

OSI SYSTEMS INC
Form 10-Q
April 27, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended March 31, 2011

OR

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

For the transition period from to

Commission File Number 0-23125

OSI SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction of
incorporation or organization)

33-0238801
(I.R.S. Employer
Identification Number)

12525 Chadron Avenue
Hawthorne, California 90250
(Address of principal executive offices)

(310) 978-0516
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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

As of April 25, 2011, there were 19,051,818 shares of the registrant's common stock outstanding.

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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Condensed Consolidated Financial Statements****OSI SYSTEMS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****(in thousands, except share amounts)**

	June 30, 2010	March 31, 2011
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 51,989	\$ 39,630
Accounts receivable	132,728	136,357
Other receivables	2,859	4,042
Inventories	125,930	159,870
Deferred income taxes	17,262	16,446
Prepaid expenses and other current assets	18,433	15,605
Total current assets	349,201	371,950
Property and equipment, net	51,515	52,064
Goodwill	63,941	70,332
Intangible assets, net	31,975	33,657
Other assets	16,482	24,292
Total assets	\$ 513,114	\$ 552,295
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities:		
Current portion of long-term debt	\$ 12,743	\$ 221
Accounts payable	49,673	76,076
Accrued payroll and employee benefits	23,953	20,353
Advances from customers	25,325	20,648
Accrued warranties	10,930	14,056
Deferred revenue	7,698	9,760
Other accrued expenses and current liabilities	14,272	15,522
Total current liabilities	144,594	156,636
Long-term debt	23,366	2,814
Other long-term liabilities	31,444	35,327
Total liabilities	199,404	194,777
Commitment and contingencies (Note 7)		
Shareholders' Equity:		
Preferred stock, \$0.001 par value authorized, 10,000,000 shares; no shares issued or outstanding		
Common stock, \$0.001 par value authorized, 100,000,000 shares; issued and outstanding, 18,326,133 at June 30, 2010 and 19,047,932 shares at March 31, 2011	244,026	258,676

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Retained earnings	76,681	98,055
Accumulated other comprehensive income (loss)	(6,997)	787
Total shareholders' equity	313,710	357,518
Total liabilities and shareholders' equity	\$ 513,114	\$ 552,295

See accompanying notes to condensed consolidated financial statements.

Table of Contents**OSI SYSTEMS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(in thousands, except per share amount data)****(Unaudited)**

	For the Three Months Ended		For the Nine Months Ended	
	March 31,		March 31,	
	2010	2011	2010	2011
Revenues	\$ 145,401	\$ 174,931	\$ 429,783	\$ 472,671
Cost of goods sold	92,184	112,678	275,734	303,497
Gross profit	53,217	62,253	154,049	169,174
Operating expenses:				
Selling, general and administrative expenses	34,789	37,116	101,679	103,050
Research and development	9,129	12,436	27,471	33,509
Restructuring and other charges	946	905	1,553	2,064
Total operating expenses	44,864	50,457	130,703	138,623
Income from operations	8,353	11,796	23,346	30,551
Interest expense and other income, net	175	612	(1,214)	(484)
Income before provision for income taxes	8,528	12,408	22,132	30,067
Provision for income taxes	2,416	3,642	6,558	8,691
Net income	\$ 6,112	\$ 8,766	\$ 15,574	\$ 21,376
Earnings per share:				
Basic	\$ 0.34	\$ 0.46	\$ 0.88	\$ 1.14
Diluted	\$ 0.33	\$ 0.45	\$ 0.85	\$ 1.10
Shares used in per share calculation:				
Basic	18,066	18,978	17,737	18,721
Diluted	18,772	19,687	18,219	19,424

See accompanying notes to condensed consolidated financial statements.

Table of Contents**OSI SYSTEMS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(amounts in thousands)

(Unaudited)

	For the Nine Months Ended March 31	
	2010	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 15,574	\$ 21,376
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	13,208	13,819
Stock based compensation expense	3,685	4,284
Provision for (recovery of) losses on accounts receivable	(417)	761
Equity in earnings of unconsolidated affiliates	(402)	(391)
Deferred income taxes	(1,703)	1,071
Other	120	170
Changes in operating assets and liabilities:		
Accounts receivable	(2,493)	(1,686)
Other receivables	249	(961)
Inventories	22,079	(30,188)
Prepaid expenses and other current assets	(6,231)	(2,101)
Accounts payable	(14,501)	24,078
Accrued payroll and related expenses	429	(4,061)
Advances from customers	17,870	(6,019)
Accrued warranties	70	2,839
Deferred revenue	(1,334)	1,451
Other accrued expenses and current liabilities	(6,344)	204
Net cash provided by operating activities	39,859	24,646
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(12,367)	(7,506)
Acquisition of businesses-net of cash acquired	(3,241)	(5,558)
Acquisition of intangible and other assets	(2,225)	(2,897)
Net cash used in investing activities	(17,833)	(15,961)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of bank lines of credit	(4,000)	
Payments on long-term debt	(9,527)	(32,546)
Payments of capital lease obligations	(495)	(710)
Proceeds from exercise of stock options and employee stock purchase plan	11,751	9,912
Net cash used in financing activities	(2,271)	(23,344)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	1,410	2,300
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	21,165	(12,359)
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	25,172	51,989
CASH AND CASH EQUIVALENTS - END OF PERIOD	\$ 46,337	\$ 39,630
Supplemental disclosure of cash flow information:		
Interest paid	\$ 1,885	\$ 1,062
Income taxes paid	\$ 5,756	\$ 5,673

See accompanying notes to condensed consolidated financial statements.

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OSI SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

Description of Business

OSI Systems, Inc., together with its subsidiaries (the Company), is a vertically integrated designer and manufacturer of specialized electronic systems and components for critical applications. The Company sells its products in diversified markets, including homeland security, healthcare, defense and aerospace.

The Company has three operating divisions: (i) Security, providing security inspection systems and related services; (ii) Healthcare, providing patient monitoring, diagnostic cardiology and anesthesia systems, and related services; and (iii) Optoelectronics and Manufacturing, providing specialized electronic components for the Security and Healthcare divisions as well as for applications in the defense and aerospace markets, among others.

Through its Security division, the Company designs, manufactures, markets and services security and inspection systems worldwide, and provides turnkey security screening solutions. The Security division's products are used to inspect baggage, cargo, vehicles and other objects for weapons, explosives, drugs and other contraband, and to screen people. These products and services are also used for the safe, accurate and efficient verification of cargo manifests for the purpose of assessing duties and monitoring the export and import of controlled materials.

Through its Healthcare division, the Company designs, manufactures, markets and services patient monitoring, diagnostic cardiology and anesthesia delivery and ventilation systems worldwide primarily under the Spacelabs trade name. These products are used by care providers in critical care, emergency and perioperative areas within hospitals as well as physician offices, medical clinics and ambulatory surgery centers.

Through its Optoelectronics and Manufacturing division, the Company designs, manufactures and markets optoelectronic devices and provides electronics manufacturing services worldwide for use in a broad range of applications, including aerospace and defense electronics, security and inspection systems, medical imaging and diagnostics, telecommunications, office automation, computer peripherals and industrial automation. This division provides products and services to original equipment manufacturers and end users as well as to the Company's own Security and Healthcare divisions.

Basis of Presentation

The condensed consolidated financial statements include the accounts of OSI Systems, Inc. and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. The condensed consolidated financial statements have been prepared by the Company, without audit, pursuant to interim financial reporting guidelines and the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. In the opinion of the Company's management, all adjustments, consisting of only normal and recurring adjustments, necessary for a fair presentation of the financial position and the results of operations for the periods presented have been included. These condensed consolidated financial statements and the accompanying notes should be read in conjunction with the audited consolidated financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2010, filed with the Securities and Exchange Commission on August 27, 2010. The results of operations for the three months and nine months ended March 31, 2011, are not necessarily indicative of the operating results to be expected for the full fiscal year or any future periods.

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The Company computes basic earnings per share by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period. The Company computes diluted earnings per share by dividing net income available to common shareholders by the sum of the weighted average number of common and dilutive potential common shares outstanding. Potential common shares consist of the shares issuable upon the exercise of stock options or warrants under the treasury stock method. Stock options and warrants to purchase a total of 0.7 million and 0.1 million shares of common stock for the nine months ended March 31, 2010 and 2011, respectively, were not included in diluted earnings per share calculations because to do so would have been antidilutive, while no options or warrants were excluded from the calculation for the three months ended March 31, 2010 and 2011. The following table sets forth the computation of basic and diluted earnings per share (in thousands, except per share amounts):

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2010	2011	2010	2011
Net income available to common shareholders	\$ 6,112	\$ 8,766	\$ 15,574	\$ 21,376
Weighted average shares outstanding basic	18,066	18,978	17,737	18,721
Dilutive effect of stock options and warrants	706	709	482	703
Weighted average of shares outstanding diluted	18,772	19,687	18,219	19,424

Comprehensive Income

Comprehensive income is computed as follows (in thousands):

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2010	2011	2010	2011
Net income	\$ 6,112	\$ 8,766	\$ 15,574	\$ 21,376
Foreign currency translation adjustments	(1,560)	2,983	(1,765)	6,778
Reversal of losses (gains) on derivatives and investments	(270)		237	1,064
Other	(506)	(169)	(505)	(59)
Comprehensive income	\$ 3,776	\$ 11,580	\$ 13,541	\$ 29,159

Fair Value of Financial Instruments

The Company's financial instruments consist primarily of cash, marketable securities, accounts receivable, accounts payable and debt instruments. The carrying values of financial instruments, other-than-debt instruments, are representative of their fair values due to their short-term maturities. The carrying values of the Company's long-term debt instruments are considered to approximate their fair values because the interest rates of these instruments are variable or comparable to current rates offered to the Company.

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Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company has determined that all of its marketable securities fall into the Level 1 category, which values assets at the quoted prices in active markets for identical assets; while the Company's derivative instruments fall into the Level 2 category, which values assets and liabilities from observable inputs other than quoted market prices. There were no assets or liabilities for which Level 3 valuation techniques were used and there were no assets and liabilities measured at fair value on a non-recurring basis.

The fair values of such assets/ (liabilities) are:

	June 30, 2010	March 31, 2011
Level 1	\$ 5,750	\$ 7,371
Level 2	(244)	20
Total	\$ 5,506	\$ 7,391

Derivative Instruments and Hedging Activity

The Company's use of derivatives consists primarily of foreign exchange contracts and interest rate swap agreements. As of March 31, 2011, the Company had outstanding a foreign currency forward contract of approximately \$5.2 million to sell foreign currencies in anticipation of settlement in fiscal 2012 of sales denominated in that currency. The forward contract is considered an effective cash flow hedge. As a result, the net loss on such derivative contract has been reported as a component of other comprehensive income in the Condensed Consolidated Financial Statements and is reclassified as net earnings when the hedge transaction settles.

Business Combinations

During the normal course of business the Company makes acquisitions. In the event that an individual acquisition (or an aggregate of acquisitions) is material, appropriate disclosure of such acquisition activity is disclosed.

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There are no recent accounting updates not yet adopted by the Company that are material.

2. Balance Sheet Details

The following tables provide details of selected balance sheet accounts (in thousands):

	June 30, 2010	March 31, 2011
Accounts receivable		
Trade receivables	\$ 138,734	\$ 141,283
Less: allowance for doubtful accounts	(6,006)	(4,926)
Accounts receivable, net	\$ 132,728	\$ 136,357

	June 30, 2010	March 31, 2011
Inventories, net		
Raw materials	\$ 69,421	\$ 93,441
Work-in-process	20,847	30,989
Finished goods	35,662	35,440
Total	\$ 125,930	\$ 159,870

	June 30, 2010	March 31, 2011
Property and equipment		
Land	\$ 5,078	\$ 5,300
Buildings	8,618	9,417
Leasehold improvements	12,549	13,238
Equipment and tooling	62,861	67,147
Furniture and fixtures	4,753	4,896
Computer equipment	17,738	19,012
Software	13,859	14,593
Total	125,456	133,603
Less: accumulated depreciation and amortization	(73,941)	(81,539)
Property and equipment, net	\$ 51,515	\$ 52,064

3. Goodwill and Intangible Assets

The goodwill acquired during the period within the Security and the Optoelectronics and Manufacturing divisions related to acquisitions of businesses that were considered immaterial individually and in the aggregate to the Company. The changes in the carrying value of goodwill for

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the nine month period ended March 31, 2011, are as follows (in thousands):

	Optoelectronics and Manufacturing				Consolidated
	Security	Healthcare	Manufacturing	Consolidated	
Balance as of June 30, 2010	\$ 16,566	\$ 35,403	\$ 11,972	\$ 63,941	
Goodwill acquired during the period	3,863		1,760	5,623	
Foreign currency translation adjustment	546	212	10	768	
Balance as of March 31, 2011	\$ 20,975	\$ 35,615	\$ 13,742	\$ 70,332	

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Intangible assets consisted of the following (in thousands):

	Weighted Average Lives	Gross Carrying Value	June 30, 2010		March 31, 2011		Intangibles Net
			Accumulated Amortization	Intangibles Net	Gross Carrying Value	Accumulated Amortization	
Amortizable assets:							
Software development costs	5 years	\$ 11,877	\$ 3,954	\$ 7,923	\$ 13,436	\$ 4,524	\$ 8,912
Patents	9 years	1,630	388	1,242	2,498	434	2,064
Core technology	10 years	2,029	1,094	935	2,153	1,323	830
Developed technology	13 years	17,246	8,942	8,304	18,974	10,385	8,589
Customer relationships/ backlog	7 years	10,437	6,132	4,305	11,107	7,171	3,936
Total amortizable assets		43,219	20,510	22,709	48,168	23,837	24,331
Non-amortizable assets:							
Trademarks		9,266		9,266	9,326	5	

Earnings per common share data is not presented for the nine months ended September 30, 2006 and for the three months and nine months ended September 30, 2005 as the Company had no publicly held shares outstanding prior to the Company's initial public offering on July 5, 2006. Per share data for the three months ended September 30, 2006 are calculated by utilizing net income and the weighted-average common shares outstanding in the three-month period.

NOTE 4 - EMPLOYEE STOCK OWNERSHIP PLAN

On July 5, 2006, the Bank established an employee stock ownership plan ("ESOP") for substantially all of its full-time employees. The ESOP borrowed \$5,184,200 from the Company and used those funds to acquire 518,420 shares of the Company's common stock in connection with the reorganization at a price of \$10.00 per share. The loan is secured by shares purchased with the loan proceeds and will be repaid by the ESOP with funds from the Company's discretionary contributions to the ESOP and earnings on ESOP assets. Shares purchased by the ESOP with the loan proceeds are held in a suspense account and are allocated to ESOP participants as principal and interest payments are made by the ESOP to the Company. Shares released from the suspense account will be allocated to each eligible participant based on the ratio of each such participant's compensation, as defined in the ESOP, to the total compensation of all eligible plan participants. As the unearned shares are released from suspense, the Company will recognize compensation expense equal to the fair value of the ESOP shares during the periods in which they become committed to be released. To the extent that the fair value of the ESOP shares released differs from the cost of such shares, the difference is charged or credited to equity as additional paid-in capital. ESOP expense for the three and nine months ended September 30, 2006, was \$202,000.

NOTE 5 - EFFECT OF RECENT ACCOUNTING PRONOUNCEMENTS

In December 2004, the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 123 (revised 2004), "Share-Based Payment." This statement revises the original guidance contained in SFAS No. 123 and supersedes Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and its related implementation guidance. Under SFAS No. 123 (revised 2004), an entity such as the Bank will be required to measure the cost of employee services received in exchange for any award of equity instruments made after December 31, 2005, based on the grant-date fair value of the award (with limited exceptions) and recognize such cost over the period during which an employee is required to provide service in exchange for the award (usually the vesting period). For stock options and similar instruments, grant-date fair value will be estimated using option-pricing models adjusted for the unique characteristics of instruments (unless observable market prices for the same or similar instruments are available). SFAS No. 123 (revised 2004) does not have any effect on the Company's existing historical consolidated financial statements as the Company has not had and does not currently have any stock-based compensation grants which would be subject to SFAS No. 123 (revised 2004). However, should the Company grant stock compensation awards in the future, any such awards will require the recording of compensation expense.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements", which defines fair value, establishes a framework for measuring fair value under U.S. GAAP, and expands disclosures about fair value measurements. SFAS No. 157 applies to other accounting pronouncements that require or permit fair value measurements. The new guidance is effective for financial statements issued for fiscal years beginning after November 15, 2007, and for interim periods within those fiscal years. We are currently evaluating the potential impact, if any, of the adoption of SFAS No. 157 on our consolidated financial position, results of operations and cash flows.

On September 29, 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans", which amends SFAS Nos. 87 and 106 to require recognition of the overfunded or

underfunded status of pension and other postretirement benefit plans on the balance sheet. Under SFAS 158, gains and losses, prior service costs and credits, and any remaining transition amounts under SFAS Nos. 87 and 106 that have not yet been recognized through net periodic benefit cost will be recognized in accumulated other comprehensive income, net of tax effects, until they are amortized as a component of net periodic cost. The measurement date — the date at which the benefit obligation and plan assets are measured — is required to be the company's fiscal year end. SFAS 158 is effective for publicly-held companies for fiscal years ending after December 15, 2006, except for the measurement date provisions, which are effective for fiscal years ending after December 15, 2008. This pronouncement does not have any current impact on the Company's determination or reporting of our financial results as the Company does not currently have any defined benefit pension or postretirement plans. However, should we implement any such plans in the future, the guidance of this pronouncement will be applied.

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In September 2006, the FASB issued FASB Staff Position AUG AIR-1, *Accounting for Planned Major Maintenance Activities*, which is effective for fiscal years beginning after December 15, 2006. This position statement eliminates the accrue-in-advance method of accounting for planned major maintenance activities. We do not expect this pronouncement to have a significant impact on the determination or reporting of our financial results.

On September 13, 2006, the Securities and Exchange Commission (“SEC”) issued Staff Accounting Bulletin (“SAB”) No. 108. SAB No. 108 provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a potential current year misstatement. Prior to SAB No. 108, companies might evaluate the materiality of financial-statement misstatements using either the income statement or balance sheet approach, with the income statement approach focusing on new misstatements added in the current year, and the balance sheet approach focusing on the cumulative amount of misstatement present in a company’s balance sheet. Misstatements that would be material under one approach could be viewed as immaterial under another approach, and not be corrected. SAB No. 108 now requires that companies view financial statement misstatements as material if they are material according to either the income statement or balance sheet approach. The Company has analyzed SAB 108 and determined that upon adoption it will have no impact on the Company’s consolidated financial condition or results of operations.

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109* (FIN 48), which clarifies the accounting for uncertainty in tax positions. This Interpretation requires that companies recognize in their financial statements the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2006, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. We are currently evaluating the impact of adopting FIN 48 on our consolidated financial statements.

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

Management’s discussion and analysis of the financial condition and results of operations at and for the three and nine months ended September 30, 2006 and 2005 is intended to assist in understanding the financial condition and results of operations of the Company. The information contained in this section should be read in conjunction with the Unaudited Financial Statements and the notes and tables thereto, appearing in Part I, Item 1 of this document.

Forward-Looking Statements

This quarterly report contains forward-looking statements that are based on assumptions and may describe future plans, strategies and expectations of Northeast Community Bancorp, Inc. (the “Company”). These forward-looking statements are generally identified by use of the words “believe,” “expect,” “intend,” “anticipate,” “estimate,” “project” or similar expressions. The Company’s ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse effect on the operations of the Company include, but are not limited to, changes in interest rates, national and regional economic conditions, legislative and regulatory changes, monetary and fiscal policies of the U.S. government, including policies of the U.S. Treasury and the Federal Reserve Board, the quality and composition of the loan or investment portfolios, demand for loan products, deposit flows, competition, demand for financial services in Northeast Community Bank’s (the “Bank”) market area, changes in real estate market values in the Bank’s market area, and changes in relevant accounting principles and guidelines. Additional factors that may affect the Company’s results are discussed in the Company’s Registration Statement on Form S-1, as amended, under the heading “Risk Factors.” These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. Except as required

by applicable law or regulation, the Company does not undertake, and specifically disclaims any obligation, to release publicly the result of any revisions that may be made to any forward-looking statements to reflect events or circumstances after the date of the statements or to reflect the occurrence of anticipated or unanticipated events.

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General

The Company was organized on July 5, 2006 in connection with the mutual holding company reorganization of the Bank. Accordingly, the information set forth in this report for periods prior to July 5, 2006, including information provided in the consolidated financial statements and related financial data, relates to the Bank only.

The Bank is headquartered in White Plains, New York and is a community-oriented financial institution dedicated to serving the financial services needs of consumers and businesses within its market area and its lending territory. We attract deposits from the general public and use such funds primarily to originate multifamily residential real estate loans, mixed use real estate loans and nonresidential real estate loans. We also originate a limited amount of consumer loans. In addition, we operate a loan production office in Wellesley, Massachusetts, which we established in January 2004.

Comparison of Financial Condition at September 30, 2006 and December 31, 2005

Total assets at September 30, 2006 were \$290.1 million, an increase of \$51.3 million, or 21.5%, from total assets of \$238.8 million at December 31, 2005. Cash and cash equivalents decreased by \$6.1 million, or 22.1%, to \$21.3 million at September 30, 2006, from \$27.4 million at December 31, 2005. The decrease in short-term liquidity was primarily the result of cash used to fund bank-owned life insurance and the origination of new loans, and deposit outflows.

Loans receivable increased by \$6.5 million, or 3.4%, to \$197.4 million at September 30, 2006 from \$190.9 million at December 31, 2005, due to loan originations exceeding loan repayments. Securities held to maturity increased by \$36.5 million, or 298.5%, to \$48.7 million at September 30, 2006 from \$12.2 million at December 31, 2005. This increase was primarily due to the funds received from the common stock offering completed on July 5, 2006, which were reinvested into short-term securities.

Deposits decreased by \$3.0 million, or 1.6%, to \$190.3 million at September 30, 2006 from \$193.3 million at December 31, 2005. The decrease was primarily attributable to withdrawals being made to purchase shares of common stock in the stock offering.

Stockholders' equity increased by \$53.4 million, or 123.8%, to \$96.5 million at September 30, 2006, from \$43.1 million at December 31, 2005. This increase was primarily the result of the proceeds of the Company's public offering of \$52.4 million and net income of \$1.2 million for the period, partially offset by \$202,000 in ESOP expense.

Comparison of Operating Results for the Three Months Ended September 30, 2006 and 2005

General. Net income decreased by \$149,000, or 25.4%, to \$438,000 for the three months ended September 30, 2006 from \$587,000 for the three months ended September 30, 2005. The decrease was primarily the result of increases of \$427,000 in interest expense and \$443,000 in non-interest expense and a decrease of \$95,000 in non-interest income, which were partially offset by an increase of \$673,000 in interest income and a \$143,000 decrease in income tax expense.

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Net Interest Income. Net interest income increased by \$246,000 to \$2.73 million for the three months ended September 30, 2006 from \$2.48 million for the three months ended September 30, 2005. The increase in net interest income resulted primarily from the increased average balance of net interest-earning assets of \$36.6 million, offset by a 74 basis point decrease in our net interest rate spread to 3.26% for the three months ended September 30, 2006 from 4.00% for the three months ended September 30, 2005. The net interest margin decreased 38 basis points to 3.90% for the three months ended September 30, 2006 from 4.28% for the three months ended September 30, 2005. The decrease in the interest rate spread and net interest margin in the third quarter of 2006 over the same period in 2005 is due mainly to the cost of our interest-bearing liabilities increasing to a greater degree than the increase in the yield earned on our interest-earning assets. The decrease in the net interest margin was mitigated somewhat by the increase in net interest-earning assets.

The following table summarizes average balances and average yields and costs of interest-earning assets and interest-bearing liabilities for the three months ended September 30, 2006 and 2005.

	Three Months Ended September 30,					
	Average Balance	2006 Interest and Dividends	Yield/ Cost	Average Balance	2005 Interest and Dividends	Yield/ Cost
(Dollars in thousands)						
Assets:						
Interest-earning assets:						
Loans	\$ 202,552	\$ 3,115	6.15%	\$ 176,388	\$ 2,859	6.48%
Securities	21,899	287	5.24	13,833	135	3.90
Other interest-earning assets	54,844	549	4.00	41,584	284	2.73
Total interest-earning assets	279,295	3,951	5.66	231,805	3,278	5.66
Allowance for loan losses	(1,200)			(1,200)		
Noninterest-earning assets	23,285			9,929		
Total assets	\$ 301,380			\$ 240,534		
Liabilities and equity:						
Interest-bearing liabilities:						
Interest-bearing demand	\$ 37,590	\$ 55	0.59%	\$ 23,162	\$ 15	0.26%
Savings and club accounts	64,594	143	0.89	77,565	96	0.50
Certificates of deposit	101,781	1,027	4.04	92,389	687	2.97
Total interest-bearing deposits	203,965	1,225	2.40	193,116	798	1.65
FHLB advances	0	0	0.00	0	0	0.00
Total interest-bearing liabilities	203,965	1,225	2.40	193,116	798	1.65
Noninterest-bearing demand	1,410			1,575		
Other liabilities	2,596			3,664		
Total interest-bearing liabilities	207,971			198,355		
Retained earnings	93,409			42,179		
	\$ 301,380			\$ 240,534		

Total liabilities and retained earnings

Net interest income	\$	2,726	\$	2,480
Interest rate spread		3.26		4.00
Net interest margin		3.90		4.28
Net interest-earning assets	\$	75,330	\$	38,689
Average interest-earning assets to average interest-bearing liabilities		144.89%		120.03%

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Interest income increased by \$673,000, or 20.5%, to \$4.0 million for the three months ended September 30, 2006, from \$3.3 million for the three months ended September 30, 2005. Interest income on loans increased by \$256,000, or 9.0%, to \$3.1 million for the three months ended September 30, 2006 from \$2.9 million for the three months ended September 30, 2005 as increased balances more than offset reduced yields. The average balance of the loan portfolio increased by \$26.2 million to \$202.6 million for the three months ended September 30, 2006 from \$176.4 million for the three months ended September 30, 2005 as originations outpaced repayments. The average yield on loans decreased 33 basis points to 6.15% for the three months ended September 30, 2006 from 6.48% for the three months ended September 30, 2005. Interest income on investment securities increased by \$152,000 to \$287,000 for the three months ended September 30, 2006 from \$135,000 for the three months ended September 30, 2005. The increase was primarily due to an increase of \$8.1 million in average balance of securities to \$21.9 million for the 2006 period from \$13.8 million in the 2005 period and an increase in the average yield on securities of 134 basis points to 5.24% for the three months ended September 30, 2006 from 3.90% for the three months ended September 30, 2005. The increase in average balance was fueled by the funds received in the recently completed stock offering while yield improved due to higher rates available on securities purchased. Interest on other interest-earning assets increased \$265,000 to \$549,000 for the three months ended September 30, 2006 from \$284,000 for the three months ended September 30, 2005, primarily as a result of a 127 basis point increase in the yield to 4.00% for the three months ended September 30, 2006 from 2.73% for the three months ended September 30, 2005 and an increase in the average balance of other interest-earning assets to \$54.8 million for the three months ended September 30, 2006 as compared to \$41.6 million for the three months ended September 30, 2005. The increase in average balance was due to the funds raised in the recently completed stock offering while yield improved due to higher short-term interest rates.

Interest expense increased \$427,000, or 53.5%, to \$1.2 million for the three months ended September 30, 2006 from \$798,000 for the three months ended September 30, 2005. The increase was the result of a 75 basis point increase in the average interest rate paid on deposits to 2.40% for the three months ended September 30, 2006 from 1.65% for the three months ended September 30, 2005, along with an increase in the average balance of interest-bearing deposits to \$204.0 million for the three months ended September 30, 2006 as compared to \$193.1 million for the three months ended September 30, 2005. The increased cost of deposits was the result of the general increase in short-term interest rates.

Provision for Loan Losses. The allowance for loan losses was \$1.2 million at September 30, 2006, June 30, 2006, and September 30, 2005, representing 0.61%, 0.59%, and 0.65%, respectively, of total loans. There were no charge-offs, recoveries or provisions for loan losses added during the three months ended September 30, 2006 and 2005. We had one loan totaling \$1,000 that was 90 or more days delinquent and accruing at both September 30, 2006 and June 30, 2006. We had no non-performing loans at September 30, 2005.

Non-interest Income. Non-interest income decreased \$95,000, or 21.9%, to \$339,000 for the three months ended September 30, 2006 from \$434,000 for the three months ended September 30, 2005. The decrease was primarily due to a reduction in mortgage loan prepayment penalties of \$171,000 partially offset by an increase in income from bank-owned life insurance, which was purchased in 2006, of \$62,000.

Non-interest Expense. Non-interest expense increased \$443,000, or 23.8%, to \$2.3 million for the three months ended September 30, 2006 from \$1.9 million for the three months ended September 30, 2005. The increase was primarily due to an expense of \$202,000 for the ESOP implemented in 2006 and \$62,000 in salary costs for new employees and increases in base salaries for existing employees. The increase in non-interest expense also includes increases of \$56,000 in occupancy, \$32,000 in equipment, \$7,000 in outside data processing, \$27,000 in advertising and \$57,000 in other miscellaneous expenses.

Income Taxes. Income tax expense decreased \$143,000, or 31.0%, to \$319,000 for the three months ended September 30, 2006, from \$462,000 for the three months ended September 30, 2005. The decrease resulted primarily from the

\$292,000 reduction in pre-tax income in 2006 compared to 2005. The effective tax rate was 42.1% for the three months ended September 30, 2006 compared to 44.0% for the same period in 2005.

Comparison of Operating Results for the Nine Months Ended September 30, 2006 and 2005

General. Net income decreased by \$298,000, or 19.3%, to \$1.2 million for the nine months ended September 30, 2006 from \$1.5 million for the nine months ended September 30, 2005. The decrease was primarily the result of increases of \$938,000 in interest expense and \$723,000 in non-interest expense and a decrease of \$310,000 in non-interest income, which were offset in part by an increase of \$1.4 million in interest income and a \$276,000 decrease in income tax expense.

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Net Interest Income. Net interest income increased by \$459,000 to \$7.8 million for the nine months ended September 30, 2006 from \$7.3 million for the nine months ended September 30, 2005. The increase in net interest income resulted primarily from the increased average balance of net interest-earning assets of \$17.7 million, due primarily to increased loan originations partially offset by a 32 basis point decrease in net interest rate spread to 3.64% for the nine months ended September 30, 2006 from 3.96% for the nine months ended September 30, 2005. The net interest margin decreased 9 basis points to 4.13% in the current nine-month period from 4.22% in the prior period. The decrease in the interest rate spread and net interest margin in the current nine-month period of 2006 from the same period in 2005 is due mainly to the cost of our interest-bearing liabilities increasing to a greater degree than the increase in the yield earned on our interest-earning assets.

The following table summarizes average balances and average yields and costs of interest-earning assets and interest-bearing liabilities for the nine months ended September 30, 2006 and 2005.

	Nine Months Ended September 30,					
	Average Balance	2006 Interest and Dividends	Yield/ Cost	Average Balance	2005 Interest and Dividends	Yield/ Cost
(Dollars in thousands)						
Assets:						
Interest-earning assets:						
Loans	\$ 200,482	\$ 9,245	6.15%	\$ 172,545	\$ 8,347	6.45%
Securities	15,625	543	4.63	13,532	369	3.64
Other interest-earning assets	35,916	1,209	4.49	45,518	884	2.59
Total interest-earning assets	252,024	10,997	5.82	231,595	9,600	5.53
Allowance for loan losses	(1,200)			(1,200)		
Noninterest-earning assets	14,954			10,004		
Total assets	\$ 265,778			\$ 240,399		
Liabilities and equity:						
Interest-bearing liabilities:						
Interest-bearing demand	\$ 26,797	\$ 86	0.43%	\$ 23,618	\$ 46	0.26%
Savings and club accounts	68,526	359	0.70	77,479	284	0.49
Certificates of deposit	100,487	2,755	3.66	91,953	1,932	2.80
Total interest-bearing deposits	195,810	3,200	2.18	193,050	2,262	1.56
FHLB advances	0	0	0.00	0	0	0.00
Total interest-bearing liabilities	195,810	3,200	2.18	193,050	2,262	1.56
Noninterest-bearing demand	6,242			1,676		
Other liabilities	3,258			3,691		
Total interest-bearing liabilities	205,310			198,417		

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Retained earnings	60,467	41,982
Total liabilities and retained earnings	\$ 265,778	\$ 240,399
Net interest income	\$ 7,797	\$ 7,338
Interest rate spread	3.64	3.96
Net interest margin	4.13	4.22
Net interest-earning assets	\$ 56,213	\$ 38,545
Average interest-earning assets to average interest-bearing liabilities	131.21%	119.97%

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Interest income increased by \$1.4 million, or 14.6%, to \$11.0 million for the nine months ended September 30, 2006, from \$9.6 million for the nine months ended September 30, 2005. Interest income on loans increased by \$898,000, or 10.8%, to \$9.2 million for the nine months ended September 30, 2006 from \$8.3 million for the nine months ended September 30, 2005 as increased loan balances more than offset reduced yields on our loan portfolio. The average balance of the loan portfolio increased by \$28.0 million to \$200.5 million for the nine months ended September 30, 2006 from \$172.5 million for the nine months ended September 30, 2005 as loan originations outpaced loan repayments. The average yield on loans decreased 30 basis points to 6.15% for the nine months ended September 30, 2006 from 6.45% for the nine months ended September 30, 2005. Interest income on securities increased by \$174,000 to \$543,000 for the nine months ended September 30, 2006 from \$369,000 for the nine months ended September 30, 2005. The increase was primarily due to an increase in the average balance of securities from \$13.5 million in the 2005 period to \$15.6 million in the 2006 period and an increase in average yield on securities of 99 basis points to 4.63% for the nine months ended September 30, 2006 from 3.64% for the nine months ended September 30, 2005. The increase in average balance resulted from the use of funds received in our recently completed stock offering to purchase securities while the increased yield is due to higher rates available on securities purchased. Interest on other interest-earning assets increased \$325,000 to \$1.2 million for the nine months ended September 30, 2006 from \$884,000 for the nine months ended September 30, 2005, primarily as a result of a 190 basis point increase in the yield on such assets to 4.49% for the nine months ended September 30, 2006 from 2.59% for the nine months ended September 30, 2005, which was partially offset by a decrease in average balance of other interest-earning assets to \$36.0 million for the nine months ended September 30, 2006 as compared to \$45.5 million for the nine months ended September 30, 2005. The decrease in the average balance of other interest-earning assets was due to the redeployment of these funds into the loan portfolio. The increased yield was due to rising short-term interest rates.

Interest expense increased \$938,000, or 41.5%, to \$3.2 million for the nine months ended September 30, 2006 from \$2.3 million for the nine months ended September 30, 2005. The increase was the result of an increase in the average interest rate paid on deposits of 62 basis points to 2.18% for the nine months ended September 30, 2006 from 1.56% for the nine months ended September 30, 2005, along with an increase in the average balance of interest-bearing deposits to \$195.8 million for the nine months ended September 30, 2006 as compared to \$193.1 million for the nine months ended September 30, 2005. The increased cost of deposits was due to rising market interest rates.

Provision for Loan Losses. The allowance for loan losses was \$1.2 million at September 30, 2006, December 31, 2005, and September 30, 2005, representing 0.61%, 0.63%, and 0.65%, respectively, of total loans. There were no charge-offs, recoveries or provisions for loan losses added during the nine months ended September 30, 2006 and 2005. We had one \$1,000 non-performing loan at September 30, 2006, and no non-performing loans at December 31, 2005 and September 30, 2005.

Non-interest Income. Non-interest income decreased \$310,000, or 29.1%, to \$754,000 for the nine months ended September 30, 2006 from \$1.06 million for the nine months ended September 30, 2005. The decrease was primarily due to a reduction in mortgage loan prepayment penalties of \$386,000 partially offset by an increase of \$62,000 in income from bank-owned life insurance, which was purchased in 2006.

Non-interest Expense. Non-interest expense increased \$723,000, or 12.8%, to \$6.4 million for the nine months ended September 30, 2006 from \$5.6 million for the nine months ended September 30, 2005. The increase was due to an expense of \$202,000 for the ESOP implemented in 2006, \$163,000 in increased occupancy expense, \$120,000 in increased compensation and health care costs, and an increase of \$182,000 in other non-interest expenses. The increase in occupancy expense primarily related to lease payments for the temporary relocation of our branch office located at 1355 First Avenue, New York, in anticipation of our sale of that property and the renovation of the building by its new owner, and, to a lesser extent, expenses for new signage related to the Bank's name change and city sidewalk repairs. The increase in other non-interest expenses includes an \$82,000 increase in office supplies and stationery resulting from the Bank's name change, a \$50,000 increase in legal fees, a \$46,000 increase in audit and

accounting fees and \$60,000 in miscellaneous other non-interest expenses.

Income Taxes. Income tax expense decreased \$276,000, or 22.6%, to \$943,000 for the nine months ended September 30, 2006, from \$1.2 million for the nine months ended September 30, 2005. The decrease resulted primarily from the \$574,000 reduction in pre-tax income in 2006 compared to 2005. The effective tax rate was 43.1% for the nine months ended September 30, 2006 compared to 44.1% for the same period in 2005.

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

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

Our most liquid assets are cash and cash equivalents. The levels of these assets depend on our operating, financing, lending and investing activities during any given period. At September 30, 2006, cash and cash equivalents totaled \$21.3 million at September 30, 2006 and consisted primarily of federal funds, overnight deposits and miscellaneous cash items. Securities classified as available for sale and whose market value exceeds our cost provide an additional source of liquidity. Total securities classified as available for sale were \$354,000 at September 30, 2006.

At September 30, 2006, we had \$7.3 million in loan commitments outstanding, consisting of \$3.4 million of real estate loan commitments, \$3.7 million in unused real estate equity lines of credit and \$224,000 in consumer lines of credit. Certificates of deposit due within one year of September 30, 2006 totaled \$71.7 million. This represented 67.48% of certificates of deposit at September 30, 2006. We believe the large percentage of certificates of deposit that mature within one year reflects the hesitancy of our customers to invest their funds for long periods of time in the current rising interest rate environment. If these maturing deposits do not remain with us, we will be required to seek other sources of funds, including other certificates of deposit and borrowings. Depending on market conditions, we may be required to pay higher rates on such deposits or other borrowings than we currently pay on the certificates of deposit due on or before September 30, 2007. We believe, however, based on past experience, that a significant portion of our certificates of deposit will remain with us. We have the ability to attract and retain deposits by adjusting the interest rates we offer.

Our primary investing activities are the origination of loans and the purchase of securities. Our primary financing activities consist of activity in deposit accounts and Federal Home Loan Bank advances. At September 30, 2006, we had the ability to borrow \$48.0 million from the Federal Home Loan Bank of New York, which included two available overnight lines of credit of \$24.0 million each. At September 30, 2006, we had no overnight advances outstanding.

Capital Management. We are subject to various regulatory capital requirements administered by the Office of Thrift Supervision, including a risk-based capital measure. The risk-based capital guidelines include both a definition of capital and a framework for calculating risk-weighted assets by assigning balance sheet assets and off-balance sheet items to broad risk categories. At September 30, 2006, we exceeded all of our regulatory capital requirements. We are considered "well capitalized" under regulatory guidelines.

On July 5, 2006, we completed our initial public stock offering. We sold 5,951,250 shares of common stock at \$10.00 per share, or \$59,512,500, which, net of expenses of the offering and the cost of the shares purchased for the ESOP, increased our total equity by \$52.4 million. The capital from the offering has significantly increased our liquidity and capital resources. Over time, the initial level of liquidity will be reduced as the net proceeds from the stock offering are used for general corporate purposes, including the funding of lending activities. Our financial condition and results of operations will be enhanced by the capital from the offering, resulting in increased net interest-earning assets and net income. However, the large increase in equity resulting from the capital raised in the offering will, initially, have an adverse impact on our return on equity. We may use capital management tools such as cash dividends and common share repurchases. However, under Office of Thrift Supervision regulations, we will not be allowed to repurchase any

shares during the first year following the offering, except: (1) in extraordinary circumstances, we may make open market repurchases of up to 5% of our outstanding stock if we receive the prior non-objection of the OTS of such repurchases; (2) repurchases of qualifying shares of a director or if we conduct an OTS-approved offer to repurchase made to all shareholders; (3) if we repurchase to fund a restricted stock award plan that has been approved by shareholders; or (4) if we repurchase stock to fund a tax-qualified employee stock benefit plan. All repurchases are prohibited, however, if the repurchase would reduce the Bank's regulatory capital below regulatory required levels.

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

For the nine months ended September 30, 2006 and the year ended December 31, 2005, we engaged in no off-balance sheet transactions reasonably likely to have a material effect on our financial condition, results of operations or cash flows.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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

We have an Asset/Liability Committee, comprised of our chief executive officer and our chief financial officer, whose function is to communicate, coordinate and control all aspects involving asset/liability management. The committee establishes and monitors the volume, maturities, pricing and mix of assets and funding sources with the objective of managing assets and funding sources to provide results that are consistent with liquidity, growth, risk limits and profitability goals. Our goal is to manage asset and liability positions to moderate the effects of interest rate fluctuations on net interest income and net income.

Quantitative Aspects of Market Risk. We use an interest rate sensitivity analysis prepared by the Office of Thrift Supervision to review our level of interest rate risk. This analysis measures interest rate risk by computing changes in net portfolio value of our cash flows from assets, liabilities and off-balance sheet items in the event of a range of assumed changes in market interest rates. Net portfolio value represents the market value of portfolio equity and is equal to the market value of assets minus the market value of liabilities, with adjustments made for off-balance sheet items. These analyses assess the risk of loss in market risk-sensitive instruments in the event of a sudden and sustained 100 to 300 basis point increase or 100 and 200 basis point decrease in market interest rates with no effect given to any steps that we might take to counter the effect of that interest rate movement. Because of the low level of market interest rates, these analyses are not performed for decreases of more than 200 basis points.

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The following table presents the change in our net portfolio value at June 30, 2006, the most current date for which this analysis is presently available, that would occur in the event of an immediate change in interest rates based on Office of Thrift Supervision assumptions, with no effect given to any steps that we might take to counteract that change. The Bank expects that its net portfolio value at September 30, 2006 is materially consistent with the table below.

Basic Point ("bp") Change in Rates	Net Portfolio Value (Dollars in thousands)			Net Portfolio Value as % of Portfolio Value of Assets	
	Amount	Change	% Change	NPV Ratio	Change (bp)
300	\$57,981	\$(868)	(1)%	18.13	(1)
200	58,301	(548)	(1)	18.14	1
100	58,595	(254)	0%	18.14	1
0	58,849	-	-	18.14	-
(100)	59,033	185	0%	18.11	(3)
(200)	58,839	(10)	0%	17.98	(15)

The Office of Thrift Supervision uses various assumptions in assessing interest rate risk. These assumptions relate to interest rates, loan prepayment rates, deposit decay rates and the market values of certain assets under differing interest rate scenarios, among others. As with any method of measuring interest rate risk, certain shortcomings are inherent in the methods of analyses presented in the foregoing tables. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. Additionally, certain assets, such as adjustable-rate mortgage loans, have features that restrict changes in interest rates on a short-term basis and over the life of the asset. Further, in the event of a change in interest rates, expected rates of prepayments on loans and early withdrawals from certificates could deviate significantly from those assumed in calculating the table. Prepayment rates can have a significant impact on interest income. Because of the large percentage of loans we hold, rising or falling interest rates have a significant impact on the prepayment speeds of our earning assets that in turn affect the rate sensitivity position. When interest rates rise, prepayments tend to slow. When interest rates fall, prepayments tend to rise. Our asset sensitivity would be reduced if prepayments slow and vice versa. While we believe these assumptions to be reasonable, there can be no assurance that assumed prepayment rates will approximate actual future loan repayment activity.

Item 4. Controls and Procedures

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

the time periods specified in the SEC's rules and forms, and (2) is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. In addition, based on that evaluation, no change in the Company's internal control over financial reporting occurred during the quarter ended September 30, 2006 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we may be party to various legal proceedings incident to our business. At September 30, 2006, we were not a party to any pending legal proceedings that we believe would have a material adverse effect on our financial condition, results of operations or cash flows.

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in the Company's registration statement on Form S-1, as amended (the "Registration Statement"), which could materially and adversely affect our business, financial condition or future results. The Registration Statement is available through the SEC's website at www.sec.gov. The risks described in the Registration Statement are not the only risks that we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

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

The following information is provided for the Company's sale of its common stock as part of the mutual holding company reorganization.

- a. The effective date of the Registration Statement on Form S-1 (File No. 333-132543) was May 12, 2006.
- b. The offering was consummated on July 5, 2006 with the sale of all of the securities registered pursuant to the Registration Statement. Sandler O'Neill & Partners, L.P. acted as marketing agent for the offering.
- c. The class of securities registered was common stock, par value \$0.01 per share. 5,951,250 shares of such securities were registered and sold in the offering for an aggregate price of \$59,512,500.
- d. The expenses incurred to date in connection with the stock offering were \$1.9 million, including expenses paid to and for underwriters of \$577,058 and other expenses of \$1.3 million. The net proceeds resulting from the offering after deducting expenses was \$57.6 million.
- e. The net proceeds have been invested in loans and cash and cash equivalents.

Item 3. Defaults Upon Senior Securities

Not applicable

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

Not applicable

Item 5. Other Information

None

Item 6. Exhibits

- 3(ii) Amended and Restated Bylaws of Northeast Community Bancorp, Inc.
- 10.1 Employment Agreement between Northeast Community Bank and Susan Barile
- 31.1 CEO certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 CFO certification pursuant to Section 302 of the Sarbanes Oxley Act of 2002
- 32.1 CEO and CFO certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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Signatures

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

Northeast Community Bancorp, Inc.

Date: November 13, 2006

By: /s/ Kenneth A. Martinek
Kenneth A. Martinek
President and Chief Executive
Officer

Date: November 13, 2006

By: /s/ Salvatore Randazzo
Salvatore Randazzo
Executive Vice President,
Chief Financial Officer
and Treasurer
(Principal Financial Officer)