403
Total	$ 211,437	$ 286,296	$ 497,733

Approximately 54.4% of total portfolio loans at June 30, 2015, were variable rate products, compared to 51.1% at June 30, 2014.

Certain purchased loans have been identified as having evidence of credit deterioration since their origination, and it is probable that the Company will not collect all contractually required principal and interest payments. Purchased credit-impaired loans are accounted for using the measurement provisions set forth in ASC 310-30. The nonaccretable difference represents a loan's contractually required payments receivable in excess of the amount of cash flows expected to be collected. Improvements in expected cash flows result in prospective yield adjustments. The effect of a decrease in expected cash flows due to further credit deterioration are recorded through the allowance for loan losses.

Other Assets

The cash surrender value of the Company's BOLI assets increased $440 thousand, or 3.0%, to $15.3 million at June 30, 2015, compared to $14.8 million at June 30, 2014. BOLI assets are invested in the general account of three insurance companies and in separate accounts of a fourth insurance company. A general account policy's cash surrender value is supported by the general assets of the insurance company. A separate account policy's cash surrender value is supported by assets segregated from the general assets of the insurance company. Standard and Poor's rated these companies A+ or better at June 30, 2015. Interest earnings, net of mortality costs, increase the cash surrender value. These interest earnings are based on interest rates that reset each year, and are subject to minimum guaranteed rates. These increases in cash surrender value are recognized in other income and are not subject to income taxes. Management considers BOLI an illiquid asset. BOLI represented 12.7% of the Company's total risk-based capital at June 30, 2015.

Intangible assets totaled $2.2 million and $2.8 million at June 30, 2015 and June 30, 2014, respectively. The $589 thousand decrease was the result of core deposit intangible amortization during fiscal 2015.

Deposits

The Company's principal source of funding is its core deposit accounts. At June 30, 2015, core deposits, which the Company defines as non-maturity deposits and non-brokered insured time deposits, represented 99.9% of total deposits.

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Total deposits increased $100.4 million to $674.8 million as of June 30, 2015 from $574.3 million as of June 30, 2014. The increase mainly the result of increases in money market accounts attracted through the Bank's online-only ableBanking division.

The following tables set forth certain information relative to the composition of the Company's average deposit accounts and the weighted average interest rate on each category of deposits for the periods indicated:

	Year Ended June 30, 2015		
	Average Balance	Weighted Average Rate	Percent of Total Average Deposits
	(Dollars in thousands)		
Non-interest bearing demand deposits and escrow accounts	$ 54,940	0.00%	8.78%
Regular savings	34,495	0.13%	5.51%
NOW accounts	63,181	0.26%	10.09%
Money market accounts	133,266	0.75%	21.29%
Time deposits	340,046	1.12%	54.33%
Total average deposits	$ 625,928	0.79%	100.00%

	Year Ended June 30, 2014			Year Ended June 30, 2013		
	Average Balance	Weighted Average Rate	Percent of Total Average Deposits	Average Balance	Weighted Average Rate	Percent of Total Average Deposits
	(Dollars in thousands)					
Non-interest bearing demand deposits and escrow accounts	$ 50,890	0.00%	9.31%	$ 49,343	0.00%	10.26%
Regular savings	34,391	0.14%	6.29%	31,939	0.14%	6.64%
NOW accounts	61,146	0.26%	11.19%	55,763	0.27%	11.59%
Money market accounts	85,333	0.52%	15.61%	63,931	0.53%	13.29%
Time deposits	314,848	1.10%	57.60%	280,059	1.27%	58.22%
Total average deposits	$ 546,608	0.75%	100.00%	$ 481,035	0.85%	100.00%

As of June 30, 2015, the aggregate amount of outstanding certificates of deposit in amounts greater than or equal to $100 thousand was approximately $262.7 million. The scheduled maturity of these deposits is set forth below:

	June 30, 2015
	(Dollars in thousands)
3 months or less	$ 54,637
Over 3 through 6 months	32,191
Over 6 through 12 months	19,365
Over 12 months	156,549
Total time certificates $100 thousand and over	$ 262,742

Borrowings

Short-term borrowings, FHLB advances, Federal Reserve Discount Window Borrower-in-custody advances, wholesale repurchase agreements and junior subordinated debentures have been the Company's sources of funding other than deposits. In fiscal 2015, total borrowings decreased by $13.2 million, or 20.6%, to $51.2 million.

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Advances from the FHLB were $30.2 million and $42.8 million at June 30, 2015 and June 30, 2014, respectively, a decrease of $12.6 million, or 29.5%. The decrease is due to payoffs of maturing FHLB advances during the year. At June 30, 2015, the Company had pledged investment securities having a fair value of $9.4 million for outstanding FHLB borrowings. In addition, pledges of residential real estate loans, certain commercial real estate loans and certain FHLB deposits free of liens or pledges are required to secure outstanding advances and available additional borrowing capacity from the FHLB. Wholesale repurchase agreements were $10.0 million and $10.2 million at June 30, 2015 and 2014, respectively. At June 30, 2015, the Company had pledged investment securities having a fair value of $3.0 million for outstanding wholesale repurchase agreements.

Short-term borrowings, consisting of sweep accounts and repurchase agreements, were $2.3 million and $3.0 million at June 30, 2015 and 2014, respectively. At June 30, 2015, sweep accounts were secured by a $2.7 million of letter of credit issued by the FHLB and an investment security with a fair value of $3.0 million.

The table below sets forth certain information about the Company's short-term borrowings for the periods indicated:

	Year Ended June 30, 2015	
	Amount	Weighted Average Rate
	(Dollars in thousands)	
Balance at period end	$ 2,349	1.91%
Average outstanding during period	2,578	1.91%
Maximum outstanding at any period	4,038	

	Year Ended June 30, 2014		Year Ended June 30, 2013	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate
	(Dollars in thousands)			
Balance at period end	$ 2,984	1.35%	$ 625	0.00%
Average outstanding during period	2,230	1.08%	1,472	1.29%
Maximum outstanding at any period	3,383		2,707	

There were no balances outstanding at June 30, 2015 and 2014, respectively, for advances under the Federal Reserve Discount Window Borrower-in-custody program. The available credit under the program was $2.2 million and $3.1 million at June 30, 2015 and June 30, 2014, respectively, with the decrease in fiscal 2015 attributable to payoffs of consumer loans pledged as collateral.

The Company had junior subordinated debentures issued to affiliated trusts totaling $8.6 million and $8.4 million at June 30, 2015 and 2014, respectively. See "Capital" below for more information on our junior subordinated debentures and affiliated trusts.

Asset Quality

Allowance for Loan Losses

The allowance for loan losses is maintained at a level that management considers adequate to provide for probable loan losses based upon evaluation of known and inherent risks in the loan portfolio. The allowance is increased by providing for loan losses through a charge to expense and by recoveries of loans previously charged-off and is reduced by loans being charged-off.

The allowance for loan losses for periods subsequent to the Merger reflects the impact of adjusting loans to their then fair values, as well as the elimination of the allowance for loan losses in accordance with the acquisition method of accounting. Subsequent to the Merger, the provision for loan losses has

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been recorded based on estimates of inherent losses in newly originated loans and for incremental reserves required for legacy loans based on estimates of deteriorated credit quality post-Merger.

As of June 30, 2015, the allowance for loan losses totaled $1.9 million, or 0.31% of total loans, as compared to $1.4 million, or 0.26% of total loans, at June 30, 2014. The year over year increase in the Company's allowance for losses was principally the result of loan growth. The following table sets forth activity in Company's allowance for loan losses for the periods indicated.

	Successor Company					Predecessor Company
	Year Ended June 30, 2015	Year Ended June 30, 2014	Year Ended June 30, 2013	Year Ended June 30, 2012	184 Days Ended June 30, 2011	181 Days Ended Dec. 28, 2010
	(Dollars in thousands)					
Allowance at beginning of period	$ 1,367	$ 1,143	$ 824	$ 437	$	$ 5,806
Loans charged-off during the period:						
Residential real estate	207	267	369	248	42	61
Commercial real estate		26	135	26	27	281
Commercial business	3	43	203	17	21	145
Consumer and other	28	69	148	352	216	372
Total loans charged-off	238	405	855	643	306	859
Recoveries on loans previously charged-off:						
Residential real estate	24	63	6	3		53
Commercial real estate	1	2	10		8	4
Commercial business	34	8	7	44	2	26
Consumer and other	21	25	29	37	26	25
Total recoveries	80	98	52	84	36	108
Net loans charged off during the period	158	307	803	559	270	751
Provision for loan losses	717	531	1,122	946	707	912
Allowance at end of period	$ 1,926	$ 1,367	$ 1,143	$ 824	$ 437	$ 5,967
Total loans at end of period(1)	$ 612,137	$ 516,416	$ 435,376	$ 356,254	$ 309,913	$ 367,284
Average loans outstanding during the period(1)	555,073	488,172	376,660	333,053	332,684	375,878
Allowance as a percentage of total loans	0.31%	0.26%	0.26%	0.23%	0.14%	1.62%
Ratio of net charge-offs to average loans outstanding	0.03%	0.06%	0.21%	0.17%	0.08%	0.20%
Allowance as a percentage of non-performing loans	18.41%	18.66%	23.54%	13.48%	5.49%	67.49%

(1) Amounts and resulting ratios exclude loans held for sale

The following table allocates the allowance for loan losses by loan category and the percent of loans in each category to total loans at the dates indicated below.

	June 30, 2015	June 30, 2014	June 30, 2013	June 30, 2012	June 30, 2011

	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans
	(Dollars in thousands)									
Residential real estate	$ 741	21.67%	$ 580	28.79%	$ 594	29.36%	$ 214	38.61%	$ 34	46.94%
Commercial real estate	977	56.96%	625	61.21%	249	60.75%	93	51.07%	147	38.65%
Commercial business	118	20.12%	48	8.09%	70	6.83%	292	5.51%	238	7.17%
Consumer and other	35	1.25%	79	1.91%	189	3.06%	225	4.81%	18	7.24%
Unallocated	55	0.00%	35	0.00%	41	0.00%		0.00%		0.00%
Total	$ 1,926	100.00%	$ 1,367	100.00%	$ 1,143	100.00%	$ 824	100.00%	$ 437	100.00%

The following table reflects the annual trend of total loans 30 days or more past due, as a percentage of total loans at June 30:

	2015	2014	2013	2012	2011
Past due loans to total loans	1.08%	1.14%	1.68%	1.95%	2.41%

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Non-performing Assets

The table below sets forth the amounts and categories of the Company's non-performing assets at the dates indicated:

	June 30, 2015	June 30, 2014	June 30, 2013	June 30, 2012	June 30, 2011
	(Dollars in thousands)				
Nonperforming loans:					
Originated portfolio:					
Residential real estate	$ 3,021	$ 1,743	$ 2,346	$ 3,090	$ 2,195
Commercial real estate	994	1,162	473	417	3,601
Construction					121
Home equity	11	160	334	220	205
Commercial business	2	5	110	1,008	559
Consumer	190	139	136	324	527
Total originated portfolio	4,218	3,209	3,399	5,059	7,208
Purchased portfolio:					
Commercial real estate	6,532	4,116	1,457	1,055	
Total purchased portfolio	6,532	4,116	1,457	1,055	
Total nonperforming loans	10,750	7,325	4,856	6,114	7,208
Real estate owned and other repossessed collateral	1,651	1,991	2,134	834	690
Total nonperforming assets	$ 12,401	$ 9,316	$ 6,990	$ 6,948	$ 7,898
Nonperforming loans that are current	$ 5,357	$ 651	$ 887	$ 377	$ 3,067
Non-performing loans to total loans	1.76%	1.42%	1.12%	1.72%	2.33%
Non-performing assets to total assets	1.46%	1.22%	1.04%	1.04%	1.32%

At June 30, 2015, the Company had $12.4 million of nonperforming assets, or 1.5% of total assets, compared to $9.3 million, or 1.2% of total assets, as of June 30, 2014. The increase in nonperforming assets in fiscal 2015 was principally associated with nonaccrual purchased commercial real estate loans.

TDRs represent loans for which concessions (such as extension of repayment terms or reductions of interest rates to below market rates) are granted due to a borrower's financial condition. Such concessions may include reductions of interest rates to below-market terms and/or extension of repayment terms. The balances and payment status of TDRs follow:

	June 30, 2015	June 30, 2014	June 30, 2013
	(Dollars in thousands)		
Nonaccrual	$ 2,131	$ 2,117	$ 1,110
Accrual	6,365	4,057	2,632
Total TDRs	$ 8,496	$ 6,174	$ 3,742

At June 30, 2015, the Company had real estate owned and other repossessed collateral amounting to $1.7 million, compared to $2.0 million at June 30, 2014, a decrease of $340 thousand. The real estate and personal property collateral for commercial and consumer loans are written down to fair value upon transfer to acquired assets. Revenues and expenses are recognized in the period when received or incurred on other real estate and in substance foreclosures. Gains and losses on disposition are recognized in noninterest income.

We continue to focus on asset quality and allocate significant resources to credit policy, loan review, asset management, collection, and workout functions. Despite this ongoing effort, there can be no assurance that adverse changes in the real estate markets and economic conditions will not result in higher non-performing assets levels in the future and negatively impact our results of operations through higher provision for loan losses, net loan charge-offs, decreased accrual of income and increased noninterest expenses.

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Potential Problem Loans

Commercial real estate and commercial loans are periodically evaluated under a ten-point rating system. These ratings are guidelines in assessing the risk of a particular loan. The Company had $8.9 million and $7.4 million of loans rated substandard or worse at June 30, 2015 and June 30, 2014, respectively, an increase attributable to purchased loans. The following tables present the Company's loans by risk rating.

	June 30, 2015				
	Originated Portfolio				
	Commercial Real Estate	Commercial Business	Residential(1)	Purchased Portfolio	Total
	(Dollars in thousands)				
Pass (1 - 6)	$ 133,465	$ 122,521	$ 8,049	$ 190,193	$ 454,228
Special mention (7)	4,417	31	634	5,628	10,710
Substandard (8)	1,687		429	6,771	8,887
Doubtful (9)			23		23
Loss (10)					
	$ 139,569	$ 122,552	$ 9,135	$ 202,592	$ 473,848

	June 30, 2014				
	Originated Portfolio				
	Commercial Real Estate	Commercial Business	Residential(1)	Purchased Portfolio	Total
	(Dollars in thousands)				
Pass (1 - 6)	$ 110,044	$ 41,271	$ 11,941	$ 189,986	$ 353,242
Special mention (7)	4,880	46	940	8,619	14,485
Substandard (8)	1,693	201	670	4,845	7,409
Doubtful (9)					
Loss (10)					
	$ 116,617	$ 41,518	$ 13,551	$ 203,450	$ 375,136

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(1) Certain of the Company's loans made for commercial purposes, but secured by residential collateral, are rated under the Company's risk-rating system.

Risk Management

Management and the Board of Directors of the Company recognize that taking and managing risk is fundamental to the business of banking. Through the development, implementation and monitoring of its policies with respect to risk management, the Company strives to measure, evaluate and control the risks it faces. The Board and management understand that an effective risk management system is critical to the Company's safety and soundness. Chief among the risks faced by us are credit risk, market risk (including interest rate risk), liquidity risk, and operational (transaction) risk.

Credit Risk

The Company considers credit risk to be the most significant risk that it faces, in that it has the greatest potential to affect the financial condition and operating results of the Company. Credit risk is managed through a combination of policies and limits established by the Board, the monitoring of compliance with these policies and limits, and the periodic evaluation of loans in the portfolio, including those with problem characteristics. The Company also utilizes the services of independent third-parties to provide loan review services, which consist of a variety of monitoring techniques after a loan is purchased or originated.

In general, Northeast's policies establish limits on the maximum amount of credit that may be granted to a single borrower (including affiliates), the aggregate amount of loans outstanding by type in relation to total assets and capital, and concentrations of loans by size, property type, and geography. Underwriting criteria, such as collateral and debt service coverage ratios and approval limits are also specified in loan policies. The Company's policies also address the performance of periodic credit reviews, the risk rating of loans, when loans should be placed on non-performing status and factors that should be considered in establishing the Bank's allowance for loan losses. For additional information, refer to "Asset Quality" above and Item 1, "Business Lending Activities."

Market Risk

Market risk is the risk of loss due to adverse changes in market prices and rates, and typically encompasses exposures such as sensitivity to changes in market interest rates, foreign currency exchange rates, and commodity prices. The Company has no exposure to foreign currency exchange or commodity price movements. Because net interest income is our primary source of revenue, interest rate risk is a significant market risk to which the Company is exposed.

Interest rate risk can be defined as the exposure of future net interest income to adverse movements in interest rates. Net interest income is affected by changes in interest rates as well as by fluctuations in the level, mix and duration of the Company's assets and liabilities. Over and above the influence that interest rates have on net interest income, changes in rates also affect the volume of lending activity, the ability of borrowers to repay loans, the volume of loan prepayments, the flow and mix of deposits, and the market value of the Company's assets and liabilities.

The Company's management has established an Asset Liability Management Committee ("ALCO"), which is responsible for managing the Company's interest rate risk in accordance with policies and limits approved by the Board of Directors. With regard to management of market risk, the ALCO is charged with managing the Company's mix of assets and funding sources to produce results that are consistent with the Company's liquidity, capital adequacy, growth, and profitability goals.

Exposure to interest rate risk is managed by Northeast through periodic evaluations of the current interest rate risk inherent in its rate-sensitive assets and liabilities, coupled with determinations of the level of risk considered appropriate given the Company's capital and liquidity requirements, business strategy, and performance objectives. Through such management, Northeast seeks to mitigate the potential volatility in its net interest income due to changes in interest rates in a manner consistent with the risk appetite established by the board of directors.

The ALCO's primary tool for measuring, evaluating, and managing interest rate risk is income simulation analysis. Income simulation analysis measures the interest rate risk inherent in the Company's balance sheet at a given point in time by showing the effect of interest rate shifts on net interest income over defined time horizons. These simulations take into account the specific repricing, maturity, prepayment and call options of financial instruments that vary under different interest rate scenarios. The ALCO reviews simulation results to determine whether the exposure to a decline in net interest income remains within established tolerance levels over the simulation horizons and to develop appropriate strategies to manage this exposure. The Company considers a variety of specified rate scenarios, including instantaneous rate shocks, against static (or flat) rates when measuring interest rate risk, and evaluates results over two consecutive twelve-month periods. All changes are measured in comparison to the projected net interest income that would result from an "unchanged" scenario, where interest rates remain stable over the measured time horizon(s). As of June 30, 2015, the income simulation analysis (as noted in the table below) for the first twelve-month period indicated that exposure to changing interest rates fell within the Company's policy levels of tolerance.

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While the ALCO reviews simulation assumptions to ensure they are reasonable, and back-tests simulation results on a periodic basis as a monitoring tool, income simulation analysis may not always prove to be an accurate indicator of the Company's interest rate risk or future earnings. There are inherent shortcomings in income simulation, given the number and variety of assumptions that must be made to perform it. For example, the projected level of future market interest rates and the shape of future interest rate yield curves have a major impact on income simulation results. Many assumptions concerning the repricing of financial instruments, the degree to which non-maturity deposits react to changes in market rates, and the expected prepayment rates on loans, mortgage-backed securities, and callable debt securities are also inherently uncertain. In addition, as income simulation analysis assumes that the Company's balance sheet will remain static over the simulation horizon, the results do not reflect the Company's expectations for future balance sheet growth, nor changes in business strategy that the Company could implement in response to rate shifts to mitigate its loss exposures. As such, although the analysis described above provides an indication of the Company's sensitivity to interest rate changes at a point in time, these estimates are not intended to and do not provide a precise forecast of the effect of changes in market interest rates on the Company's net interest income and will differ from actual results.

Assuming a 200 basis point increase and 100 basis point decrease in interest rates starting on June 30, 2015, we estimate that our net interest income in the following 12 months would increase by 1.3% if rates increased by 200 basis points and decrease by 0.2% if rates declined by 100 basis points. These results indicate a modest level of asset sensitivity in our balance sheet. An asset-sensitive position indicates that there are more rate-sensitive assets than rate-sensitive liabilities repricing or maturing within specific time horizons, which would generally imply a favorable impact on net interest income in periods of rising interest rates and a negative impact in periods of falling rates. A liability-sensitive position would generally imply a negative impact on net interest income in periods of rising rates and a positive impact in periods of falling rates.

	Up 200 Basis Points	**Down 100 Basis Points**
June 30, 2015	1.3%	0.2%
June 30, 2014	0.4%	1.1%
June 30, 2013	0.9%	0.8%

Liquidity Risk

Liquidity risk is defined as the risk associated with an organization's ability to meet current and future financial obligations of a short-term nature. Northeast uses its liquidity on a regular basis to fund existing and future loan commitments, to pay interest on deposits and on borrowings, to fund maturing certificates of deposit and borrowings, to fund other deposit withdrawals, to invest in other interest-earning assets, to make dividend payments to shareholders, and to meet operating expenses. The Company's primary sources of liquidity consist of deposit inflows, borrowed funds, and the amortization, prepayment and maturities of loans and securities. While scheduled payments from the amortization and maturities of loans and investment securities are relatively predictable sources of funds, deposit flows and loan and investment prepayments can be greatly influenced by general interest rates, economic conditions and competition. In addition to these regular sources of funds, the Company may choose to sell portfolio loans and investment securities to meet liquidity demands.

We monitor and forecast our liquidity position. There are several interdependent methods used by us for this purpose, including daily review of Federal Funds positions, monthly review of balance sheet changes, monthly review of liquidity ratios, quarterly review of liquidity forecasts and periodic review of contingent funding plans. Using these methods, the Company actively manages its liquidity position under the direction of the ALCO, which meets weekly.

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The following is a summary of the unused borrowing capacity of the Company at June 30, 2015 available to meet our short-term funding needs (dollars in thousands):

Brokered time deposits	$ 212,708	Subject to policy limitation of 25% of total assets
Federal Home Loan Bank of Boston	45,691	Unused advance capacity subject to eligible and qualified collateral
Federal Discount Window Borrower-in-Custody	2,200	Unused credit line subject to the pledge of loans
Other available lines	17,500	
Total unused borrowing capacity	278,099	

Retail deposits and other core deposit sources including deposit listing services are used by the Bank to manage its overall liquidity position. While we currently do not seek wholesale funding such as FHLB advances and brokered deposits, the ability to raise them remains an important part of our liquidity contingency planning. While we closely monitor and forecast our liquidity position, it is affected by asset growth, deposit withdrawals and meeting other contractual obligations and commitments. The accuracy of our forecast assumptions may increase or decrease our overall available liquidity. To utilize the FHLB advance capacity, the purchase of additional capital stock in the Federal Home Loan Bank of Boston may be required. At June 30, 2015, the Bank had $350.0 million of immediately accessible liquidity, defined as cash that the Bank reasonably believes could be raised within 7 days through collateralized borrowings, brokered deposits or security sales. This position represented 41.1% of total assets. Further, at June 30, 2015, the Company had $89.9 million of cash and cash equivalents. This level of balance sheet liquidity is intended, in part, for future purchases of commercial real estate loans.

On a parent company only basis, commitments and debt service requirements at June 30, 2015 consisted of junior subordinated debentures issued to NBN Capital Trust II, NBN Capital Trust III and NBN Capital Trust IV with a principal balance of $16.5 million. See Note 18 of the Notes to the Consolidated Financial Statements for carrying values, maturity dates and the use of purchased interest rate caps and swaps to hedge the interest expense in periods of rising interest rates. Based on the interest rates at June 30, 2015, the annual aggregate payments to meet the debt service of the junior subordinated debentures is approximately $412 thousand. Including the impact of the interest rate swap associated with NBN Capital Trust IV subordinated debentures, annual payments are expected to total $595 thousand.

The principal sources of funds for the Company to meet parent-only obligations are dividends from the Bank, which are subject to regulatory limitations, and borrowings from public and private sources. For information on the restrictions on the payment of dividends by Northeast Bank, see Note 10 of the Notes to the Company's Consolidated Financial Statements in this Annual Report.

Operational Risk

Operational risk, which we define as the risk of loss from failed internal processes, people and systems, and external events, is inherent in all of our business activities. The principal ways in which we manage operational risk include the establishment of departmental and business-specific policies and procedures, internal controls and monitoring requirements. Some specific examples include our information security program, business continuity planning and testing, our vendor management program, reconciliation processes, our enterprise risk assessment process, and new product and/or system introduction processes. Periodic internal audits provide an important independent check on adherence to policies, procedures and controls designed to mitigate risk exposure.

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Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, unused lines of credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amounts recognized in the condensed consolidated balance sheet. The contract or notional amounts of these instruments reflect the extent of the Company's involvement in particular classes of financial instruments.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit, unused lines of credit and standby letters of credit is represented by the contractual amount of those instruments. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total committed amounts do not necessarily represent future cash requirements. To control the credit risk associated with entering into commitments and issuing letters of credit, the Company uses the same credit quality, collateral policies, and monitoring controls in making commitments and letters of credit as it does with its lending activities.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers.

Unused lines of credit and commitments to extend credit typically result in loans with a market interest rate.

A summary of the amounts of the Company's contractual obligations, and other commitments with off-balance sheet risk, both at June 30, 2015, follows:

		Payments Due-By Period			
	Total	Less Than 1 Year	1 - 3 Years	3 - 5 Years	More than 5 Years
			(Dollars in thousands)		
Contractual obligations:					
FHLB advances	$ 30,000	$ 15,000	$ 15,000	$	$
Wholesale repurchase agreements	10,000	10,000			
Junior subordinated debentures	16,496				16,496
Capital lease obligation	1,553	175	459	612	307
Short-term borrowings	1,368	1,368			
Total debt obligations	59,417	26,543	15,459	612	16,803
Operating lease obligations	9,338	1,303	2,175	2,208	3,652
Total contractual obligations	$ 68,755	$ 27,846	$ 17,634	$ 2,820	$ 20,455

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	Total	Amount of Commitment Expiring-By Period Less Than 1 Year	1 - 3 Years	3 - 5 Years	More than 5 Years
	(Dollars in thousands)				
Commitments with off-balance sheet risk:					
Commitments to grant loans	$ 24,966	$ 24,966	$	$	$
Unused commitments under lines of credit	39,414	14,890	9,608	9,482	5,434
Standby letters of credit	60	60			
Total commitments	$ 64,440	$ 39,916	$ 9,608	$ 9,482	$ 5,434

Capital

Stockholders' equity was $112.8 million at June 30, 2015, an increase of $773 thousand from June 30, 2014. The increase due principally to earnings of $7.1 million, as well as $705 thousand of scheduled amortization of stock-based compensation, offset by $6.7 million in share repurchases (representing 710,662 shares), a decrease in accumulated other comprehensive income of $5 thousand and $402 thousand in dividends paid on common stock.

See Note 10 of the Notes to the Consolidated Financial Statements for information on the Company's capital ratios. Regulatory capital ratios for the Company and the Bank currently exceed all applicable requirements, including the commitments made to the Federal Reserve and the Bureau in connection with the Merger to maintain minimum Tier 1 leverage and total risk-based capital ratios of 10% and 15%, respectively.

Impact of Inflation

The consolidated financial statements and related notes have been presented in terms of historic dollars without considering changes in the relative purchasing power of money over time due to inflation. Unlike industrial companies, nearly all of the assets and virtually all of the liabilities of the Company are monetary in nature. As a result, interest rates have a more significant impact on the Company's performance than the general level of inflation. Over short periods of time, interest rates may not necessarily move in the same direction or in the same magnitude as inflation.

Impact of New Accounting Standards

Note 1 of the Notes to the Consolidated Financial Statement includes the FASB and the SEC issued statements and interpretations affecting the Company.

Critical Accounting Policies

Critical accounting policies are those that involve significant judgments and assessments by management, and that could potentially result in materially different results under different assumptions and conditions. Northeast considers the following to be its critical accounting policies:

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. For residential and consumer loans, a charge-off is recorded no later than 180 days past due if the loan balance exceeds the fair value of the collateral, less costs to sell. For commercial loans, a charge-off is recorded on a case-by-case basis when all or a portion of the loan is deemed to be uncollectible. Subsequent recoveries, if any, are credited to the allowance.

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The allowance for loan losses consists of general, specific, and unallocated reserves and reflects management's estimate of probable loan losses inherent in the loan portfolio at the balance sheet date. Management uses a consistent and systematic process and methodology to evaluate the adequacy of the allowance for loan losses on a quarterly basis. The calculation of the allowance for loan losses is segregated by portfolio segments, which include: commercial real estate, commercial business, consumer, residential real estate, and purchased loans. Risk characteristics relevant to each portfolio segment are as follows:

Residential real estate: All loans in this segment are collateralized by residential real estate and repayment is primarily dependent on the credit quality of the individual borrower. The overall health of the economy, particularly unemployment rates and housing prices, has a significant effect on the credit quality in this segment. For purposes of the Company's allowance for loan loss calculation, home equity loans and lines of credit are included in residential real estate.

Commercial real estate: Loans in this segment are primarily income-producing properties. For owner-occupied properties, the cash flows are derived from an operating business, and the underlying cash flows may be adversely affected by deterioration in the financial condition of the operating business. The underlying cash flows generated by non-owner occupied properties may be adversely affected by increased vacancy rates. Management periodically obtains rent rolls, with which it monitors the cash flows of these loans. Adverse developments in either of these areas will have an adverse effect on the credit quality of this segment. For purposes of the allowance for loan losses, this segment also includes construction loans.

Commercial business: Loans in this segment are made to businesses and are generally secured by the assets of the business. Repayment is expected from the cash flows of the business. Continued weakness in national or regional economic conditions, and a corresponding weakness in consumer or business spending, will have an adverse effect on the credit quality of this segment.

Consumer: Loans in this segment are generally secured, and repayment is dependent on the credit quality of the individual borrower. Repayment of consumer loans is generally based on the earnings of individual borrowers, which may be adversely impacted by regional labor market conditions.

Purchased: Loans in this segment are typically secured by commercial real estate, multi-family residential real estate, or business assets and have been acquired by the LASG. Loans acquired by the LASG are, with limited exceptions, performing loans at the date of purchase. Loans in this segment acquired with specific material credit deterioration since origination are identified as purchased credit-impaired. Repayment of loans in this segment is largely dependent on cash flow from the successful operation of the property, in the case of non-owner occupied property, or operating business, in the case of owner-occupied property. Loan performance may be adversely affected by factors affecting the general economy or conditions specific to the real estate market, such as geographic location or property type.

The general component of the allowance for loan losses is based on historical loss experience adjusted for qualitative factors stratified by loan segment. The Company does not weight periods used in that analysis to determine the average loss rate in each portfolio segment. This historical loss factor is adjusted for the following qualitative factors:

- Levels and trends in delinquencies
- Trends in the volume and nature of loans
- Trends in credit terms and policies, including underwriting standards, procedures and practices, and the experience and ability of lending management and staff
- Trends in portfolio concentration

National and local economic trends and conditions.

Effects of changes or trends in internal risk ratings

Other effects resulting from trends in the valuation of underlying collateral

There were no significant changes in the Company's policies or methodology pertaining to the general component of the allowance for loan losses during the years ended June 30, 2015 or 2014.

The allocated component of the allowance for loan losses relates to loans that are classified as impaired. Impairment is measured on a loan-by-loan basis for commercial business and commercial real estate loans by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent. An allowance is established when the discounted cash flows or collateral value of the impaired loan is lower than the carrying value of that loan. Large groups of smaller-balance homogeneous loans, such as consumer and residential real estate loans are collectively evaluated for impairment based on the group's historical loss experience adjusted for qualitative factors. Accordingly, the Company does not separately identify individual consumer and residential loans for individual impairment and disclosure. However, all TDRs are individually reviewed for impairment.

For all portfolio segments, except loans accounted for under ASC 310-30, a loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. For the purchased loan segment, a loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to realize cash flows as estimated at acquisition. For loans accounted for under ASC 310-30 for which cash flows can reasonably be estimated, loan impairment is measured based on the decrease in expected cash flows from those estimated at acquisition, excluding changes due to changes in interest rate indices and other non-credit related factors, discounted at the loan's effective rate assumed at acquisition. Factors considered by management in determining impairment include payment status, collateral value, and the probability of the collecting scheduled principal and interest payments when due.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations Risk Management" and accompanying table set forth therein for quantitative and qualitative disclosures about market risk.

Item 8. Financial Statements and Supplementary Data

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Report of Independent Registered Public Accounting Firm

The Board of Directors and
Shareholders of Northeast Bancorp

We have audited the accompanying consolidated balance sheets of Northeast Bancorp and subsidiary as of June 30, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Northeast Bancorp and subsidiary at June 30, 2015 and 2014, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Boston, Massachusetts
September 28, 2015

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NORTHEAST BANCORP AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except share and per share data)

	June 30, 2015	June 30, 2014
Assets		
Cash and due from banks	$ 2,789	$ 3,372
Short-term investments	87,061	78,887
Total cash and cash equivalents	89,850	82,259
Available-for-sale securities, at fair value	101,908	113,881
Loans held for sale	9,035	11,945
Loans	612,137	516,416
Less: Allowance for loan losses	1,926	1,367
Loans, net	610,211	515,049
Premises and equipment, net	8,253	9,135
Real estate owned and other repossessed collateral, net	1,651	1,991
Federal Home Loan Bank stock, at cost	4,102	4,102
Intangible assets, net	2,209	2,798
Bank owned life insurance	15,276	14,836
Other assets	8,335	5,935
Total assets	$ 850,830	$ 761,931
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Demand	$ 60,383	$ 50,140
Savings and interest checking	100,134	98,340
Money market	168,527	83,901
Time	345,715	341,948
Total deposits	674,759	574,329
Federal Home Loan Bank advances	30,188	42,824
Wholesale repurchase agreements	10,037	10,199
Short-term borrowings	2,349	2,984
Junior subordinated debentures issued to affiliated trusts	8,626	8,440
Capital lease obligation	1,368	1,558
Other liabilities	10,664	9,531
Total liabilities	737,991	649,865
Commitments and contingencies		
Stockholders' equity		
Preferred stock, $1.00 par value, 1,000,000 shares authorized; no shares issued and outstanding at June 30, 2015 and June 30, 2014		
	8,575	9,260

Voting common stock, $1.00 par value, 25,000,000 authorized; 8,575,144 and 9,260,331 issued and outstanding at June 30, 2015 and 2014, respectively				
Non-voting common stock, $1.00 par value, 3,000,000 authorized; 1,012,739 and 880,963 shares issued and outstanding at June 30, 2015 and June 30, 2014, respectively		1,013		881
Additional paid-in capital		85,506		90,914
Retained earnings		19,033		12,294
Accumulated other comprehensive loss		(1,288)		(1,283)
Total stockholders' equity		112,839		112,066
Total liabilities and stockholders' equity	$	850,830	$	761,931

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

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NORTHEAST BANCORP AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands, except share and per share data)

	Year Ended June 30,	
	2015	**2014**
Interest and dividend income:		
Interest and fees on loans	$ 43,383	$ 37,009
Interest on available-for-sale securities	913	1,048
Other interest and dividend income	292	314
Total interest and dividend income	44,588	38,371
Interest expense:		
Deposits	5,010	4,123
Federal Home Loan Bank advances	1,101	1,301
Wholesale repurchase agreements	288	357
Short-term borrowings	29	24
Junior subordinated debentures issued to affiliated trusts	718	765
Obligation under capital lease agreement	74	83
Total interest expense	7,220	6,653
Net interest and dividend income before provision for loan losses	37,368	31,718
Provision for loan losses	717	531
Net interest and dividend income after provision for loan losses	36,651	31,187
Noninterest income:		
Fees for other services to customers	1,494	1,644
Gain on sales of loans held for sale	1,877	1,650
Gain on sales of portfolio loans	2,821	1,006
Gain recognized on real estate owned and other repossessed collateral, net	428	63
Bank-owned life insurance income	440	451
Other noninterest income	29	55
Total noninterest income	7,089	4,869
Noninterest expense:		
Salaries and employee benefits	18,817	17,786
Occupancy and equipment expense	4,939	5,448
Professional fees	1,658	1,285
Data processing fees	1,355	1,209
Marketing expense	244	311
Loan acquisition and collection expense	1,458	1,539
FDIC insurance premiums	504	480
Intangible asset amortization	589	746
Legal settlement recovery		(250)
Other noninterest expense	3,040	3,223
Total noninterest expense	32,604	31,777
Income from continuing operations before income tax expense	11,136	4,279
Income tax expense	3,995	1,579
Net income from continuing operations	$ 7,141	$ 2,700

Loss from discontinued operations	$	$ (12)
Income tax benefit		(4)
Net loss from discontinued operations		(8)
Net income	$ 7,141	$ 2,692
Weighted-average shares outstanding:		
Basic	9,980,733	10,404,784
Diluted	9,980,733	10,404,784
Earnings per common share:		
Basic:		
Income from continuing operations	$ 0.72	$ 0.26
Income from discontinued operations	0.00	0.00
Net income	$ 0.72	$ 0.26
Diluted:		
Income from continuing operations	$ 0.72	$ 0.26
Income from discontinued operations	0.00	0.00
Net income	$ 0.72	$ 0.26
Cash dividends declared per common share:	$ 0.04	$ 0.28

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

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NORTHEAST BANCORP AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in thousands)

	Year Ended June 30,	
	2015	**2014**
Net income	$ 7,141	$ 2,692
Other comprehensive income (loss), before tax:		
Available-for-sale securities:		
Change in net unrealized gain or loss on available-for-sale securities	442	1,358
Reclassification adjustment for net gains included in net income		
Total available-for-sale securities	442	1,358
Derivatives and hedging activities:		
Change in accumulated loss on effective cash flow hedges	(529)	(325)
Reclassification adjustments for net gains included in net income	(49)	(76)
Total derivatives and hedging activities	(578)	(401)
Total other comprehensive income (loss), before tax	(136)	957
Income tax expense (benefit) related to other comprehensive income (loss)	(131)	326
Other comprehensive income (loss), net of tax	(5)	631
Comprehensive income	$ 7,136	$ 3,323

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

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NORTHEAST BANCORP AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(Dollars in thousands, except share and per share data)

	Preferred Stock		Voting Common Stock		Non-voting Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount				
Balance at June 30, 2013		$	9,565,680	$ 9,566	880,963	$ 881	$ 92,745	$ 12,524	$ (1,914)	$ 113,802
Net income								2,692		2,692
Other comprehensive income, net of tax									631	631
Common stock repurchased			(291,200)	(292)			(2,531)			(2,823)
Dividends on common stock at $0.28 per share								(2,922)		(2,922)
Stock-based compensation							686			686
Forfeiture of restricted common stock			(14,149)	(14)			14			
Balance at June 30, 2014		$	9,260,331	$ 9,260	880,963	$ 881	$ 90,914	$ 12,294	$ (1,283)	$ 112,066
Net income								7,141		7,141
Other comprehensive income, net of tax									(5)	(5)
Common stock repurchased			(710,662)	(711)			(5,955)			(6,666)
Conversion of voting common stock to non-voting common stock			(131,776)	(132)	131,776	132				
Dividends on common stock at $0.04 per share								(402)		(402)
Stock-based compensation							705			705
Issuance of restricted common stock			174,000	174			(174)			
Forfeiture of restricted common stock			(16,749)	(16)			16			
Balance at June 30, 2015		$	8,575,144	8,575	1,012,739	$ 1,013	$ 85,506	$ 19,033	$ (1,288)	$ 112,839

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

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NORTHEAST BANCORP AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

	Year Ended June 30, 2015	Year Ended June 30, 2014
Operating activities:		
Net income	$ 7,141	$ 2,692
Adjustments to reconcile net income to net cash used in operating activities:		
Provision for loan losses	717	531
Gain recognized on real estate owned and other repossessed collateral, net	(428)	(63)
Accretion of fair value adjustments on loans, net	(11,899)	(7,120)
Accretion of fair value adjustments on deposits, net	(171)	(560)
Accretion of fair value adjustments on borrowings, net	(112)	(242)
Originations of loans held for sale	(98,383)	(91,366)
Net proceeds from sales of loans held for sale	103,170	89,665
Gain on sales of loans held for sale, net	(1,877)	(1,650)
Gain on sales of portfolio loans, net	(2,821)	(1,006)
Amortization of intangible assets	589	746
Bank-owned life insurance income, net	(440)	(451)
Depreciation of premises and equipment	1,666	1,999
Loss on sale of premises and equipment	91	16
Deferred income tax benefit	(1,185)	(2,672)
Stock-based compensation	705	686
Amortization of securities, net	1,001	1,237
Changes in other assets and liabilities:		
Other assets	(60)	576
Other liabilities	556	1,443
Net cash used in operating activities	(1,740)	(5,539)
Investing activities:		
Purchases of available-for-sale securities		(48,481)
Proceeds from maturities and principal payments on available-for-sale securities	11,414	56,318
Loan purchases	(82,654)	(79,823)
Proceeds from sales of portfolio loans	23,260	9,305
Loan originations, principal collections, and purchased loan paydowns, net	(24,585)	(4,372)
Purchases of premises and equipment	(1,244)	(1,086)
Proceeds from sales of premises and equipment	369	11
Proceeds from sales of real estate owned and other repossessed collateral	2,563	1,674
Redemption of regulatory stock, net		1,619
Net cash used in investing activities	(70,877)	(64,835)
Financing activities:		
Net increase in deposits	100,601	90,266
Net (decrease) increase in short-term borrowings	(635)	2,359
Dividends paid on common stock	(402)	(2,922)
Repurchase of common stock	(6,666)	(2,823)
Repayment of FHLB borrowings and wholesale repurchase agreements	(12,500)	(15,000)
Proceeds from FHLB borrowings		15,000
Repayment of capital lease obligation	(190)	(181)
Net cash provided by financing activities	80,208	86,699
Net increase in cash and cash equivalents	7,591	16,325
Cash and cash equivalents, beginning of year	82,259	65,934

Cash and cash equivalents, end of year	$	89,850	$	82,259

Supplemental schedule of cash flow information:				
Interest paid	$	7,487	$	7,496
Income taxes paid, net of refunds received		5,664		3,500
Supplemental schedule of noncash investing and financing activities:				
Transfers from loans to real estate owned and other repossessed collateral, net	$	1,764	$	1,531

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

The accounting and reporting policies of Northeast Bancorp and Subsidiary ("Company" or "Northeast") conform to accounting principles generally accepted in the United States of America ("GAAP") and conform to practices within the financial services industry.

Business

The Company is a Maine corporation and a bank holding company registered with the Federal Reserve Bank of Boston ("FRB") under the Bank Holding Company Act of 1956. As a bank holding company, the Company is subject to the regulation and supervision of the FRB. The Company provides a full range of banking services to individual and corporate customers throughout south-central and western Maine and conducts loan purchasing and origination activities nationwide through its wholly-owned subsidiary, Northeast Bank (the "Bank"), a Maine state-chartered universal bank. The Bank is subject to supervision and regulation by applicable state and federal banking agencies, including the State of Maine Bureau of Financial Institutions, the Federal Deposit Insurance Corporation ("FDIC"), and the FRB. The Bank faces competition from banks and other financial institutions.

Business Combination Accounting

On December 29, 2010, the Company merged with FHB Formation LLC (the "Merger"). The Company applied the acquisition method of accounting to this business combination, which represented an acquisition by FHB Formation LLC ("FHB") of Northeast, with Northeast as the surviving company. Under the acquisition method, the acquiring entity in a business combination recognizes the assets acquired and liabilities assumed at their acquisition date fair values. Management utilizes valuation techniques appropriate for the asset or liability being measured in determining these fair values. Any excess of the purchase price over amounts allocated to assets acquired, including identifiable intangible assets, and liabilities assumed is recorded as goodwill. In the Merger, amounts allocated to assets acquired and liabilities assumed were greater than the purchase price, which resulted in the recognition of a bargain purchase gain. Acquisition-related costs were expensed as incurred.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Northeast Bancorp, and its wholly-owned subsidiary, Northeast Bank (including the Bank's wholly-owned subsidiaries). All significant intercompany transactions and balances have been eliminated in consolidation.

NBN Capital Trust II, NBN Capital Trust III and NBN Capital Trust IV are considered affiliates and are deconsolidated pursuant to criteria established by Accounting Standards Codification ("ASC") 810, *Consolidation* ("ASC 810"). The investments in these affiliates were $496 thousand in aggregate and are included in other assets.

Reclassifications

Certain previously reported amounts have been reclassified to conform to the current year's presentation.

Use of Estimates

The financial statements have been prepared in conformity with GAAP. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. Summary of Significant Accounting Policies (Continued)

amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the statement of financial condition and income and expenses for the period. Actual results could differ significantly from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses, the determination of fair values in conjunction with the application of acquisition accounting, and the on-going evaluation of assets for potential impairment.

Concentrations of Credit Risk

Most of the Community Bank's business activity is with customers located within the State of Maine. However, the LASG purchase and origination, as well as the SBA National origination activities are diversified across the country. In all regions, the Company has emphasized the origination and purchase of commercial real estate loans. Repayment of loans is expected to come from cash flows of the borrower. Losses on secured loans are limited by the value of the collateral upon default of the borrowers. The Company does not have any significant concentrations to any one industry or customer.

Cash and Cash Equivalents

For purposes of presentation in the consolidated statements of cash flows, cash and cash equivalents consist of cash and due from banks and short-term investments. The Company is required to maintain a certain reserve balance in the form of cash or deposits with other financial institutions. At June 30, 2015 and 2014, such reserve balances totaled $4.4 million and $2.4 million, respectively.

Investment Securities

Securities for which the Company has the positive intent and ability to hold to maturity are classified as held to maturity and carried at amortized cost. Those securities held for indefinite periods of time but not necessarily to maturity are classified as available for sale. Securities held for indefinite periods of time include securities that management intends to use as part of its asset/liability, liquidity, or capital management strategies and may be sold in response to changes in interest rates, maturities, asset/liability mix, liquidity needs, regulatory capital needs or other business factors. Securities available for sale are carried at estimated fair value with unrealized gains and losses reported on an after-tax basis in stockholders' equity as accumulated other comprehensive income or loss.

Interest and dividends on securities are recorded on the accrual method. Premiums and discounts on securities are amortized or accreted into interest income by the level-yield method over the remaining period to contractual maturity, adjusted for the effect of actual prepayments in the case of mortgage-backed securities. These estimates of prepayment assumptions are made based upon the actual performance of the underlying security, current interest rates, the general market consensus regarding changes in mortgage interest rates, the contractual repayment terms of the underlying loans, the priority rights of the investors to the cash flows from the mortgage securities and other economic conditions. When differences arise between anticipated prepayments and actual prepayments, the effective yield is recalculated to reflect actual payments to date and anticipated future payments. Unamortized premium or discount is adjusted to the amount that would have existed had the new effective yield been applied since purchase, with a corresponding charge or credit to interest income.

Security transactions are recorded on the trade date. Realized gains and losses are determined using the specific identification method and are recorded in non-interest income.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. Summary of Significant Accounting Policies (Continued)

Management evaluates securities for other-than-temporary impairment on a periodic basis. Factors considered in determining whether an impairment is other-than-temporary include: (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer and (3) the intent and ability of the Company to hold the investment for a period of time sufficient to allow for any anticipated recovery in fair value. If the Company intends to sell an impaired security, the Company records an other-than-temporary loss in an amount equal to the entire difference between the fair value and amortized cost. If a security is determined to be other-than-temporarily impaired but the Company does not intend to sell the security, only the credit portion of the estimated loss is recognized in earnings, with the other portion of the loss recognized in other comprehensive income.

Federal Home Loan Bank Stock

During the periods presented, the Company has owned investments in the stock of the Federal Home Loan Bank of Boston ("FHLBB"). No ready market exists for these stocks, and they have no quoted market values. The Bank, as a member of the FHLBB, is required to maintain investments in the capital stock of the FHLBB equal to their membership base investments plus an activity-based investment determined according to the Bank's level of outstanding FHLBB advances. The Company reviews its investments in FHLB stock periodically to determine if other-than-temporary impairment exists. The Company reviews recent public filings, rating agency analysis and other factors, when making the determination.

Loans Held for Sale and Loan Servicing

Residential real estate mortgage loans are designated as held for sale based on intent, which is determined when loans are underwritten. Loans originated and held for sale in the secondary market are carried at the lower of cost or fair value. The SBA National loans are designated as held for sale based on intent to sell, which is determined on a monthly basis. The guaranteed portions of the loans are transferred to held for sale and are carried at the lower of cost or fair value. Realized gains and losses on sales of loans are determined using the specific identification method. Direct loan originations costs and fees related to loans held for sale are deferred upon origination and are recognized on the date of sale.

In its mortgage banking activities, the Company sells loans both on a servicing released and servicing retained basis. The Company recognizes as separate assets the rights to service mortgage loans for others, which is included in other assets on the consolidated balance sheet. The Company capitalizes mortgage servicing rights at their allocated cost (based on the relative fair values of the rights and the related loans) upon the sale of the related loans. The Company uses the amortization method to subsequently measure servicing assets. Mortgage servicing rights are amortized over the estimated weighted average life of the loans. The Company's assumptions with respect to prepayments, which affect the estimated average life of the loans, are adjusted quarterly and as necessary to reflect current circumstances. The Company evaluates the estimated life and fair value of its servicing portfolio based on data that is disaggregated to reflect note rate, type, and term on the underlying loans. The Company performs an assessment of capitalized mortgage servicing rights for impairment based on the current fair value of those rights. Fair value of the mortgage servicing rights is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, prepayment speeds and default rates and losses.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. Summary of Significant Accounting Policies (Continued)

Impairment is recognized through a valuation allowance to the extent that fair value is less than the capitalized amount. If the Company later determines that all or a portion of the impairment no longer exists, a reduction of the allowance may be recorded as an increase to income.

In its SBA national activity, the Company recognizes the SBA servicing rights as separate assets, which is included in other assets on the consolidated balance sheet. The Company capitalizes SBA servicing rights at the net present value of the fee income and fee cost spread upon the sale of the related loans. The Company uses the amortization method to subsequently measure servicing assets. The SBA servicing rights are amortized over the estimated weighted average life of the loans. The Company's assumptions with respect to prepayments, which affect the estimated average life of the loans, are adjusted quarterly and as necessary to reflect current circumstances. The Company evaluates the estimated life and fair value of its servicing portfolio based on data that is disaggregated to reflect note rate, type, and term on the underlying loans. The Company performs an assessment of capitalized SBA servicing rights for impairment based on the current fair value of those rights. Fair value of the mortgage servicing rights is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, prepayment speeds and default rates and losses. Impairment is recognized through a valuation allowance to the extent that fair value is less than the capitalized amount. If the Company later determines that all or a portion of the impairment no longer exists, a reduction of the allowance may be recorded as an increase to income.

In connection with the mortgage loans to be held for sale, the Company often offers interest rate lock commitments to prospective borrowers. The Company manages this interest rate risk by entering into offsetting forward sale agreements with third party investors for certain funded loans and loan commitments. The Company uses "best efforts" forward loan sale commitments to mitigate the risk of potential decreases in the values of loans that would result from the exercise of the derivative loan commitments. The net effect of the derivative loan commitments and forward sale agreements is nominal at each date presented.

Loans

Loans are carried at the principal amounts outstanding, or amortized acquired fair value in the case of acquired loans, adjusted by partial charge-offs and net of deferred loan costs or fees. Loan fees and certain direct origination costs are deferred and amortized into interest income over the expected term of the loan using the level-yield method. When a loan is paid off, the unamortized portion is recognized in interest income. Interest income is accrued based upon the daily principal amount outstanding except for loans on nonaccrual status.

Loans purchased by the Company are accounted for under ASC 310-30, Receivables Loans and Debt Securities Acquired with Deteriorated Credit Quality ("ASC 310-30"). At acquisition, the effective interest rate is determined based on the discount rate that equates the present value of the Company's estimate of cash flows with the purchase price of the loan. Prepayments are not assumed in determining a purchased loan's effective interest rate and income accretion. The application of ASC 310-30 limits the yield that may be accreted on the purchased loan, or the "accretable yield," to the excess of the Company's estimate, at acquisition, of the expected undiscounted principal, interest, and other cash flows over the Company's initial investment in the loan. The excess of contractually required payments receivable over the cash flows expected to be collected on the loan represents the

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. Summary of Significant Accounting Policies (Continued)

purchased loan's "nonaccretable difference." Subsequent improvements in expected cash flows of loans with nonaccretable differences result in a prospective increase to the loan's effective yield through a reclassification of some, or all, of the nonaccretable difference to accretable yield. The effect of subsequent credit-related declines in expected cash flows of purchased loans are recorded through a specific allocation in the allowance for loan losses.

Loans are generally placed on nonaccrual status when they are past due 90 days as to either principal or interest, or when in management's judgment the collectability of interest or principal of the loan has been significantly impaired. Loans accounted for under ASC 310-30 are placed on nonaccrual when it is not possible to reach a reasonable expectation of the timing and amount of cash flows to be collected on the loan. When a loan has been placed on nonaccrual status, previously accrued and uncollected interest is reversed against interest on loans. Interest on nonaccrual loans is accounted for on a cash-basis or using the cost-recovery method when collectability is doubtful. A loan is returned to accrual status when collectability of principal is reasonably assured and the loan has performed for a reasonable period of time.

In cases where a borrower experiences financial difficulties and the Company makes certain concessionary modifications to contractual terms, the loan is classified as a troubled debt restructuring ("TDR"), and therefore by definition is an impaired loan. Concessionary modifications may include adjustments to interest rates, extensions of maturity, and other actions intended to minimize economic loss and avoid foreclosure or repossession of collateral. For loans accounted for under ASC 310-30, the Company evaluates whether it has granted a concession by comparing the restructured debt terms to the expected cash flows at acquisition plus any additional cash flows expected to be collected arising from changes in estimate after acquisition. As a result, if an ASC 310-30 loan is modified to be consistent with, or better than, the Company's expectations at acquisition, the loan would not qualify as a TDR. Nonaccrual loans that are restructured generally remain on nonaccrual status for a minimum period of six months to demonstrate that the borrower can meet the restructured terms. If the restructured loan is on accrual status prior to being modified, it is reviewed to determine if the modified loan should remain on accrual status. If the borrower's ability to meet the revised payment schedule is not reasonably assured, the loan is classified as a nonaccrual loan. With limited exceptions, loans classified as TDRs remain classified as such until the loan is paid off.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. For residential and consumer loans, a charge-off is recorded no later than 180 days past due if the loan balance exceeds the fair value of the collateral, less costs to sell. For commercial loans, a charge-off is recorded on a case-by-case basis when all or a portion of the loan is deemed to be uncollectible. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses consists of general, specific, and unallocated reserves and reflects management's estimate of probable loan losses inherent in the loan portfolio at the balance sheet date. Management uses a consistent and systematic process and methodology to evaluate the adequacy of the allowance for loan losses on a quarterly basis. The calculation of the allowance for loan losses is segregated by portfolio segments, which include: commercial real estate, commercial business,

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. Summary of Significant Accounting Policies (Continued)

consumer, residential real estate, and purchased loans. Risk characteristics relevant to each portfolio segment are as follows:

Residential real estate: All loans in this segment are collateralized by residential real estate and repayment is primarily dependent on the credit quality of the individual borrower. The overall health of the economy, particularly unemployment rates and housing prices, has a significant effect on the credit quality in this segment. For purposes of the Company's allowance for loan loss calculation, home equity loans and lines of credit are included in residential real estate.

Commercial real estate: Loans in this segment are primarily income-producing properties. For owner-occupied properties, the cash flows are derived from an operating business, and the underlying cash flows may be adversely affected by deterioration in the financial condition of the operating business. The underlying cash flows generated by non-owner occupied properties may be adversely affected by increased vacancy rates. Management periodically obtains rent rolls, with which it monitors the cash flows of these loans. Adverse developments in either of these areas will have an adverse effect on the credit quality of this segment. For purposes of the allowance for loan losses, this segment also includes construction loans.

Commercial business: Loans in this segment are made to businesses and are generally secured by the assets of the business. Repayment is expected from the cash flows of the business. Continued weakness in national or regional economic conditions, and a corresponding weakness in consumer or business spending, will have an adverse effect on the credit quality of this segment.

Consumer: Loans in this segment are generally secured, and repayment is dependent on the credit quality of the individual borrower. Repayment of consumer loans is generally based on the earnings of individual borrowers, which may be adversely impacted by regional labor market conditions.

Purchased: Loans in this segment are typically secured by commercial real estate, multi-family residential real estate, or business assets and have been acquired by the LASG. Loans acquired by the LASG are, with limited exceptions, performing loans at the date of purchase. Loans in this segment acquired with specific material credit deterioration since origination are identified as purchased credit-impaired. Repayment of loans in this segment is largely dependent on cash flow from the successful operation of the property, in the case of non-owner occupied property, or operating business, in the case of owner-occupied property. Loan performance may be adversely affected by factors affecting the general economy or conditions specific to the real estate market, such as geographic location or property type.

The general component of the allowance for loan losses is based on historical loss experience adjusted for qualitative factors stratified by loan segment. The Company does not weight periods used in that analysis to determine the average loss rate in each portfolio segment. This historical loss factor is adjusted for the following qualitative factors:

- Levels and trends in delinquencies
- Trends in the volume and nature of loans
- Trends in credit terms and policies, including underwriting standards, procedures and practices, and the experience and ability of lending management and staff
- Trends in portfolio concentration

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. Summary of Significant Accounting Policies (Continued)

National and local economic trends and conditions.

Effects of changes or trends in internal risk ratings

Other effects resulting from trends in the valuation of underlying collateral

There were no significant changes in the Company's policies or methodology pertaining to the general component of the allowance for loan losses during the years ended June 30, 2015 or 2014.

The allocated component of the allowance for loan losses relates to loans that are classified as impaired. Impairment is measured on a loan-by-loan basis for commercial business and commercial real estate loans by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent. An allowance is established when the discounted cash flows or collateral value of the impaired loan is lower than the carrying value of that loan. Large groups of smaller-balance homogeneous loans, such as consumer and residential real estate loans are collectively evaluated for impairment based on the group's historical loss experience adjusted for qualitative factors. Accordingly, the Company does not separately identify individual consumer and residential loans for individual impairment and disclosure. However, all TDRs are individually reviewed for impairment.

For all portfolio segments, except loans accounted for under ASC 310-30, a loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. For the purchased loan segment, a loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to realize cash flows as estimated at acquisition. For loans accounted for under ASC 310-30 for which cash flows can reasonably be estimated, loan impairment is measured based on the decrease in expected cash flows from those estimated at acquisition, excluding changes due to changes in interest rate indices and other non-credit related factors, discounted at the loan's effective rate assumed at acquisition. Factors considered by management in determining impairment include payment status, collateral value, and the probability of the collecting scheduled principal and interest payments when due.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed by the straight-line method over the estimated useful lives of the assets. Premises and equipment under capital leases are amortized over the estimated useful lives of the assets or the respective lease terms, whichever is shorter. Maintenance and repairs are charged to expense as incurred and the cost of major renewals and betterments are capitalized.

Intangible Assets

Identifiable intangible assets subject to amortization are amortized over the estimated lives of the intangibles using a method that approximates the amount of economic benefits that are realized by the Company. Identifiable intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. Summary of Significant Accounting Policies (Continued)

Real Estate Owned and Other Repossessed Collateral

Assets in control of the Company or acquired through foreclosure or repossession are held for sale and are initially recorded at fair value less cost to sell at the date control is established, resulting in a new cost basis. The amount by which the recorded investment in the loan exceeds the fair value (net of estimated cost to sell) of the foreclosed asset is charged to the allowance for loan losses. Subsequent declines in the fair value of the foreclosed asset below the new cost basis are recorded through the use of a valuation allowance or through a direct write-off. Subsequent increases in the fair value may only be recorded to the extent of any previously recognized valuation allowance. Rental revenue received and gains and losses recognized on foreclosed assets is included in other noninterest income, whereas operating expenses and changes in the valuation allowance relating to foreclosed assets are included in other noninterest expense.

Impairment of Long-Lived Assets

The Company reviews long-lived assets, including premises and equipment, for impairment whenever events or changes in business circumstances indicate that the remaining useful life may warrant revision or that the carrying amount of the long-lived asset may not be fully recoverable. The Company performs undiscounted cash flow analyses to determine if impairment exists. If impairment is determined to exist, any related impairment loss is calculated based on fair value. Impairment losses on assets to be disposed of, if any, are based on the estimated proceeds to be received, less costs of disposal.

Bank Owned Life Insurance

Increases in the cash surrender value of life insurance policies, as well as death benefits received net of any cash surrender value, are recorded in other noninterest income, and are not subject to income taxes. The cash surrender value of the policies not previously endorsed to participants are recorded as assets of the Company. Any amounts owed to participants relating to these policies are recorded as liabilities of the Company. The Company reviews the financial strength of the insurance carriers prior to the purchase of life insurance policies and no less than annually thereafter.

Income Taxes

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. 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. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date. The Company's policy is to recognize interest and penalties assessed on uncertain tax positions in income tax expense.

Stock-Based Compensation

The Company's stock-based compensation plans provide for awards of stock options, restricted stock and other stock-based compensation to directors, officers and employees. The cost of employee services received in exchange for awards of equity instruments is based on the grant-date fair value of those awards. Compensation cost is recognized over the requisite service period as a component of compensation expense. For awards with graded-vesting, compensation cost is recognized on a

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. Summary of Significant Accounting Policies (Continued)

straight-line basis over the requisite service period for the entire award. The Company uses the Black-Scholes model to estimate the fair value of stock options, while the market price of the Company's common stock at the date of grant is used for restricted stock awards.

Discontinued Operations

During the first quarter of fiscal 2014, the Company ceased all investment brokerage operations. The results of such operations are classified as discontinued operations in the statements of income for each period presented. The Company has eliminated all intercompany transactions related to discontinued operations for each period presented.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available for sale, unrealized losses related to factors other than credit on debt securities, unrealized gains and losses on cash flow hedges and deferred gains on hedge accounting transactions.

Earnings Per Share

Basic earnings per share is calculated using the two-class method. The two-class method is an earnings allocation formula under which earnings per share is calculated from common stock and participating securities according to dividends declared and participation rights in undistributed earnings. Under this method, all earnings distributed and undistributed, are allocated to participating securities and common shares based on their respective rights to receive dividends. Unvested share-based payment awards that contain non-forfeitable rights to dividends are considered participating securities (i.e. unvested restricted stock), not subject to performance based measures. Basic earnings per share is calculated by dividing net income available to common shareholders by the weighted average number of common shares outstanding (inclusive of participating securities). Diluted earnings per share have been calculated in a manner similar to that of basic earnings per share except that the weighted average number of common shares outstanding is increased to include the number of additional common shares that would have been outstanding if all potentially dilutive common shares (such as those resulting from the exercise of stock options or the attainment of performance measures) were issued during the period, computed using the treasury stock method.

Derivatives

Derivative instruments are carried at fair value in the Company's financial statements. The accounting for changes in the fair value of a derivative instrument is determined by whether it has been designated and qualifies as part of a hedging relationship, and further, by the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, the Company designates the hedging instrument, based upon the exposure being hedged, as either a fair value hedge or a cash flow hedge. For derivative instruments that are designated and qualify as a cash flow hedge (i.e., hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income, net of related tax, and reclassified into earnings in the same period or periods during which the hedged transactions affect earnings. The remaining gain or loss on the derivative instrument in excess of the cumulative change in the present

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. Summary of Significant Accounting Policies (Continued)

value of future cash flows of the hedged item (i.e., the ineffective portion), if any, is recognized in current earnings during the period. For derivative instruments designated and qualifying as a fair value hedge (i.e., hedging the exposure to changes in the fair value of an asset or liability or an identified portion thereof that is attributable to the hedged risk), the gain or loss on the derivative instrument, as well as the offsetting gain or loss on the hedged item attributable to the hedged risk, are recognized in current earnings during the period of the change in fair values. At the inception of a hedge, the Company documents certain items, including but not limited to the following: the relationship between hedging instruments and hedged items, Company risk management objectives, hedging strategies, and the evaluation of hedge transaction effectiveness. Documentation includes linking all derivatives designated as fair value or cash flow hedges to specific assets and liabilities on the balance sheet or to specific forecasted transactions.

Hedge accounting is discontinued prospectively when (1) a derivative is no longer highly effective in offsetting changes in the fair value or cash flow of a hedged item, (2) a derivative expires or is sold, (3) a derivative is de-designated as a hedge, because it is unlikely that a forecasted transaction will occur, or (4) it is determined that designation of a derivative as a hedge is no longer appropriate. For derivative instruments not designated as hedging instruments, the gain or loss on the derivative is recognized in current earnings during the period of change.

Transfer of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets. There are no agreements to repurchase before their maturity.

The Company sells financial assets in the normal course of business, the majority of which are related to the SBA-guaranteed portion of loans, as well as residential mortgage loan sales through established programs, commercial loan sales through participation agreements, and other individual or portfolio loan and securities sales. In accordance with accounting guidance for asset transfers, the Company considers any ongoing involvement with transferred assets in determining whether the assets can be derecognized from the balance sheet. With the exception of servicing and certain performance-based guarantees, the Company's continuing involvement with financial assets sold is minimal and generally limited to market customary representation and warranty clauses.

When the Company sells financial assets, it may retain servicing rights and/or other interests in the financial assets. The gain or loss on sale depends on the previous carrying amount of the transferred financial assets and the consideration received and any liabilities incurred in exchange for the transferred assets. Upon transfer, any servicing assets and other interests held by the Company are carried at the lower of cost or fair value.

Segment Reporting

All of the Company's operations are considered by management to be aggregated in one reportable operating segment.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. Summary of Significant Accounting Policies (Continued)

Recent Accounting Pronouncements

In January 2014, the FASB issued ASU No. 2014-01, *Investments Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects* ("ASU 2014-01"). The amendments in ASU 2014-01 provide guidance on accounting for investments by a reporting entity in flow-through limited liability entities that manage or invest in affordable housing projects that qualify for the low-income housing tax credit. The amendments permit reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). The amendments are effective for fiscal years, and interim periods within those years, beginning after December 31, 2014 and should be applied retrospectively to all periods presented. Early adoption is permitted. The Company does not expect ASU 2014-01 to have material impact on the consolidated financial statements.

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-09*, Revenue from Contracts with Customers (Topic 606)* ("ASU 2014-09"). ASU 2014-09 implements a common revenue standard that clarifies the principles for recognizing revenue. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09 is effective January 1, 2017 and is not expected to have a significant impact on the Company's financial statements. Additionally, in August 2015 the FAB issued ASU 2015-14, which effectively deferred the adoption of ASU 2014-09 by one year, to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period.

In June 2014, the FASB issued ASU 2014-11, *Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures* ("ASU 2014-11"). ASU 2014-11 requires that repurchase-to-maturity transactions be accounted for as secured borrowings consistent with the accounting for other repurchase agreements. In addition, ASU 2014-11 requires separate accounting for repurchase financings, which entails the transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty. ASU 2014-11 requires entities to disclose certain information about transfers accounted for as sales in transactions that are economically similar to repurchase agreements. In addition, ASU 2014-11 requires disclosures related to collateral, remaining contractual tenor and of the potential risks associated with repurchase agreements, securities lending transactions and repurchase-to-maturity transactions. ASU 2014-11 became effective January 1, 2015 and did not have an impact on the Company's financial statements.

In August 2014, the FASB issued ASU 2014-14, *Receivables Troubled Debt Restructurings by Creditors (Subtopic 310-40): Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure ("*ASU 2014-14*")*. ASU 2014-14 affects creditors that hold government-guaranteed mortgage loans, including those guaranteed by the Federal Housing Administration (FHA) of the U.S.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. Summary of Significant Accounting Policies (Continued)

Department of Housing and Urban Development (HUD), and the U.S. Department of Veterans Affairs (VA). The update requires that, upon foreclosure, a guaranteed mortgage loan be derecognized and a separate other receivable be recognized when specific criteria are met. ASU 2014-14 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2014. The adoption of this guidance is not expected to have a significant impact on the Company's financial statements.

2. Securities Available-for-Sale

The following presents a summary of the amortized cost, gross unrealized holding gains and losses, and fair value of securities available for sale.

	June 30, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
U.S. Government agency securities	$ 48,191	$ 40	$ (1)	$ 48,230
Agency mortgage-backed securities	54,553	2	(877)	53,678
	$ 102,744	$ 42	$ (878)	$ 101,908

	June 30, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
U.S. Government agency securities	$ 48,415	$ 31	$ (28)	$ 48,418
Agency mortgage-backed securities	66,744	3	(1,284)	65,463
	$ 115,159	$ 34	$ (1,312)	$ 113,881

At June 30, 2015, the Company held no securities of any single issuer (excluding the U. S. Government and federal agencies) with a book value that exceeded 10 percent of stockholders' equity.

When securities are sold, the adjusted cost of the specific security sold is used to compute the gain or loss on sale. There were no securities sold during fiscal 2015 or fiscal 2014. At June 30, 2015, investment securities with a fair value of approximately $12.4 million were pledged as collateral to secure outstanding wholesale repurchase agreements and FHLB advances.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Securities Available-for-Sale (Continued)

The following summarizes the Company's gross unrealized losses and fair values aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position.

	June 30, 2015					
	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(Dollars in thousands)					
U.S. Government agency securities	$ 2,999	$ (1)	$	$	$ 2,999	$ (1)
Agency mortgage-backed securities	10,295	(106)	41,349	(771)	51,644	(877)
	$ 13,294	$ (107)	$ 41,349	$ (771)	$ 54,643	$ (878)

	June 30, 2014					
	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(Dollars in thousands)					
U.S. Government agency securities	$ 24,141	$ (28)	$	$	$ 24,141	$ (28)
Agency mortgage-backed securities			62,734	(1,284)	62,734	(1,284)
	$ 24,141	$ (28)	$ 62,734	$ (1,284)	$ 86,875	$ (1,312)

There were no other-than-temporary impairment losses on securities during the years ended June 30, 2015 and 2014.

At June 30, 2015, the Company had 16 securities in a continuous loss position for greater than twelve months. At June 30, 2015, all of the Company's available-for-sale securities were issued or guaranteed by either government agencies or government-sponsored enterprises. In management's estimation, the decline in fair value of the Company's available-for-sale securities at June 30, 2015 is attributable to changes in interest rates.

Management of the Company, in addition to considering current trends and economic conditions that may affect the quality of individual securities within the Company's investment portfolio, also considers the Company's ability and intent to hold such securities to maturity or recovery of cost. At June 30, 2015, it is more likely than not that the Company will not sell or be required to sell the investment securities before recovery of its amortized cost. As such, management does not believe any of the Company's available-for-sale securities are other-than-temporarily impaired at June 30, 2015.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Securities Available-for-Sale (Continued)

The amortized cost and fair values of available-for-sale debt securities by contractual maturity are shown below as of June 30, 2015. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
	(Dollars in thousands)	
Due within one year	$ 36,117	$ 36,142
Due after one year through five years	12,074	12,088
Due after five years through ten years	26,425	26,119
Due after ten years	28,128	27,559
	$ 102,744	$ 101,908

3. Loans, Allowance for Loan Losses and Credit Quality

The composition of the Company's loan portfolio is as follows on the dates indicated.

	June 30, 2015			June 30, 2014		
	Originated	Purchased	Total	Originated	Purchased	Total
	(Dollars in thousands)					
Residential real estate	$ 106,275	$ 2,068	$ 108,343	$ 116,972	$ 3,687	$ 120,659
Home equity	24,326		24,326	27,975		27,975
Commercial real estate	148,425	200,251	348,676	116,617	199,481	316,098
Commercial business	122,860	273	123,133	41,518	282	41,800
Consumer	7,659		7,659	9,884		9,884
Total loans	$ 409,545	$ 202,592	$ 612,137	$ 312,966	$ 203,450	$ 516,416

Included in the originated loan portfolio is $11.0 million of loans originated through SBA National, which includes $8.3 million of commercial real estate and $2.7 million of commercial business.

Loans pledged as collateral with the FHLB for outstanding borrowings and additional borrowing capacity totaled $131.3 million and $187.6 million at June 30, 2015 and 2014, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Loans, Allowance for Loan Losses and Credit Quality (Continued)

Past Due and Nonaccrual Loans

The following is a summary of past due and non-accrual loans.

	June 30, 2015							
	30 - 59 Days	60 - 89 Days	Past Due 90 Days or More-Still Accruing	Past Due 90 Days or More-Nonaccrual	Total Past Due	Total Current	Total Loans	Non-Accrual Loans
	(Dollars in thousands)							
Originated portfolio:								
Residential real estate	$ 239	$ 973	$	$ 1,393	$ 2,605	$ 103,670	$ 106,275	$ 3,021
Home equity	9			11	20	24,306	24,326	11
Commercial real estate	300			704	1,004	147,421	148,425	994
Commercial business				2	2	122,858	122,860	2
Consumer	105	29		56	190	7,469	7,659	190
Total originated portfolio	653	1,002		2,166	3,821	405,724	409,545	4,218
Purchased portfolio:								
Residential real estate						2,068	2,068	
Commercial business						273	273	
Commercial real estate	86	299		2,410	2,795	197,456	200,251	6,532
Total purchased portfolio	86	299		2,410	2,795	199,797	202,592	6,532
Total loans	$ 739	$ 1,301	$	$ 4,576	$ 6,616	$ 605,521	$ 612,137	$ 10,750

	June 30, 2014							
	30 - 59 Days	60 - 89 Days	Past Due 90 Days or More-Still Accruing	Past Due 90 Days or More-Nonaccrual	Total Past Due	Total Current	Total Loans	Non-Accrual Loans
	(Dollars in thousands)							
Originated portfolio:								
Residential real estate	$ 222	$ 728	$	$ 1,573	$ 2,523	$ 114,449	$ 116,972	$ 1,743

Home equity	109	7		120	236	27,739	27,975	160
Commercial real estate	126	136		629	891	115,726	116,617	1,162
Commercial business						41,518	41,518	5
Consumer	188	24		49	261	9,623	9,884	139
Total originated portfolio	645	895		2,371	3,911	309,055	312,966	3,209
Purchased portfolio:								
Residential real estate						3,687	3,687	
Commercial business						282	282	
Commercial real estate				1,995	1,995	197,486	199,481	4,116
Total purchased portfolio	$	$	$	$ 1,995	$ 1,995	$ 201,455	$ 203,450	$ 4,116
Total loans	$ 645	$ 895	$	$ 4,366	$ 5,906	$ 510,510	$ 516,416	$ 7,325

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Loans, Allowance for Loan Losses and Credit Quality (Continued)

Allowance for Loan Losses and Impaired Loans

Activity in the allowance for loan losses follows.

	Year ended June 30, 2015						
	Residential Real Estate	Commercial Real Estate	Commercial Business	Consumer	Purchased	Unallocated	Total
	(Dollars in thousands)						
Beginning balance	$ 580	$ 358	$ 48	$ 79	$ 268	$ 34	$ 1,367
Provision	344	335	38	(37)	15	22	717
Recoveries	24	1	34	21			80
Charge-offs	(207)		(3)	(28)			(238)
Ending balance	$ 741	$ 694	$ 117	$ 35	$ 283	$ 56	$ 1,926

	Year ended June 30, 2014						
	Residential Real Estate	Commercial Real Estate	Commercial Business	Consumer	Purchased	Unallocated	Total
	(Dollars in thousands)						
Beginning balance	$ 594	$ 173	$ 70	$ 189	$ 76	$ 41	$ 1,143
Provision	190	211	13	(66)	190	(7)	531
Recoveries	63		8	25	2		98
Charge-offs	(267)	(26)	(43)	(69)			(405)
Ending balance	$ 580	$ 358	$ 48	$ 79	$ 268	$ 34	$ 1,367

The following table sets forth information regarding the allowance for loan losses by portfolio segment and impairment methodology.

	June 30, 2015						
	Residential Real Estate	Commercial Real Estate	Commercial Business	Consumer	Purchased	Unallocated	Total
	(Dollars in thousands)						
Allowance for loan losses:							
Individually evaluated	$ 435	$ 21	$	$	$	$	$ 456
Collectively evaluated	306	673	117	35		56	1,187
ASC 310-30					283		283
Total	$ 741	$ 694	$ 117	$ 35	$ 283	$ 56	$ 1,926

Loans:							
Individually evaluated	$ 4,095	$ 2,381	$ 2	$ 253	$	$	$ 6,731
Collectively evaluated	126,506	146,044	122,858	7,406			402,814
ASC 310-30					202,592		202,592
Total	$ 130,601	$ 148,425	$ 122,860	$ 7,659	$ 202,592	$	$ 612,137

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Loans, Allowance for Loan Losses and Credit Quality (Continued)

	June 30, 2014						
	Residential Real Estate	Commercial Real Estate	Commercial Business	Consumer	Purchased	Unallocated	Total
	(Dollars in thousands)						
Allowance for loan losses:							
Individually evaluated	$ 190	$ 84	$	$ 6	$	$	$ 280
Collectively evaluated	390	274	48	73		34	820
ASC 310-30					268		267
Total	$ 580	$ 358	$ 48	$ 79	$ 268	$ 34	$ 1,367
Loans:							
Individually evaluated	$ 2,314	$ 2,549	$	$ 240	$	$	$ 5,103
Collectively evaluated	142,633	114,068	41,518	9,644			307,863
ASC 310-30					203,450		203,450
Total	$ 144,947	$ 116,617	$ 41,518	$ 9,884	$ 203,450	$	$ 516,416

Included in the loans collectively evaluated for the allowance for loan losses for the year ending June 30, 2015 are the SBA National and SBA community bank loans, which are assigned a loss rate on the unguaranteed portion of the loan. Included is an allowance of $282 thousand on a loan portfolio of $17.4 million, which includes the unguaranteed portion of the SBA National loans, as well as the SBA community bank loans.

The following table sets forth information regarding impaired loans. Loans accounted for under ASC 310-30 that have performed based on cash flow and accretable yield expectations determined at date of acquisition are not considered impaired assets and have been excluded from the tables below.

	At June 30, 2015			For the Year Ended June 30, 2015	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
	(Dollars in thousands)			(Dollars in thousands)	
Impaired loans without a valuation allowance:					
Originated:					
Residential real estate	$ 1,975	$ 2,076	$	$ 1,490	$ 92
Consumer	253	262		226	80
Commercial real estate	1,505	1,510		1,436	71
Commercial business	2	2		1	1
Purchased:					
Commercial real estate	7,673	9,606		5,265	249

Total	11,408	13,456		8,418	493
Impaired loans with a valuation allowance:					
Originated:					
Residential real estate	2,120	2,060	435	1,715	87
Consumer				20	17
Commercial real estate	876	870	21	1,029	59
Commercial business					
Purchased:					
Commercial real estate	1,208	1,644	260	1,549	41
Total	4,204	4,574	716	4,313	204
Total impaired loans	$ 15,612	$ 18,030	$ 716	$ 12,731	$ 697

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Loans, Allowance for Loan Losses and Credit Quality (Continued)

	At June 30, 2014			For the Year Ended June 30, 2014	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
	(Dollars in thousands)			(Dollars in thousands)	
Impaired loans without a valuation allowance:					
Originated:					
Residential real estate	$ 1,005	$ 1,081	$	$ 1,038	$ 41
Consumer	200	205		132	8
Commercial real estate	1,368	1,371		782	40
Commercial business				51	8
Purchased:					
Commercial real estate	2,857	4,148		2,639	89
Total	5,430	6,805		4,642	186
Impaired loans with a valuation allowance:					
Originated:					
Residential real estate	1,309	1,278	190	1,323	65
Consumer	40	47	6	75	5
Commercial real estate	1,181	1,187	84	1,131	78
Commercial business				30	1
Purchased:					
Commercial real estate	1,890	2,215	166	1,228	76
Total	4,420	4,727	446	3,787	225
Total impaired loans	$ 9,850	$ 11,532	$ 446	$ 8,429	$ 411

Credit Quality

The Company utilizes a ten-point internal loan rating system for commercial real estate, construction, commercial business, and certain residential loans as follows:

Loans rated 1-6: Loans in these categories are considered "pass" rated loans. Loans in categories 1-5 are considered to have low to average risk. Loans rated 6 are considered marginally acceptable business credits and have more than average risk.

Loans rated 7: Loans in this category are considered "special mention." These loans show signs of potential weakness and are being closely monitored by management.

Loans rated 8: Loans in this category are considered "substandard." Loans classified as substandard are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified have a well-defined weakness or weaknesses that jeopardize the orderly liquidation of the debt.

Loans rated 9: Loans in this category are considered "doubtful." Loans classified as doubtful have all the weaknesses inherent in one graded 8 with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Loans, Allowance for Loan Losses and Credit Quality (Continued)

Loans rated 10: Loans in this category are considered "loss" and of such little value that their continuance as loans is not warranted.

On an annual basis, or more often if needed, the Company formally reviews the ratings of all loans subject to risk ratings. Semi-annually, the Company engages an independent third-party to review a significant portion of loans within these segments. Management uses the results of these reviews as part of its annual review process. Risk ratings on purchased loans, with and without evidence of credit deterioration at acquisition, are determined relative to the Company's recorded investment in that loan, which may be significantly lower than the loan's unpaid principal balance.

The following tables present the Company's loans by risk rating.

	June 30, 2015				
	Originated Portfolio				
	Commercial Real Estate	Commercial Business	Residential(1)	Purchased Portfolio	Total
	(Dollars in thousands)				
Loans rated 1 - 6	$ 142,321	$ 122,829	$ 8,049	$ 190,193	$ 463,392
Loans rated 7	4,417	31	634	5,628	10,710
Loans rated 8	1,687		429	6,771	8,887
Loans rated 9			23		23
Loans rated 10					
	$ 148,425	$ 122,860	$ 9,135	$ 202,592	$ 483,012

	June 30, 2014				
	Originated Portfolio				
	Commercial Real Estate	Commercial Business	Residential(1)	Purchased Portfolio	Total
	(Dollars in thousands)				
Loans rated 1 - 6	$ 110,044	$ 41,271	$ 11,941	$ 189,986	$ 353,242
Loans rated 7	4,880	46	940	8,619	14,485
Loans rated 8	1,693	201	670	4,845	7,409
Loans rated 9					
Loans rated 10					
	$ 116,617	$ 41,518	$ 13,551	$ 203,450	$ 375,136

(1) Certain of the Company's loans made for commercial purposes, but secured by residential collateral, are rated under the Company's risk-rating system.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Loans, Allowance for Loan Losses and Credit Quality (Continued)

Troubled Debt Restructurings

The following table shows the Company's post-modification balance of TDRs by type of modification.

	Year Ended June 30,			
	2015		2014	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
	(Dollars in thousands)			
Extended maturity	7	$ 1,934	5	$ 2,082
Adjusted interest rate	9	430	2	118
Rate and maturity	6	211	6	306
Principal deferment	1	443	2	341
Court ordered concession	4	84	2	50
Other			2	171
	27	$ 3,102	19	$ 3,068

The following table shows loans modified in a TDR and the change in the recorded investment subsequent to the modifications.

	Year Ended June 30,					
	2015			2014		
	Number of Contracts	Recorded Investment Pre-Modification	Recorded Investment Post-Modification	Number of Contracts	Recorded Investment Pre-Modification	Recorded Investment Post-Modification
	(Dollars in thousands)					
Originated portfolio:						
Residential real estate	17	$ 1,223	$ 1,223	4	$ 164	$ 164
Home equity				2	22	22
Commercial real estate	1	200	200	5	691	691
Commercial business				1	18	18
Consumer	6	51	51	4	144	144
Total originated portfolio	24	1,474	1,474	16	1,039	1,039
Purchased portfolio:						
Commercial real estate	3	1,628	1,628	3	1,990	2,029
Total purchased portfolio	3	1,628	1,628	3	1,990	2,029
Total	27	$ 3,102	$ 3,102	19	$ 3,029	$ 3,068

As of June 30, 2015, there were no further commitments to lend associated with loans modified in a TDR.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Loans, Allowance for Loan Losses and Credit Quality (Continued)

The following table shows the loans that have been modified during the past twelve months which have subsequently defaulted during the periods indicated. The Company considers a loan to have defaulted when it reaches 90 days past due.

	Year Ended June 30,			
	2015		2014	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
	(Dollars in thousands)			
Residential	3	$ 100	3	$ 163
Consumer			1	10
	3	$ 100	4	$ 173

ASC 310-30 Loans

The following table presents a summary of loans accounted for under ASC 310-30 that were acquired by the Company during the year ended June 30, 2015.

	June 30, 2015	June 30, 2014
	(Dollars in thousands)	
Contractually required payments receivable	$ 128,452	$ 116,786
Nonaccretable difference	(2,042)	(1,564)
Cash flows expected to be collected	126,410	115,222
Accretable yield	(43,756)	(35,399)
Fair value of loans acquired	$ 82,654	$ 79,823

Certain of the loans accounted for under ASC 310-30 that were acquired by the Company are not accounted for using the income recognition model because the Company cannot reasonably estimate cash flows expected to be collected. The carrying amounts of such loans are as follows:

	June 30, 2015 (Dollars in thousands)
Loans acquired during the period	$ 357
Loans at end of period	6,127

For the year ended June 30, 2014, no loans acquired by the Company were not accounted for using the income recognition model.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Loans, Allowance for Loan Losses and Credit Quality (Continued)

The following table summarizes the activity in the accretable yield for loans accounted for under ASC 310-30.

	June 30, 2015	June 30, 2014
	(Dollars in thousands)	
Beginning balance	$ 109,040	$ 108,251
Acquisitions	43,756	35,399
Accretion	(16,886)	(15,433)
Reclassifications from nonaccretable difference, net	157	791
Disposals and other changes	(24,618)	(19,968)
End balance	$ 111,449	$ 109,040

The following table provides information related to the unpaid principal balance and carrying amounts of ASC 310-30 loans.

	June 30, 2015	June 30, 2014
	(Dollars in thousands)	
Unpaid principal balance	$ 235,716	$ 239,376
Carrying amount	199,113	201,171

4. Premises and Equipment

Premises and equipment consists of the following:

	June 30, 2015	June 30, 2014	Estimated Useful Life
	(Dollars in thousands)		(In years)
Land	$ 804	$ 940	n/a
Buildings	1,760	2,119	39
Assets recorded under capital lease	1,850	1,850	Term of lease
Leasehold and building improvements	3,051	2,330	5 - 39 (or term of lease, if shorter)
Furniture, fixtures and equipment	7,745	7,286	3 - 7
	15,210	14,525	
Less accumulated depreciation	6,957	5,390	
Net premises and equipment	$ 8,253	$ 9,135	

Depreciation and amortization of premises and equipment included in occupancy and equipment expense was $1.7 million for the year ended June 30, 2015 and $2.0 million for the year ended June 30, 2014.

5. Intangible Assets

At June 30, 2015 and 2014, intangible assets consisted of a core deposit intangible. The Company's core deposit intangible is being amortized on an accelerated basis over 9.5 years.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Intangible Assets (Continued)

The changes in the carrying amount of the core deposit intangible follow:

	June 30, 2015 (Dollars in thousands)
Balance, June 30, 2013	$ 3,544
Amortization	(746)
Balance, June 30, 2014	2,798
Amortization	(589)
Balance, June 30, 2015	$ 2,209

The components of core deposit intangible follow:

	June 30, 2015	June 30, 2014
	(Dollars in thousands)	
Core Deposit Intangible:		
Gross carrying amount	$ 6,348	$ 6,348
Accumulated amortization	(4,139)	(3,550)
	$ 2,209	$ 2,798

Estimated annual amortization expense associated with the core deposit intangible follows for the fiscal years ending June 30:

	June 30, 2015 (Dollars in thousands)
2016	$ 477
2017	432
2018	433
2019	433
2020	434
	$ 2,209

6. Transfers and Servicing of Financial Assets

The Company sells loans in the secondary market and retains the servicing responsibility for the sold loans. Consideration for the sale includes the cash received as well as the related servicing rights asset. The Company receives fees for the services provided. Mortgage loans sold in the year ended June 30, 2015 totaled $101.3 million, compared to $88.0 million in the year ended June 30, 2014. Mortgage serviced for others totaled $108.4 million and $82.0 million at June 30, 2015 and 2014, respectively. SBA loans sold during the year ended June 30, 2015 totaled $22.2 million, compared to $3.6 million in the year ended June 30, 2014. SBA serviced for others totaled $53.5 million and $37.8 million at

June 30, 2015 and 2014, respectively.

Mortgage loans and SBA loans serviced for others are accounted for as sales and therefore are not included in the accompanying consolidated balance sheets. The risks inherent in mortgage servicing

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Transfers and Servicing of Financial Assets (Continued)

assets and SBA servicing assets relate primarily to changes in prepayments that result from shifts in interest rates.

Contractually specified servicing fees were $471 thousand and $521 thousand for the year ended June 30, 2015 and 2014, respectively, and included as a component of loan related fees within non-interest income.

The significant assumptions used in the valuation for mortgage servicing rights as of June 30, 2015 included a weighted average discount rate of 7.5% and a weighted average prepayment speed assumption of 13.14%. For the SBA servicing rights, the significant assumptions used in the valuation included pre-payment speed assumptions ranging from 6.08% to 7.25%.

Mortgage servicing rights activity was as follows:

	June 30, 2015 (Dollars in thousands)
Balance, June 30, 2013	$ 68
Additions	
Disposals	
Amortization	(24)
Allowance Adjustment	20
Balance, June 30, 2014	64
Additions	
Disposals	
Amortization	(28)
Allowance Adjustment	1
Balance, June 30, 2015	$ 37

SBA servicing rights activity was as follows:

	June 30, 2015 (Dollars in thousands)
Balance, June 30, 2013	$ 116
Additions	138
Disposals	
Amortization	(18)
Allowance Adjustment	
Balance, June 30, 2014	236
Additions	940
Disposals	
Amortization	(80)
Allowance Adjustment	(19)
Balance, June 30, 2015	$ 1,077

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Deposits

The composition of deposits is as follows:

	June 30, 2015	June 30, 2014
	(Dollars in thousands)	
Demand	$ 60,383	$ 50,140
NOW	64,289	63,648
Money market	168,527	83,901
Regular savings	35,845	34,692
Time certificates of less than $100 thousand	82,973	90,644
Other time certificates	262,742	251,304
	$ 674.759	$ 574,329

The aggregate amount of time deposits in denominations of $250 thousand or more as of June 30, 2015 and 2014 was $569 thousand and $2.3 million, respectively.

At June 30, 2015 scheduled maturities of time certificates by fiscal year are as follows:

	June 30, 2015
	(Dollars in thousands)
2016	$ 149,656
2017	101,195
2018	51,976
2019	28,249
2020	14,306
Thereafter	333
	$ 345,715

8. Borrowings

Federal Home Loan Bank Advances

A summary of advances from the Federal Home Loan Bank of Boston as of June 30 follows:

Maturity By Fiscal Year	Unpaid Principal Balance 2015	Unpaid Principal Balance 2014	Carrying Amount(1) 2015	Carrying Amount(1) 2014	Weighted Average Interest Rate 2015	Weighted Average Interest Rate 2014
	(Dollars in thousands)					
2016	15,000		15,000		0.38%	
2017	10,000	10,000	10,123	10,210	2.84%	4.26%
2018	5,000	5,000	5,065	5,091	1.43%	4.29%
	$ 30,000	$ 15,000	$ 30,188	$ 15,301	2.34%	2.51%

(1) The difference between the carrying amount and the unpaid principal balance is the result of purchase accounting. The premium or discount is being amortized or accreted as interest expense over the instrument's contractual life.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. Borrowings (Continued)

At June 30, 2015, FHLB advances with unpaid principal of $10.0 million were subject to call provisions and may be called prior to the stated maturity.

Certain mortgage loans, free of liens, pledges and encumbrances and certain investment securities maintained at the FHLB not otherwise pledged have been pledged under a blanket agreement to secure these advances. The Company is required to own stock in the Federal Home Loan Bank of Boston in order to borrow from the FHLB.

As of June 30, 2015, the Company had approximately $45.7 million of additional capacity to borrow from the FHLB.

Wholesale Repurchase Agreements

A summary of wholesale repurchase agreements as of June 30 follows:

	Unpaid Principal Balance		Carrying Amount(1)		Weighted Average Interest Rate	
Maturity By Fiscal Year	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
	(Dollars in thousands)					
2016	10,000	10,000	10,037	10,199	4.44%	4.44%
	$ 10,000	$ 10,000	$ 10,037	$ 10,199	4.44%	4.44%

(1) The difference between the carrying amount and the unpaid principal balance is the result of purchase accounting. The premium or discount is being amortized or accreted as interest expense over the instrument's contractual life.

At June 30, 2015, $10.0 million of wholesale repurchase agreements maturing in fiscal 2016 are callable on a quarterly basis.

The Company is subject to margin calls on each transaction to maintain the necessary collateral in the form of cash or other mortgage-backed securities during the borrowing term.

Capital Lease Obligation

In fiscal 2006, the Company recognized a capital lease obligation for its Lewiston, Maine, headquarters. The present value of the lease payments over fifteen years exceeded 90% of the fair value of the property.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. Borrowings (Continued)

The outstanding capital lease obligations are as follows for years ending June 30, 2015:

	Capital Lease Obligation (Dollars in thousands)
2016	$ 303
2017	306
2018	306
2019	306
2020	306
2021 and thereafter	25
	1,552
Imputed interest	(184)
Capital lease obligation	$ 1,368

Short-Term Borrowings

Short-term borrowings are sweep accounts, which are a demand account product that moves balances in excess of an agreed upon target amount from a demand deposit account into an interest-bearing account overnight. The sweep account is collateralized with a letter of credit issued by the FHLBB. The weighted average interest rate on short-term borrowings was 1.91% and 1.35% at June 30, 2015 and 2014, respectively.

9. Junior Subordinated Debentures Issued to Affiliated Trusts

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

The following table summarizes the Junior Subordinated Debentures issued by the Company to each affiliated trust and the Private Trust Securities issued by each affiliated trust as of June 30, 2015. Amounts include the junior subordinated debentures acquired by the affiliated trusts from the Company with the capital contributed by the Company in exchange for the common securities of such trust, which were $93 thousand each for NBN Capital Trust II and III and $310 thousand for NBN Capital Trust IV. The trust preferred securities (the "Preferred Securities") were sold in two separate private placement offerings. The Company has the right to redeem the Junior Subordinated Debentures, in whole or in part, on or after March 30, 2009, for NBN Capital Trust II and III, and on

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. Junior Subordinated Debentures Issued to Affiliated Trusts (Continued)

or after February 23, 2010, for NBN Capital Trust IV, at the redemption price specified in the associated Indenture, plus accrued but unpaid interest to the redemption date.

	Maturity Date	Unpaid Principal Balance		Carrying Amount(1)	
		2015	2014	2015	2014
		(Dollars in thousands)			
NBN Capital Trust II	March 30, 2034	$ 3,093	$ 3,093	$ 1,835	$ 1,804
NBN Capital Trust III	March 30, 2034	3,093	3,093	1,835	1,804
NBN Capital Trust IV	February 23, 2035	10,310	10,310	4,956	4,832
		$ 16,496	$ 16,496	$ 8,626	$ 8,440

(1) The difference between the carrying amount and the unpaid principal balance is the result of purchase accounting. The premium or discount is being amortized or accreted as interest expense over the instrument's contractual life.

NBN Capital Trust II and III pay a variable rate based on three month LIBOR plus 2.80%, and NBN Capital Trust IV pays a variable rate based on three month LIBOR plus 1.89%. Accordingly, the Preferred Securities of the Private Trusts currently pay quarterly distributions at an annual rate of 3.26% for the stated liquidation amount of $1,000 per Preferred Security for NBN Capital Trust II and III and an annual rate of 2.36% for the stated liquidation amount of $1,000 per Preferred Security for NBN Capital Trust IV. The Company has fully and unconditionally guaranteed all of the obligations of each trust. The guaranty covers the quarterly distributions and payments on liquidation or redemption of the Private Trust Securities, but only to the extent of funds held by the trusts.

The Junior Subordinated Debentures each have variable rates indexed to three-month LIBOR. During the fiscal year ended June 30, 2010, the Company purchased two interest rate caps and an interest rate swap to hedge the interest rate risk on notional amounts of $6 million and $10 million, respectively, of the Company's Junior Subordinated Debentures. Each was a cash flow hedge to manage the risk to net interest income in a period of rising rates. During the fiscal year ended June 30, 2015, both the $6 million cap and the $10 million interest rate swap expired, and two interest rate caps in the amounts of $6 million and $10 million were purchased in October 2014 and March 2015, respectively.

The interest rate caps hedge the junior subordinated debt resulting from the issuance of trust preferred securities by our affiliates NBN Capital Trust II, NBN Capital Trust III and NBN Capital Trust IV. The notional amount of $6 million and $10 million for each interest rate cap represents the outstanding junior subordinated debt from each trust. The strike rate is 2.50%. The Company will recognize higher interest expense on the junior subordinated debt for the first 200 basis points increase in three-month LIBOR. Once the three-month LIBOR rate exceeds 2.50% on a quarterly reset date, there will be a payment by the counterparty to the Company at the following quarter end. The effective date of the purchased interest rate caps were October 2014 and March 2015, respectively, and mature five years after.

10. Capital and Regulatory Matters

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. Capital and Regulatory Matters (Continued)

direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Company's and the Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

The prompt corrective action regulations define specific capital categories based on an institution's capital ratios. The capital categories, in declining order, are "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" and "critically undercapitalized."

As of June 30, 2015 and 2014, the most recent notification from the Company's and the Bank's regulator categorized the Company and the Bank as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized," the Company and the Bank must maintain minimum Common equity tier 1 risk-based, total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table below. There are no conditions or events since that notification that management believes have changed the institution's regulatory designation as "well-capitalized" under the regulatory framework for prompt corrective action.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios as set forth in the table below. At June 30, 2015 and 2014, the Company's and the Bank's ratios exceeded the regulatory requirements. Management believes that the Company and the Bank met all capital adequacy requirements to which

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. Capital and Regulatory Matters (Continued)

they were subject as of June 30, 2015 and 2014. The Company's and the Bank's regulatory capital ratios are set forth below.

	Actual		Minimum Capital Requirements		Minimum To Be Well Capitalized Under Prompt Correction Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
June 30, 2015:						
Common equity tier 1 capital to risk weighted assets:						
Company	$ 120,461	19.72%	$ 27,489	≥4.5%	$ N/A	N/A
Bank	107,589	17.57%	27,556	≥4.5%	39,802	≥6.5%
Total capital to risk weighted assets:						
Company	122,424	20.04%	48,872	≥8.0%	N/A	N/A
Bank	111,340	18.18%	48,994	≥8.0%	61,243	≥10.0%
Tier 1 capital to risk weighted assets:						
Company	120,461	19.72%	24,434	≥4.0%	N/A	N/A
Bank	107,589	17.57%	24,494	≥4.0%	36,741	≥6.0%
Tier 1 capital to average assets:						
Company	120,461	14.42%	33,415	≥4.0%	N/A	N/A
Bank	107,589	12.87%	33,439	≥4.0%	41,798	≥5.0%
June 30, 2014:						
Total capital to risk weighted assets:						
Company	$ 120,818	23.69%	$ 40,808	≥8.0%	$ N/A	N/A
Bank	103,160	20.12%	41,027	≥8.0%	51,284	≥10.0%
Tier 1 capital to risk weighted assets:						
Company	119,421	23.41%	20,404	≥4.0%	N/A	N/A
Bank	99,256	19.35%	20,514	≥4.0%	30,771	≥6.0%
Tier 1 capital to average assets:						
Company	119,421	15.90%	30,049	≥4.0%	N/A	N/A
Bank	99,256	13.22%	30,028	≥4.0%	37,536	≥5.0%

The Bank may not declare or pay a cash dividend on, or repurchase, any of its capital stock from the Parent if the effect thereof would cause the capital of the Bank to be reduced below the capital requirements imposed by the regulatory authorities or if such amount exceeds the otherwise allowable amount under FRB rules.

In connection with the Merger, as part of the regulatory approval process, the Company and the Bank made certain commitments to the Federal Reserve, the most significant of which are (i) to maintain a Tier 1 leverage ratio of at least 10%, (ii) to maintain a total risk-based capital ratio of at least 15%, (iii) to limit purchased loans to 40% of total loans, (iv) to fund 100% of the Company's loans with core deposits (defined as non-maturity deposits and non-brokered insured time deposits), and (v) to hold non-owner occupied commercial real estate loans to within 300% of total risk-based capital. The Company and the Bank are currently in compliance with all commitments to the Federal Reserve.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. Earnings Per Common Share

EPS is computed by dividing net income allocated to common shareholders by the weighted average common shares outstanding. The following table shows the weighted average number of shares outstanding for the periods indicated. Shares issuable relative to stock options granted have been reflected as an increase in the shares outstanding used to calculate diluted EPS, after applying the treasury stock method. The number of shares outstanding for basic and diluted EPS is presented as follows:

	Year ended June 30,	
	2015	2014
	(Dollars in thousands, except share and per share data)	
Net income from continuing operations	$ 7,141	$ 2,692
Preferred stock dividends and accretion		
Net income from continuing operations available to common shareholders	$ 7,141	$ 2,692
Weighted average shares used in calculation of basic earnings per share	9,980,733	10,404,784
Incremental shares from assumed exercise of dilutive securities		
Weighted average shares used in calculation of diluted earnings per share	9,980,733	10,404,784
Earnings per common share:		
Income from continuing operations	$ 0.72	$ 0.26
Income from discontinued operations	0.00	0.00
Earnings per common share	$ 0.72	$ 0.26
Diluted earnings per common share:		
Income from continuing operations	$ 0.72	$ 0.26
Income from discontinued operations	0.00	0.00
Diluted earnings per common share	$ 0.72	$ 0.26

For the years ended June 30, 2015 and 2014, the following stock options and warrants were excluded from the calculation of diluted EPS due to the exercise price of these options exceeding the average market price of the Company's common stock for the period. These options, which were not dilutive at that date, may potentially dilute EPS in the future.

	Year ended June 30,	
	2015	2014
Stock options	1,059,721	1,149,131
Warrants		

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. Income Taxes

The current and deferred components of income tax expense from continuing operations follows:

	Year Ended June 30, 2015	Year Ended June 30, 2014
	(Dollars in thousands)	
Current provision		
Federal	$ 4,282	$ 3,518
State	898	733
Total current provision	5,180	4,251
Deferred benefit		
Federal	(901)	(2,482)
State	(284)	(190)
Total deferred benefit	(1,185)	(2,672)
Total tax provision	$ 3,995	$ 1,579

The reconciliation between the statutory federal income tax rate of 34% and the effective tax rate on income from continuing operations follows:

	Year Ended June 30, 2015	Year Ended June 30, 2014
	(Dollars in thousands)	
Expected income tax expense at federal tax rate	$ 3,786	$ 1,450
State tax, net of federal tax benefit	379	359
Non-taxable BOLI income	(150)	(153)
Low-income housing tax credit	(118)	(118)
Other	98	41
Total tax provision	$ 3,995	$ 1,579

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. Income Taxes (Continued)

The tax effect of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at June 30 follows:

	June 30,	
	2015	2014
	(Dollars in thousands)	
Deferred tax assets		
Allowance for loan losses	$ 722	$ 501
Loan basis differential	3,781	3,198
Time deposit basis differential	4	68
Derivative basis differential		30
Capital lease	521	585
Compensation and benefits	809	460
Stock-based compensation	1,167	897
Unrealized loss on derivatives	472	225
Unrealized loss on available for sale securities	318	434
Interest on nonperforming loans	289	312
Limited partnerships	124	100
Other	777	733
Gross deferred tax asset	8,984	7,543
Less: valuation allowance	49	
Total deferred tax assets	8,935	7,543
Deferred tax liabilities		
Intangible assets	842	1,050
Prepaid expenses	368	238
Premises and equipment	1,231	1,443
Borrowings basis differential	2,869	2,811
Other	424	113
Total deferred tax liability	5,734	5,655
Net deferred tax asset	$ 3,201	$ 1,888

The net deferred tax asset was included in other assets in the accompanying balance sheet as of June 30, 2015 and June 30, 2014.

In accordance with ASC 740, deferred tax assets are to be reduced by a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. The realization of the tax benefit depends upon the existence of sufficient taxable income within the carry-back and future periods.

The Company believes that it is more likely than not that the net deferred tax asset as of June 30, 2015, excluding the net deferred tax asset on capital losses, will be realized, based upon the ability to generate future taxable income as well as the availability of current and historical taxable income. The Company believes it is more likely than not that the net deferred tax asset related to capital losses will not be realized and has recorded a valuation allowance of $49 thousand at June 30, 2015, attributable to this net deferred tax asset.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. Income Taxes (Continued)

For federal tax purposes, the Company has a $2.0 million reserve for loan losses which remains subject to recapture. If any portion of the reserve is used for purposes other than to absorb the losses for which it was established, approximately 150% of the amount actually used (limited to the amount of the reserve) would be subject to taxation in the year in which used. As the Company intends to use the reserve only to absorb loan losses, no provision has been made for potential liability that would result if 100% of the reserve were recaptured.

From time to time, the Internal Revenue Service (the "IRS") and state tax authorities may review or challenge specific tax positions taken by the Company in its ordinary course of business. The Company accounts for uncertainties in income taxes by reserving for tax positions that may not be upheld under examination. Increases to the Company's unrealized tax positions occur as a result of accruing for the unrecognized tax benefit as well the accrual of interest and penalties related to prior year positions. Decreases in the Company's unrealized tax positions occur as a result of the statute of limitation lapsing on prior year positions or settlements relating to outstanding positions. The Company reserves for uncertain tax positions, as well as related interest and penalties, as a component of income tax expense therefore affecting the effective tax rate. The following is a reconciliation of the beginning and ending amounts of the Company's uncertain tax positions:

	Tax Position	Interest and Penalties	Total
	(Dollars in thousands)		
Balance, June 30, 2013	$	$	$
Reduction of tax positions for prior years			
Increase for prior year tax position	101	12	113
Increase for current year tax position			
Balance, June 30, 2014	$ 101	$ 12	$ 113
Reduction of tax positions for prior years			
Increase for prior year tax position	8	6	14
Increase for current year tax position			
Balance, June 30, 2015	$ 109	$ 18	$ 127

The Company is currently open to audit under the statute of limitations by the IRS and state taxing authorities for the fiscal 2012 tax return and forward.

13. Employee Benefit Plans

401(k) Plan

The Company offers a contributory 401(k) plan that is available to all full-time salaried and hourly-paid employees who have attained age 18, and completed 90 days of employment. Employees may contribute up to 100% of their base compensation, subject to IRS limitations. The Company will match 50% of each employee's contribution up to the first 6% contributed. For the years ended June 30, 2015 and 2014, the Company contributed $315 thousand and $341 thousand, respectively.

Deferred Compensation

The Company has individual deferred compensation agreements with five former senior officers. The Company recognized deferred compensation expense of $30 thousand and $80 thousand for the

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. Employee Benefit Plans (Continued)

years ended June 30, 2015 and 2014, respectively. At June 30, 2015 and 2014, the Company's deferred compensation liability was $512 thousand and $485 thousand, respectively.

14. Stock-Based Compensation

At the 2012 annual meeting of shareholders, the Company's shareholders approved the Northeast Bancorp Amended and Restated 2010 Stock Option and Incentive Plan (the "Restated Plan"). The Restated Plan amends and restates the Northeast Bancorp 2010 Option and Incentive Plan (the "2010 Plan"). The key material differences between the 2010 Plan and the Restated Plan are:

The maximum number of shares of common stock to be issued under the Restated Plan is increased by 600,000 shares, from 810,054 shares to 1,410,054 shares;

The method by which shares subject to previously granted awards are added back to the Restated Plan has been revised so that the only shares added back to the Restated Plan are those subject to awards that are forfeited, canceled or otherwise terminated. The following shares shall not be added back to the Restated Plan: (i) shares tendered or held back upon exercise of an option or settlement of an award to cover the exercise price or tax withholding, and (ii) shares subject to a stock appreciation right that are not issued in connection with the stock settlement of the stock appreciation right upon exercise thereof.

Minimum vesting periods are required for grants of restricted stock, restricted stock units and performance share awards; and

The term of the Restated Plan will now expire on November 28, 2022, while grants of incentive options under the Restated Plan may be made until September 21, 2022.

A summary of stock option activity for the year ended June 30, 2015 follows:

	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	1,143,195	$ 12.44
Granted	20,000	9.19
Exercised		
Forfeited	(103,474)	10.77
Outstanding at end of year	1,059,721	12.58
Exercisable	305,595	13.81

	Shares	Weighted Average Grant Date

		Fair Value
Exercisable, beginning of year	223,706	$ 3.74
Vested	95,570	3.15
Exercised		
Forfeited or expired	(13,681)	3.85
Exercisable, end of year	305,595	3.55

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. Stock-Based Compensation (Continued)

The fair values of options granted have been estimated on the date of grant using the Black-Scholes option-pricing model using the following weighted-average assumptions.

	Year Ended June 30,	
	2015	**2014**
Assumptions:		
Dividend yield	0.43%	3.85%
Expected life	7.0 years	7.0 years
Expected volatility	30.30%	30.38%
Risk-free interest rate	2.03%	2.14%
Weighted average fair value per option	$ 3.11	$ 1.95

The expected volatility is based on historical volatility. The risk-free interest rate is for periods within the expected life of the awards, and is based on the U.S. Treasury yield curve in effect at the time of the grant. The expected life is based on expected exercise experience.

During the year ended June 30, 2013, certain provisions of outstanding stock options with market-based conditions were modified. The options, consisting of 237,616 shares, were granted to three executives of the Company in December of 2010 and were to vest in three equal tranches upon the Company's common stock reaching applicable hurdle prices over specified time periods. The applicable hurdle price varies depending on the number of years that have elapsed since the date of grant. With respect to the first tranche, the applicable hurdle price was $27.86 for the period from December 29, 2010 through December 29, 2015; $31.34 for the period from December 29, 2015 through December 29, 2016; and $34.83 for the period from December 29, 2016 through December 29, 2017. With respect to the second tranche, the hurdle price was $31.34 for the period from December 29, 2010 through December 29, 2016; and $34.83 for the period from December 29, 2016 through December 29, 2017. With respect to the third tranche, the hurdle price was $34.83 for the period from December 29, 2010 through December 29, 2017.

The Company's Compensation Committee approved amending the hurdle prices as follows:

With respect to the first tranche, the applicable hurdle price is $16.43 for the period from December 29, 2010 through December 28, 2015; $18.58 for the period from December 29, 2015 through December 28, 2016; and $20.77 for the period from December 29, 2016 through December 28, 2017. With respect to the second tranche, the hurdle price is $18.58 for the period from December 29, 2010 through December 28, 2016; and $20.77 for the period from December 29, 2016 through December 28, 2017. With respect to the third tranche, the hurdle price is $20.77 for the period from December 29, 2010 through December 28, 2017.

Except as modified by this amendment, all other terms and conditions of each of the outstanding performance-based stock options, including the option exercise price of $13.93 per share, remain in full force and effect.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. Stock-Based Compensation (Continued)

The incremental expense resulting from the modification was calculated as the difference between the stock option's fair value immediately before and after the modification using the Hull-White option pricing model and the following weighted-average assumptions:

Assumptions:	
Dividend yield	3.72%
Expected life	7.8 years
Expected volatility	28.45% - 32.84%
Risk-free interest rate	0.07% - 1.54%
Incremental weighted average fair value per option	$0.52

The following table summarizes information about stock options outstanding at June 30, 2015.

Options Outstanding				Options Exercisable			
(Dollars in thousands, except per share data)							
Weighted Average Exercise Price	Number	Weighted Average Remaining Life	Aggregate Intrinsic Value	Weighted Average Exercise Price	Number	Weighted Average Remaining Life	Aggregate Intrinsic Value
9.30	20,000	8.64 years	13	9.30		8.64 years	
9.38	295,176	7.59	168	9.38	13,224	7.59	8
9.39	10,000	9.08	6	9.39		9.08	
12.63	32,500	6.58		12.63	10,833	6.58	
13.93	540,035	5.50		13.93	216,734	5.50	
14.52	162,010	5.50		14.52	64,804	5.50	
12.58	1,059,721	6.21	187	13.81	305,595	6.21	8

A summary of restricted stock activity for the year ended June 30, 2015 follows:

	Shares	Weighted Average Grant Date Fair Value
Unvested at beginning of period	55,814	$ 9.33
Granted	174,000	9.35
Vested	(1,055)	9.33
Forfeited	(16,749)	9.39
Unvested at end of period	212,010	9.34

At June 30, 2015 and 2014, the Company has accrued a liability of $48 thousand representing the maximum cash payment for performance-based stock appreciation rights ("SARs") granted in the fiscal year ended June 30, 2011. The SARs expire in December of 2020.

Stock-based compensation totaled $705 thousand for the year ended June 30, 2015 and $686 thousand for the year ended June 30, 2014. The tax benefit related to stock-based compensation expensed totaled $253 thousand for the year ended June 30, 2015 and $258 thousand for the year

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. Stock-Based Compensation (Continued)

ended June 30, 2014. The estimated amount and timing of future pre-tax stock-based compensation expense to be recognized are as follows.

	Year Ending June 30,					
	2016	2017	2018	2019	2020	Total
	(Dollars in thousands)					
Stock options	$ 331	$ 185	$ 76	$ 12	$ 1	$ 605
Restricted stock	400	400	363	312	84	1,559
	$ 731	$ 585	$ 439	$ 324	$ 85	$ 2,164

15. Commitments, Contingent Liabilities and Other Off-Balance Sheet Risks

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. The contract amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

Financial instruments with contract amounts which represent credit risk are as follows:

	June 30,	
	2015	2014
	(Dollars in thousands)	
Commitments to grant loans	$ 24,966	$ 14,282
Unfunded commitments under lines of credit	39,414	34,657
Standby letters of credit	60	166

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the counter aparty. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, and income-producing commercial properties. The Company has recorded an allowance for possible losses on commitments and unfunded loans totaling $37 thousand and $30 thousand recorded in other liabilities at June 30, 2015 and 2014, respectively.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are issued to support private borrowing

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. Commitments, Contingent Liabilities and Other Off-Balance Sheet Risks (Continued)

arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. As of June 30, 2015 and 2014, the maximum potential amount of the Company's obligation was $60 thousand and $166 thousand, respectively, for financial and standby letters of credit. The Company's outstanding letters of credit generally have a term of less than one year. If a letter of credit is drawn upon, the Company may seek recourse through the customer's underlying line of credit. If the customer's line of credit is also in default, the Company may take possession of the collateral, if any, securing the line of credit.

Lease Obligations

The Company leases certain properties used in operations under terms of operating leases that include renewal options. The leases contain renewal options and escalation clauses which provide for increased rental expense as these leases expire. Rental expense under leases totaled $1.2 million for the year ended June 30, 2015 and $1.3 million for the year ended June 30, 2014.

Approximate future minimum lease payments over the remaining terms of the Company's leases at June 30, 2015 are as follows:

	Minimum lease payments (Dollars in thousands)
2016	$ 1,303
2017	1,094
2018	1,081
2019	1,095
2020	1,113
Thereafter	3,651
Total	$ 9,337

Legal Proceedings

The Company and its subsidiary are parties to litigation and claims arising in the normal course of business. Management believes that the liabilities, if any, arising from such litigation and claims will not be material to the Company's consolidated financial position or results of operations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. Other Comprehensive Income

The components of other comprehensive income follow:

	Year Ended June 30,					
	2015			2014		
	Pre-tax Amount	Tax Expense (Benefit)	After-tax Amount	Pre-tax Amount	Tax Expense (Benefit)	After-tax Amount
	(Dollars in thousands)					
Change in net unrealized gain or loss on available-for-sale securities	$ 442	$ 116	$ 326	$ 1,358	$ 462	$ 896
Reclassification adjustment for net gains included in net income						
Total available-for-sale securities	442	116	326	1,358	462	896
Change in accumulated loss on effective cash flow hedges	(529)	(228)	(301)	(325)	(110)	(215)
Reclassification adjustment for net gains included in net income	(49)	(19)	(30)	(76)	(26)	(50)
Total derivatives and hedging activities	(578)	(247)	(331)	(401)	(136)	(265)
Total other comprehensive income (loss)	$ (136)	$ (131)	$ (5)	$ 957	$ 326	$ 631

Accumulated other comprehensive loss is comprised of the following components:

	June 30, 2015	June 30, 2014
	(Dollars in thousands)	
Unrealized loss on available-for-sale securities	$ (836)	$ (1,278)
Tax effect	318	434
Net-of-tax amount	(518)	(844)
Unrealized loss on cash flow hedges	(1,242)	(664)
Tax effect	472	225
Net-of-tax amount	(770)	(439)
Accumulated other comprehensive loss	$ (1,288)	$ (1,283)

17. Derivatives

The Company has stand-alone derivative financial instruments in the form of interest rate caps that derive their value from a fee paid and are adjusted to fair value based on index and strike rate, and swap agreements that derive their value from the underlying interest rate. These transactions involve both credit and market risk. The notional amounts are amounts on which calculations, payments and the value of the derivative are based. Notional amounts do not represent direct credit exposures. Direct credit exposure arises in the event of nonperformance by the counterparties to these agreements, and is limited to the net difference between the calculated amounts to be received and paid, if any. Such differences, which represent the fair value of the derivative instruments, are reflected on the Company's balance sheet as derivative assets and derivative liabilities. The Company controls the credit risk of its financial contracts through credit approvals, limits and monitoring procedures, and does not expect any counterparties to fail to meet their obligations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. Derivatives (Continued)

The Company currently holds derivative instruments that contain credit-risk related features that are in a net liability position, which may require that collateral be assigned to dealer banks. At June 30, 2015, the Company had posted cash collateral totaling $1.6 million with dealer banks related to derivative instruments in a net liability position.

The Company does not offset fair value amounts recognized for derivative instruments. The Company does not net the amount recognized for the right to reclaim cash collateral against the obligation to return cash collateral arising from derivative instruments executed with the same counterparty under a master netting arrangement.

Risk Management Policies Derivative Instruments

The Company evaluates the effectiveness of entering into any derivative instrument agreement by measuring the cost of such an agreement in relation to the reduction in net income volatility within an assumed range of interest rates.

Interest Rate Risk Management Cash Flow Hedging Instruments

The Company uses variable rate debt as a source of funds for use in the Company's lending and investment activities and other general business purposes. These debt obligations expose the Company to variability in interest payments due to changes in interest rates. If interest rates increase, interest expense increases. Conversely, if interest rates decrease, interest expense decreases. Management believes it is prudent to limit the variability of a portion of its interest payments and, therefore, generally hedges a portion of its variable-rate interest payments.

Information pertaining to outstanding interest rate caps and swap agreements used to hedge junior subordinated debt and FHLB advances is as follows.

June 30, 2015

Notional Amount	Inception Date	Termination Date	Index	Receive Rate	Pay Rate	Strike Rate	Unrealized Loss	Fair Value	Balance Sheet Location
			(Dollars in thousands)						
Interest rate swaps:									
$ 5,000	July 2013	July 2033	3 Mo. LIBOR	0.28%	3.38%	n/a	(472)	(472)	Other Liabilities
5,000	July 2013	July 2028	3 Mo. LIBOR	0.28%	3.23%	n/a	(368)	(368)	Other Liabilities
5,000	July 2013	July 2023	3 Mo. LIBOR	0.28%	2.77%	n/a	(208)	(208)	Other Liabilities
Interest rate caps:									
6,000	October 2014	September 2019	3 Mo. LIBOR	n/a	n/a	2.50%	(114)	63	Other Assets
10,000	March 2015	February 2020	3 Mo. LIBOR	n/a	n/a	2.50%	(80)	136	Other Assets
$ 31,000							$ (1,242)	$ (849)	

June 30, 2014

Notional Amount	Inception Date	Termination Date	Index	Receive Rate	Pay Rate	Strike Rate	Unrealized Loss	Fair Value	Balance Sheet Location
			(Dollars in thousands)						
Interest rate swaps:									

$ 10,000	February 2010	February 2015	3 Mo. LIBOR	2.12%	4.69%	n/a	$ (99)	$ (165)	Other Liabilities
5,000	July 2013	July 2033	3 Mo. LIBOR	0.23%	3.38%	n/a	(216)	(216)	Other Liabilities
5,000	July 2013	July 2028	3 Mo. LIBOR	0.23%	3.23%	n/a	(200)	(200)	Other Liabilities
5,000	July 2013	July 2023	3 Mo. LIBOR	0.23%	2.77%	n/a	(133)	(133)	Other Liabilities
Interest rate caps:									
6,000	September 2009	September 2014	3 Mo. LIBOR	n/a	n/a	2.51%	(16)		Other Assets
$ 31,000							$ (664)	$ (714)	

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. Derivatives (Continued)

During the years ended June 30, 2015 and 2014, no interest rate cap or swap agreements were terminated prior to maturity. Changes in the fair value of interest rate caps and swaps designated as hedging instruments of the variability of cash flows associated with variable rate debt are reported in other comprehensive income. These amounts subsequently are reclassified into interest expense as a yield adjustment in the same period in which the related interest on the debt affects earnings. Risk management results for the years ended June 30, 2105 and 2014 related to the balance sheet hedging of variable rate debt indicates that the hedges were effective.

During the periods presented, amounts recognized in income related to hedge ineffectiveness resulted from amortization of the non-zero fair value associated with the Company's single interest rate swap held at the time of the merger with FHB Formation LLC in December 2010. During the periods presented, amounts recognized in income related to amounts excluded from effectiveness testing resulted from amortization of the acquisition price of interest rate caps. The table below presents amounts recognized in income related to both hedge ineffectiveness and amounts excluded from effectiveness testing.

	Year Ended June 30,	
	2015	2014
	(Dollars in thousands)	
Interest income (expense):		
Interest rate caps	$ (15)	$ (24)
Interest rate swap	64	100
Total	$ 49	$ 76

The Company does not expect to record interest income or interest expense related to interest rate swap or interest rate cap ineffectiveness in the next twelve months.

18. Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a 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. The Company uses prices and inputs that are current as of the measurement date, including during periods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be reduced for many instruments. This condition could cause an instrument to be reclassified from one level to another. When market assumptions are not readily available, the Company's own assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date. If there has been a significant decrease in the volume and level of activity for the asset or liability, regardless of the valuation technique(s) used, the objective of a fair value measurement remains the same.

ASC 820 defines fair value and establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18. Fair Value Measurements (Continued)

priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are described below:

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

Level 2 Valuations based on significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Company in determining fair value is greatest for instruments categorized in Level 3. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

*Valuation technique*s There have been no changes in the valuation techniques used during the current period.

Transfers There were no transfers of assets and liabilities measured at fair value on a recurring or nonrecurring basis during the current period.

Assets and Liabilities Measured at Fair Value on a Recurring Basis:

Available-for-sale securities Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Examples of such instruments include publicly-traded common and preferred stocks. If quoted prices are not available, then fair values are estimated by using pricing models (*i.e.*, matrix pricing) and market interest rates and credit assumptions or quoted prices of securities with similar characteristics and are classified within Level 2 of the valuation hierarchy. Examples of such instruments include government agency and government sponsored agency mortgage-backed securities, as well as certain preferred and trust preferred stocks. Level 3 securities are securities for which significant unobservable inputs are utilized.

Derivative financial instruments The valuation of the Company's interest rate swaps and caps are determined using widely accepted valuation techniques including discounted cash flow analyses on the expected cash flows of derivatives. These analyses reflect the contractual terms of the derivatives, including the period to maturity, and use observable market-based inputs, including interest rate curves and implied volatilities. Unobservable inputs, such as credit valuation adjustments are insignificant to the overall valuation of the Company's derivative financial instruments. Accordingly, the Company has determined that its interest rate derivatives fall within Level 2 of the fair value hierarchy.

The fair value of derivative loan commitments and forward loan sale agreements are estimated using the anticipated market price based on pricing indications provided from syndicate banks. These commitments and agreements are categorized as Level 2. The fair value of such instruments was nominal at each date presented.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18. Fair Value Measurements (Continued)

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis:

Collaterally dependent impaired loans Valuations of impaired loans measured at fair value are determined by a review of collateral values. Certain inputs used in appraisals are not always observable, and therefore impaired loans are generally categorized as Level 3 within the fair value hierarchy.

Real estate owned and other repossessed collateral The fair values of real estate owned and other repossessed collateral are estimated based upon appraised values less estimated costs to sell. Certain inputs used in appraisals are not always observable, and therefore may be categorized as Level 3 within the fair value hierarchy. Although some assumptions in determining fair value are based on standards used by market participants, some are based on unobservable inputs and therefore are classified as Level 3 within the fair value hierarchy.

Loan servicing rights The fair value of the SBA and mortgage servicing rights is based on a valuation model that calculates the present value of estimated future net servicing income. Adjustments are only recorded when the discounted cash flows derived from the valuation model are less than the carrying value of the asset. Certain inputs are not observable, and therefore loan servicing rights are generally categorized as Level 3 within the fair value hierarchy.

Fair Value of other Financial Instruments:

Cash and cash equivalents The fair value of cash, due from banks, interest bearing deposits and FHLB overnight deposits approximates their relative book values, as these financial instruments have short maturities.

FHLB stock The carrying value of FHLB stock approximates fair value based on redemption provisions of the FHLB.

Loans Fair values are estimated for portfolios of loans with similar financial characteristics. The fair value of performing loans is calculated by discounting scheduled cash flows through the estimated maturity using estimated market discount rates that reflect the credit and interest rate risk inherent in the loan. The estimates of maturity are based on the Company's historical experience with repayments for each loan classification, modified, as required, by an estimate of the effect of current economic conditions, lending conditions and the effects of estimated prepayments.

Loans held for sale The fair value of loans held-for-sale is estimated based on bid quotations received from loan dealers.

Accrued Interest receivable The fair value of this financial instrument approximates the book value as this financial instrument has a short maturity. It is the Company's policy to stop accruing interest on loans past due by more than 90 days. Therefore, this financial instrument has been adjusted for estimated credit loss.

Deposits The fair value of deposits with no stated maturity, such as noninterest-bearing demand deposits, savings, NOW accounts and money market accounts, is equal to the amount payable on demand. The fair values of time deposits are based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar remaining maturities. The fair value estimates do not include the benefit that results

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18. Fair Value Measurements (Continued)

from the low-cost funding provided by the deposit liabilities compared to the cost of borrowing funds in the market. If that value were considered, the fair value of the Company's net assets could increase.

Borrowings The fair value of the Company's borrowings with the FHLB is estimated by discounting the cash flows through maturity or the next re-pricing date based on current rates available to the Company for borrowings with similar maturities. The fair value of the Company's short-term borrowings, capital lease obligations, wholesale repurchase agreements and other borrowings is estimated by discounting the cash flows through maturity based on current rates available to the Company for borrowings with similar maturities.

Off-Balance Sheet Credit-Related Instruments Fair values for off-balance-sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. The fair value of such instruments was nominal at each date presented.

Assets and liabilities measured at fair value on a recurring basis are summarized below.

	June 30, 2015			
	Total	Level 1	Level 2	Level 3
	(Dollars in thousands)			
Assets				
Securities available-for-sale:				
U.S. Government agency securities	$ 48,230	$	$ 48,230	$
Agency mortgage-backed securities	53,678		53,678	
Other assets interest rate caps	199		199	
Liabilities				
Other liabilities interest rate swaps	$ 1,048	$	$ 1,048	$

	June 30, 2014			
	Total	Level 1	Level 2	Level 3
	(Dollars in thousands)			
Assets				
Securities available-for-sale:				
U.S. Government agency securities	$ 48,418	$	$ 48,418	$
Agency mortgage-backed securities	65,463		65,463	
Other assets interest rate caps				
Liabilities				
Other liabilities interest rate swaps	$ 714	$	$ 714	$

Assets measured at fair value on a nonrecurring basis are summarized below.

	June 30, 2015			
	Total	Level 1	Level 2	Level 3
	(Dollars in thousands)			
Collateral dependent impaired loans	$ 932	$	$	$ 932
Real estate owned and other repossessed collateral	1,651			1,651
Loan servicing rights	1,123			1,123

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18. Fair Value Measurements (Continued)

	June 30, 2014			
	Total	Level 1	Level 2	Level 3
	(Dollars in thousands)			
Collateral dependent impaired loans	$ 1,467	$	$	$ 1,467
Real estate owned and other repossessed collateral	1,991			1,991
Loan servicing rights	300			300

The table below presents quantitative information about significant unobservable inputs (Level 3) for assets measured at fair value on a nonrecurring basis at the dates indicated.

	Fair Value		
	June 30, 2015	June 30, 2014	Valuation Technique
	(Dollars in thousands)		
Collateral dependent impaired loans	$ 932	$ 1,467	Appraisal of collateral(1)
Real estate owned and other repossessed collateral	1,651	1,991	Appraisal of collateral(1)
Loan servicing rights	1,123	300	Discounted cash flow(2)

(1) Fair value is generally determined through independent appraisals of the underlying collateral. The Company may also use another available source of collateral assessment to determine a reasonable estimate of the fair value of the collateral. Appraisals may be adjusted by management for qualitative factors such as economic factors and estimated liquidation expenses. The range of these possible adjustments may vary.

(2) Fair value is determined using a discounted cash flow model. The unobservable inputs include anticipated rate of loan prepayments and discount rates. The range of prepayment assumptions used was 6.08% to 13.14%. For discount rates, the range was 7.25% to 7.50%.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18. Fair Value Measurements (Continued)

The following table presents the estimated fair value of the Company's financial instruments.

	Carrying Amount	Fair Value Measurements at June 30, 2015			
		Total	Level 1	Level 2	Level 3
		(Dollars in thousands)			
Financial assets:					
Cash and cash equivalents	$ 89,850	$ 89,850	$ 89,850	$	$
Available-for-sale securities	101,908	101,908		101,908	
Federal Home Loan Bank stock	4,102	4,102		4,102	
Loans held for sale	9,035	9,035		9,035	
Loans, net	610,211	613,896			613,896
Accrued interest receivable	1,335	1,335		1,335	
Interest rate caps	199	199		199	
Financial liabilities:					
Deposits	674,759	675,285		675,285	
FHLB advances	30,188	30,867		30,867	
Wholesale repurchase agreements	10,037	10,098		10,098	
Short-term borrowings	2,349	2,349		2,349	
Capital lease obligation	1,368	1,448		1,448	
Subordinated debentures	8,626	8,471			8,471
Interest rate swaps	1,048	1,048		1,048	

	Carrying Amount	Fair Value Measurements at June 30, 2014			
		Total	Level 1	Level 2	Level 3
		(Dollars in thousands)			
Financial assets:					
Cash and cash equivalents	$ 82,259	$ 82,259	$ 82,259	$	$
Available-for-sale securities	113,881	113,881		113,881	
Federal Home Loan Bank stock	4,102	4,102		4,102	
Loans held for sale	11,945	11,945		11,945	
Loans, net	515,049	522,154			522,154
Accrued interest receivable	1,216	1,216		1,216	
Interest rate caps					
Financial liabilities:					
Deposits	574,329	574,868		574,868	
FHLB advances	42,824	43,843		43,843	
Wholesale repurchase agreements	10,199	10,484		10,484	
Short-term borrowings	2,984	2,984		2,984	
Capital lease obligation	1,558	1,701		1,701	
Subordinated debentures	8,440	7,858			7,858
Interest rate swaps	714	714		714	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19. Condensed Financial Statements of Parent Company

Condensed financial statements pertaining to Northeast Bancorp are as follows:

	June 30, 2015	June 30, 2014
	(Dollars in thousands)	
Balance Sheets		
Assets:		
Cash	$ 13,251	$ 19,547
Investment in subsidiary	109,275	100,949
Investment in common securities of affiliated trusts	496	496
Other assets	434	1,843
Total assets	$ 123,456	$ 122,835
Liabilities and Stockholders' Equity:		
Junior subordinated debentures issued to affiliated trusts	$ 8,626	$ 8,440
Other liabilities	1,991	2,329
Total liabilities	10,617	10,769
Stockholders' equity	112,839	112,066
Total liabilities and stockholders' equity	$ 123,456	$ 122,835

	Year Ended June 30,	
	2015	2014
	(Dollars in thousands)	
Statements of Income		
Income:		
Dividends from banking subsidiary	$	$
Other income	14	13
Total income	14	13
Expenses:		
Interest expense	718	764
General and administrative expenses	1,128	1,068
Total expenses	1,846	1,832
Loss before income taxes and equity in undistributed earnings of subsidiary	(1,832)	(1,819)
Income tax benefit	(684)	(390)
(Loss) income before equity in undistributed earnings of subsidiary	(1,148)	(1,429)
Equity in undistributed earnings of subsidiary	8,289	4,121

Net income	$ 7,141	$ 2,692

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19. Condensed Financial Statements of Parent Company (Continued)

	Year Ended June 30,	
	2015	2014
	(Dollars in thousands)	
Statements of Cash Flows		
Operating activities:		
Net income	$ 7,141	$ 2,692
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Amortization of fair value adjustment for borrowings	186	172
Stock-based compensation	705	686
Equity in undistributed earnings of subsidiary	(8,289)	(4,121)
Increase in other assets and liabilities	1,029	(503)
Net cash provided by (used in) operating activities	772	(1,074)
Investing activities:		
Increase in investment of bank subsidiary		
Net cash used in investing activities		
Financing activities:		
Repurchase of common stock	(6,666)	(2,823)
Dividends paid to stockholders	(402)	(2,922)
Net cash used in financing activities	(7,068)	(5,745)
Net decrease in cash	(6,296)	(6,819)
Cash, beginning of year	19,547	26,366
Cash, end of year	$ 13,251	$ 19,547

20. Discontinued Operations

The Company concluded all investment brokerage activities in the second quarter of fiscal 2014. Accordingly, operations associated with these activities have been classified as discontinued operations

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20. Discontinued Operations (Continued)

in the accompanying consolidated statements of income. The following summarizes the operations of the Company's investment brokerage division.

	Year Ended June 30, 2015	Year Ended June 30, 2014
	(Dollars in thousands)	
Noninterest income:		
Investment commissions	$	$ 971
Other noninterest income		
Total noninterest income		971
Noninterest expense:		
Salaries and employee benefits		793
Occupancy and equipment expense		60
Data processing fees		82
Marketing expense		8
Other noninterest expense		40
Total noninterest expense		983
(Loss) income before tax		(12)
Income tax (benefit) expense		(4)
Net (loss) income	$	$ (8)

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Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None

Item 9A. Controls and Procedures

The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of its disclosure controls and procedures, as defined in Exchange Act Rules 13a-15(e) and 15d-15(e). Based upon the evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that as of June 30, 2015, the Company's disclosure controls and procedures are effective. Disclosure controls and procedures are controls and procedures that are designed to ensure that information required to be disclosed in the Company's reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. In addition, no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) occurred during the fourth quarter of our fiscal year ended June 30, 2015 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

An evaluation was performed under the supervision and with the participation of the Company's management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our internal controls and procedures over financial reporting (as defined in Rule 13a-15(e) of the Exchange Act) as of the end of the period covered by this annual report.

Management is responsible for establishing and maintaining adequate internal controls over financial reporting. The standard measures adopted by management in making its evaluation are the measures in *Interest Control Integrated Framework (1992)* published by the Committee of Sponsoring Organizations of the Treadway Commission. We do not expect that our disclosure controls and procedures will prevent all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objective will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, errors, and instances of fraud, if any, within the Company have been or will be detected. The inherent limitations include, among other things, the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Controls and procedures also can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management or employee override of the controls and procedures. The design of any system of controls and procedures is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls and procedures may become inadequate because of changes in conditions or deterioration in the degree of compliance with its policies or procedures. Because of the inherent limitation in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Based on their evaluation of disclosure controls and procedures, our Chief Executive Officer and Chief Financial Officer concluded, subject to the limitations described above, that our internal controls and procedures over financial reporting as of the end of the period covered by this report were effective and that there were no material weaknesses.

There have been no significant changes in our internal controls, or in other factors that could significantly affect our internal controls, subsequent to the date the Chief Executive Officer and Chief

Financial Officer completed their evaluation, including any corrective actions with regard to significant deficiencies or material weaknesses.

This annual report does not include an attestation report of the Company's independent registered public accounting firm regarding internal controls over financial reporting. Management's report was not subject to attestation by the Company's independent registered public accounting firm pursuant to rules of the Securities Exchange Commission that permit the Company to provide only management's report in this annual report.

Item 9B. Other Information.

On September 25, 2015, Adam J. Shapiro informed the Board of his resignation from the Board effective September 25, 2015. The decision by Mr. Shapiro to resign from the Board is not as a result of any disagreement with the Company or the Board.

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PART III

Item 10. Directors, Executive Officers, and Corporate Governance.

The information required by Item 10 will be included in the Proxy Statement relating to our 2015 Annual Meeting of Shareholders and is incorporated herein by reference.

Item 11. Executive Compensation

The information required by Item 11 will be included in the Proxy Statement relating to our 2015 Annual Meeting of Shareholders and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholders

The information required by Item 12 is included in the Proxy Statement relating to our 2015 Annual Meeting of Shareholders and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by Item 13 will be included in the Proxy Statement relating to our 2015 Annual Meeting of Shareholders and is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

The information required by Item 14 will be included in the Proxy Statement relating to our 2015 Annual Meeting of Shareholders and is incorporated herein by reference.

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PART IV

Item 15. Exhibits, Financial Statement Schedules

(a)

Financial Statements and Financial Statement Schedules

(b)

Exhibits

2.1 Agreement and Plan of Merger, dated as of March 30, 2010, by and between Northeast Bancorp and FHB Formation LLC (incorporated by reference to Exhibit 2.1 of Northeast Bancorp's Form 8-K filed with Securities and Exchange Commission on March 31, 2010).

3.1 Amended and Restated Articles of Incorporation of Northeast Bancorp (incorporated by reference to Exhibit 3.1 of Northeast Bancorp's Current Report on Form 8-K filed on January 5, 2011).

3.2 Articles of Amendment to the Amended and Restated Articles of Incorporation of Northeast Bancorp (incorporated by reference to Exhibit 3.1 of Northeast Bancorp's Current Report on Form 8-K filed on March 22, 2011).

3.3 Articles of Amendment to the Amended and Restated Articles of Incorporation of Northeast Bancorp (incorporated by reference to Exhibit 3.1 of Northeast Bancorp's Current Report on Form 8-K filed on November 29, 2012).

3.4 Amended and Restated Bylaws of Northeast Bancorp (incorporated by reference to Exhibit 3.2 of Northeast Bancorp's Current Report on Form 8-K filed on January 5, 2011).

4.1 Registration Rights Schedule to the Agreement and Plan of Merger, dated as of March 30, 2010, by and between Northeast Bancorp and FHB Formation LLC (incorporated by reference to Amendment No. 1 on Form 10-K/A of Northeast Bancorp filed on March 19, 2012).

10.1+ Form of Indemnification Agreement, dated as of December 29, 2010, by and between Northeast Bancorp and each of the members of the Board (incorporated by reference to Exhibit 10.1 of Northeast Bancorp's Current Report on Form 8-K filed on January 5, 2011).

10.2+ Employment Agreement, dated December 30, 2010, by and between Northeast Bancorp and Richard Wayne (incorporated by reference to Exhibit 10.2 of Northeast Bancorp's Current Report on Form 8-K filed on January 5, 2011).

10.3+ Employment Agreement, dated December 30, 2010, by and between Northeast Bancorp and Claire Bean (incorporated by reference to Exhibit 10.3 of Northeast Bancorp's Current Report on Form 8-K filed on January 5, 2011).

10.4+	Non-Qualified Time-Based Stock Option Agreement, dated December 29, 2010, by and between Northeast Bancorp and Richard Wayne (incorporated by reference to Exhibit 10.5 of Northeast Bancorp's Current Report on Form 8-K filed on January 5, 2011).
10.5+	Non-Qualified Performance-Based Stock Option Agreement, dated March 22, 2013, by and between Northeast Bancorp and Richard Wayne (incorporated by reference to Exhibit 10.1 of Northeast Bancorp's Current Report on Form 8-K filed on March 26, 2013).
10.6+	Non-Qualified Time-Based Stock Option Agreement, dated December 29, 2010, by and between Northeast Bancorp and Claire Bean (incorporated by reference to Exhibit 10.7 of Northeast Bancorp's Current Report on Form 8-K filed on January 5, 2011).
10.7+	Non-Qualified Performance-Based Stock Option Agreement, dated March 22, 2013, by and between Northeast Bancorp and Claire Bean (incorporated by reference to Exhibit 10.2 of Northeast Bancorp's Current Report on Form 8-K filed on March 26, 2013).
10.8+	Non-Qualified Stock Option Agreement, dated December 30, 2010, by and between Northeast Bancorp and Robert Glauber (incorporated by reference to Exhibit 10.11 of Northeast Bancorp's Current Report on Form 8-K filed on January 5, 2011).
10.9+	Amended and Restated Performance-Based Stock Appreciation Rights Agreement, dated March 24, 2011, by and between Northeast Bancorp and Matthew Botein (incorporated by reference to Exhibit 10.1 of Northeast Bancorp's Current Report on Form 8-K filed on March 30, 2011).
10.10+	Non-Qualified Time-Based Stock Option Agreement, dated March 24, 2011, by and between Northeast Bancorp and Matthew Botein (incorporated by reference to Exhibit 10.2 of Northeast Bancorp's Current Report on Form 8-K filed on March 30, 2011).
10.11+	Non-Qualified Performance-Based Stock Option Agreement, dated March 24, 2011, by and between Northeast Bancorp and Matthew Botein (incorporated by reference to Exhibit 10.3 of Northeast Bancorp's Current Report on Form 8-K filed on March 30, 2011).
21*	Subsidiaries of Northeast Bancorp
23.1*	Consent of Ernst & Young LLP
31.1*	Rule 13a-14(a)/15d-14(a) Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Rule 13a-14(a)/15d-14(a) Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Rule 13a-14(b) Certifications of the Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document*
101.SCH	XBRL Taxonomy Extension Schema Document*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document*

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101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document*

* Filed herewith.

** Furnished herewith

\+ Management contract or compensatory plan or agreement

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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 BANCORP

Date: September 28, 2015 By: /s/ RICHARD WAYNE

Richard Wayne
Chief Executive Officer
(Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ RICHARD WAYNE Richard Wayne	Chief Executive Officer and Director (Principal Executive Officer)	September 28, 2015
/s/ BRIAN SHAUGHNESSY Brian Shaughnessy	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	September 28, 2015
/s/ ROBERT GLAUBER Robert Glauber	Chairman of the Board	September 28, 2015
/s/ MATTHEW BOTEIN Matthew Botein	Director	September 28, 2015
/s/ CHERYL DORSEY Cheryl Dorsey	Director	September 28, 2015
/s/ PETER MCCLEAN Peter McClean	Director	September 28, 2015
/s/ JOHN C. ORESTIS John C. Orestis	Director	September 28, 2015

Signature	Title	Date
/s/ DAVID TANNER David Tanner	Director	September 28, 2015
/s/ JUDITH E. WALLINGFORD Judith E. Wallingford	Director	September 28, 2015