

NORTHEAST BANCORP /ME/
Form DEF 14A
October 07, 2003

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement
(as permitted by Rule 14a-6(e)(2))

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Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to § 240.14a-12

NORTHEAST BANCORP

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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(3) Filing Party:

(4) Date Filed:

NORTHEAST BANCORP

158 Court Street

Auburn, Maine 04210

October 6, 2003

Dear Shareholder:

On behalf of the Board of Directors, we cordially invite you to attend the Annual Meeting of Shareholders of Northeast Bancorp (the Company) which will be held at the Hilton Garden Inn Auburn River Watch located at 14 Great Falls Plaza, Auburn, Maine 04210 on Monday, November 10, 2003, at 12:00 noon, local time.

At the Annual Meeting, shareholders will be asked (i) to elect twelve directors as members of the Board of Directors of the Company, and (ii) to transact such other business as may properly come before the Annual Meeting or any adjournment thereof. On the following pages you will find the Notice of the Annual Meeting of Shareholders and the Proxy Statement giving information concerning matters to be acted upon at the meeting. Of course, we will be present at the Annual Meeting to answer any questions you might have.

I sincerely hope you will be able to attend the Annual Meeting. **HOWEVER, WHETHER OR NOT YOU ARE ABLE TO ATTEND THE ANNUAL MEETING, IT IS VERY IMPORTANT THAT YOUR SHARES BE REPRESENTED.** Accordingly, please sign, date, and return the enclosed proxy card which will indicate your vote upon the various matters to be considered. If you do attend the meeting and desire to vote in person, you may do so by withdrawing your proxy at that time.

We thank you for your continued support and look forward to seeing you at the Annual Meeting of Shareholders.

Very truly yours,

James D. Delamater

President and Chief Executive Officer

NORTHEAST BANCORP

158 Court Street

Auburn, Maine 04210

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To Be Held on November 10, 2003

TO THE SHAREHOLDERS OF NORTHEAST BANCORP:

NOTICE IS HEREBY GIVEN that the 2003 Annual Meeting of the Shareholders of Northeast Bancorp, a Maine corporation (the Company), will be held at the Hilton Garden Inn Auburn River Watch located at 14 Great Falls Plaza, Auburn, Maine 04210 on Monday, November 10, 2003, at 12:00 noon, local time, to consider and act on the following matters:

1. Election of twelve directors to serve as members of the Board of Directors of the Company; and
2. Such other business as may properly come before the meeting or adjournment thereof.

Only shareholders of record at the close of business on September 24, 2003 are entitled to receive notice of, and to vote at, the Annual Meeting or any adjournments thereof. Each shareholder, even though he or she may presently intend to attend the Annual Meeting, is requested to sign and date the accompanying proxy card and return it without delay in the enclosed postage-paid envelope. Any Shareholder present at the Annual Meeting may withdraw his or her proxy and vote in person on each matter brought before the Annual Meeting.

By Order of the Board of Directors

and the President

Suzanne M. Carney

Clerk

Auburn, Maine

October 6, 2003

NORTHEAST BANCORP

158 Court Street

Auburn, Maine 04210

PROXY STATEMENT

2003 ANNUAL MEETING OF SHAREHOLDERS

To Be Held November 10, 2003

INTRODUCTION

This Proxy Statement is being furnished in connection with the solicitation by the Board of Directors of Northeast Bancorp, a Maine corporation (the Company), of proxies to be voted at the 2003 Annual Meeting of Shareholders to be held on Monday, November 10, 2003, at 12:00 noon, local time (the Annual Meeting), and at any adjournment thereof. The Annual Meeting will be held at Hilton Garden Inn Auburn River Watch located at 14 Great Falls Plaza, Auburn, Maine 04210.

At the Annual Meeting, shareholders will be asked to consider and vote on the election of twelve nominees to serve as directors of the Company, and such other business as may properly come before the meeting.

This Proxy Statement and the enclosed form of proxy are first being sent to shareholders, together with the Notice of Annual Meeting, on or about October 7, 2003.

A copy of the Company's Annual Report to Shareholders for the fiscal year ended June 30, 2003 (the 2003 Annual Report), including financial statements, accompanies this Proxy Statement, but is not part of the proxy solicitation materials.

Shareholders are urged to complete, date, and sign the accompanying form of proxy and return it promptly in the envelope provided with these materials. No postage is necessary if the proxy is mailed in the United States in the accompanying envelope.

PROXIES AND VOTING AT THE MEETING

Record Date and Voting Rights

The Board of Directors has fixed the close of business on September 24, 2003 as the record date (the Record Date) for the determination of the shareholders of record entitled to receive notice of, and to vote at, the Annual Meeting or any adjournment thereof. As of the Record Date, the Company had issued 2,786,095 shares of common stock, \$1.00 par value per share (Common Stock), of which 2,584,577 shares were outstanding and 201,518 shares were held as treasury stock. The Common Stock is the only class of voting securities outstanding entitled to vote at the Annual Meeting. Each share of Common Stock outstanding on the Record Date entitles the record holder to cast one vote with respect to each matter to be voted upon at the Annual Meeting. The presence of a majority of the Company s outstanding Common Stock as of the Record Date, in person or represented by proxy, will constitute a quorum at the Annual Meeting.

Directors are elected by a plurality of the votes cast at a meeting in which a quorum is present. In connection with the election of directors, votes may be cast in favor of or withheld from each nominee. Votes withheld from director nominees will be counted in determining whether a quorum has been reached. However, since directors are elected by a plurality, a vote against a director nominee and votes withheld from a nominee or nominees generally will not affect the outcome of the election.

Approval of other matters submitted to shareholders at a meeting where a quorum is present requires a majority of the votes which are cast at the meeting by holders of shares entitled to vote on the subject matter, unless the Company's articles of incorporation or bylaws or state law requires a greater number of votes.

In the event of any abstentions or broker non-votes with respect to any proposal coming before the Annual Meeting, the proxy will be counted as present for purposes of determining the existence of a quorum; but since they are neither a vote cast in favor of, nor a vote cast opposing, a proposed action, abstentions and broker non-votes typically will not be counted as a vote cast on any routine matter. A broker non-vote generally occurs when a broker who holds shares in street name for a customer does not have authority to vote on certain non-routine matters because its customer has not provided any voting instructions on the matter. Therefore, abstentions and broker non-votes generally have no effect under Maine law with respect to the election of directors or other matters requiring the approval of only those casting a vote at the meeting.

Voting and Revocation of Proxies

All properly executed proxies received prior to or at the Annual Meeting will be voted in accordance with the instructions indicated on such proxies, if any. If no instructions are indicated with respect to any shares for which properly executed proxies have been received, such proxies will be voted FOR the election of each of the Board of Directors' nominees for directors. The Company is not aware of any matter to be presented at the Annual Meeting other than those matters described in the Notice of Annual Meeting. If, however, any other matters are properly brought before the Annual Meeting for consideration, the persons appointed as proxies will have the discretion to vote or act thereon according to their best judgment.

Any shareholder giving a proxy may revoke it at any time before it is exercised by duly executing and submitting a later-dated proxy, by delivering written notice of revocation to the Company which is received at or before the Annual Meeting, or by voting in person at the Annual Meeting (although attendance at the Annual Meeting will not, in and of itself, constitute a revocation of the proxy). Any written notice revoking a proxy should be sent to the Clerk of the Company at the Company's principal executive offices, located at the address set forth above.

PROPOSAL I**ELECTION OF DIRECTORS**

In accordance with the Company's Articles of Incorporation, the Board of Directors has fixed the number of directors to be elected at the Annual Meeting at twelve. Except for Dr. Trinward, all of the Company's current directors are standing for election as directors of the Company to hold office until the 2004 Annual Meeting of Shareholders and until their successors have been duly elected and qualified. After 45 years of service to the Company and its predecessor, Dr. Trinward has decided to retire. Accordingly, the Board of Directors also has nominated Pender J. Lazenby for election to the Board of Directors for the ensuing year.

It is intended that the proxies received from shareholders, unless contrary instructions are given therein, will be voted FOR the election of the nominees named below, each of whom has consented to being named herein and has indicated his or her intention to serve if elected. If any nominee for any reason should become unavailable for election or if a vacancy should occur before the election, it is intended that the shares represented by the proxies will be voted for such other person as the Company's Board of Directors shall designate to replace such nominee. The Board of Directors has no reason to believe that any of the nominees will not be available or prove unable to serve if so elected.

Nominees for Director

The age of each nominee, their positions and offices with the Company and its wholly-owned subsidiary, Northeast Bank, F.S.B. (the "Bank"), their term of office as a director, their business experience during the past five years or more, and additional biographical data is set forth below. Information with respect to the nominees is as of August 30, 2003, except as otherwise stated.

<u>Name of Nominee</u>	<u>Age</u>	<u>Position with Company (1)</u>	<u>Director Since</u>
Judith W. Kelley	47	Chairman of the Board	1994
John Rosmarin	55	Vice Chairman of the Board	1997
James D. Delamater	52	President, Chief Executive Officer, and Director	1987
John B. Bouchard	67	Director	1996
James P. Day	43	Director	2003
Ronald J. Goguen	58	Director	1990
Philip C. Jackson	59	Senior Vice President of Bank-Trust Operations and Director	1987
Ronald C. Kendall	71	Director	1987
Pender J. Lazenby	53	Director Nominee	
John H. Schiavi	63	Director	1998
Stephen W. Wight	59	Director	1987
Dennis A. Wilson	68	Director	1989

(1) The board of directors of the Company's wholly-owned subsidiary, Northeast Bank, is identical to that of the Company.

All directors of the Company hold office until the earlier of the next annual meeting of shareholders and until their successors have been duly elected and qualified, or their death, resignation, or removal.

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Judith W. Kelley has been the Chairman of the Board of the Company and the Bank since 2002 and has been a director of the Company and the Bank since 1994. Ms. Kelley is the President of Consumers Maine Water Company, a water utility serving various communities in Maine.

John Rosmarin has been Vice Chairman of the Board of Directors of the Company since 2002 and a director of the Company and the Bank since 1997. Mr. Rosmarin is the President and Chief Executive Officer of Saunders Manufacturing Company, Inc., an office products manufacturer and distributor, a position he has held since 1982.

James D. Delamater has been President, Chief Executive Officer, and a director of the Company and the Bank since 1987.

John B. Bouchard has served as a director of the Company and the Bank since 1996. Mr. Bouchard is the owner of John B. Bouchard Builder, a construction contractor.

James P. Day has been a director of the Company and the Bank since April 2003. Mr. Day is, and has been since 2000, the President of LRI, Inc., a harness racing facility in Lewiston, Maine. From 1987 to 2000, Mr. Day served as the Treasurer of LSI, Inc. (and its predecessor, Lewiston Raceways, Inc.).

Ronald J. Goguen has been a director of the Company and the Bank since 1990. He is a director and Co-Chairman of the board of Major Drilling Group International Inc., a Canadian corporation that provides contract drilling services primarily to companies in the mineral and metals industries (Major Drilling). The common shares of Major Drilling are traded on the Toronto Stock Exchange. Mr. Goguen also is the President of Royal Oaks Real Estate, Inc. and also of Royal Oaks Golf & Country Club, Inc.

Philip C. Jackson has been a director of the Company and the Bank since 1987. Mr. Jackson also has served as the Senior Vice President of the Bank's Trust Operations since 1997. From 1991 to 1994, Mr. Jackson served as President of Bethel Savings, the predecessor to the Bank.

Ronald C. Kendall has been a director of the Company and the Bank since 1987 and is the former Chairman of the Board of Directors of the Bank. Mr. Kendall is a retired insurance executive.

Pender J. Lazenby had served in a variety of positions with FleetBoston (and BankBoston prior to its acquisition in 1999) from 1994 until his retirement at the end of 2002. During this period, Mr. Lazenby served as Executive Credit Officer (1999-2000) and Senior Approval Authority (2001-2002) in Corporate Banking (FleetBoston); Group Senior Credit Officer in Corporate Banking (1998-2000) and in Commercial Real Estate (1994-1998) at BankBoston. From 1983-1994, Mr. Lazenby served in other capacities at BankBoston affiliates, including Senior Credit Officer at Casco Northern Bank (1992-1994) and Bank of Vermont (1990-1992); Chief Financial Officer (1989-1990) and Controller (1987-1989) at Casco Northern Bank; and several senior lending positions (1983-1987) at Casco Northern Bank.

John H. Schiavi has been a director of the Company and the Bank since 1997. Mr. Schiavi has been the President and sole owner of Schiavi Enterprises, a real estate development firm, since 1962. He also serves on the board of directors of Major Drilling.

Stephen W. Wight has been a director of the Company and the Bank since 1987. Mr. Wight is the owner of Sunday River Inn, LLC, a resort hotel, and the manager of Wight Enterprises LLC, a property management company.

Dennis A. Wilson has been a director of the Company and the Bank since 1989. Mr. Wilson is the President and sole owner of D.A. Wilson & Co., a trucking company.

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There is no family relationship between any of the Company's directors, nominees to serve as director, or executive officers. There are no arrangements between any director or director nominee of the Company and any other person pursuant to which he or she was, or will be, selected as a director.

Director Meetings and Committees

During the fiscal year ended June 30, 2003 (the 2003 fiscal year), the Board of Directors of the Company held a total of 13 meetings. In addition, certain directors attended meetings of standing committees. Except for Ronald Goguen, all incumbent directors attended at least 75% of the total number of meetings of the Board of Directors and the respective committees on which they serve.

The Board of Directors of the Company maintains three standing committees: an Audit Committee, a Personnel and Compensation Committee, and an Executive Committee. Members of these committees are elected annually at the Board of Directors' meeting following the annual meeting of shareholders.

The Audit Committee, comprised of Ms. Kelley and Messrs. Bouchard, Day, Schiavi, Wight, and Wilson, held 6 meetings during the 2003 fiscal year. The Audit Committee is responsible for ensuring that an adequate audit program and controls exist and its duties include: (i) recommending to the Board of Directors the engagement or discharge of the independent public accountants, (ii) meeting with the independent public accountants to review the plans and results of the audit engagement, to review all reports of independent auditors and bank regulatory examinations, and to respond to such reports, (iii) approving the services to be performed by the independent public accountants and giving consideration to the range of the audit and non-audit fees, (iv) ensuring the integrity of the Company's internal loan review system, and (v) conducting an annual review of the adequacy of the Company's system of internal accounting and its audit program, including a review of the activities of the subsidiary Bank's examining committees, maintaining direct reporting responsibility and regular communication with the Company's internal audit staff, and reviewing the scope and results of the internal audit procedures of the Company and its subsidiary. Additional information regarding the functions performed by the Audit Committee and its membership is set forth in the Report of Audit Committee, included below.

The Personnel and Compensation Committee of the Board of Directors, which also serves as the nominating committee and compensation committee, makes recommendations to the Board of Directors with respect to the Company's compensation policies and the compensation of executive officers. In addition, the Personnel and Compensation Committee is responsible for selecting and recommending to the Board of Directors nominees for election as directors. Shareholders also may nominate persons for election as directors at an annual shareholders' meeting if such nominations are made in accordance with the procedures set forth in the Company's Articles of Incorporation. The Articles of Incorporation require, among other things, that written notice of such nominees must be given to the Company not less than 30 nor more than 60 days prior to such meeting (with certain exceptions). For a description of the full procedure governing such nominations, reference is made to the Articles of Incorporation, a copy of which is available from the Clerk of the Company. The Personnel and Compensation Committee which is comprised of Messrs. Goguen, Kendall, Rosmarin, and Wilson, met 6 times during the 2003 fiscal year.

The Executive Committee of the Board of Directors is empowered to act on behalf of, and to exercise all the powers of, the full Board of Directors in the management of the business and affairs of the Company when the Board of Directors is not in session, except to the extent limited by the Company's Articles of Incorporation or Bylaws, or by Maine law. The Executive Committee, which is comprised of Ms. Kelley and Messrs. Wight, Delamater, and Rosmarin, met once during the 2003 fiscal year.

Audit Committee Report

The audited financial statements of the Company at and for the three year period ended on June 30, 2003, are included in the 2003 Annual Report. The Audit Committee oversees the Company's financial reporting process, public financial reports, internal accounting and financial controls, and the independent audit of the annual consolidated financial statements. The Audit Committee is governed by a formal written audit committee charter which was included as Appendix A to our proxy statement dated October 5, 2001, for the Company's 2001 Annual Meeting of Shareholders. The Board of Directors, in its business judgment, has determined that the membership of the Audit Committee satisfies the independence requirements of the American Stock Exchange and the Company's Audit Committee Charter. The Audit Committee reviews and reassesses the adequacy of the charter at least annually. The Audit Committee consists of six independent members. None of the members of the Audit Committee are professionally engaged in the practice of accounting or auditing and are not experts in either of these fields or in auditor independence.

The Company, acting through its management and Board of Directors, has the primary responsibility for the financial statements and reporting process, including the systems of internal accounting controls. Management is

responsible for the preparation, presentation, and integrity of the Company's financial statements, the financial reporting process, and internal controls. Baker Newman & Noyes, Limited Liability Company (BNN), independent auditors engaged by the Company, are responsible for auditing the Company's annual financial statements in accordance with generally accepted auditing standards and expressing an opinion on the conformity of those audited financial statements with generally accepted accounting principles in the United States.

In performing its oversight function, the Audit Committee has reviewed the audited financial statements with the Company's management, including a discussion of the quality, not just the acceptability, of the accounting principles used, the reasonableness of significant judgments, and the clarity of disclosures in the financial statements. The Audit Committee also has reviewed with BNN their judgments as to the quality and acceptability of the Company's accounting principles. Management and BNN have advised the Audit Committee that the Company's consolidated financial statements were fairly stated in accordance with generally accepted accounting principles. The Audit Committee discussed with BNN matters covered by Statement on Auditing Standards No. 61 (Communication with Audit Committees).

The Audit Committee also discussed with BNN their independence from the Company and management, including those matters in Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees) and the letter and disclosures from BNN to the Audit Committee pursuant to Standard No. 1. The Audit Committee considered whether the non-audit services provided by BNN to the Company are compatible with maintaining the auditor's independence.

In addition, the Audit Committee discussed with its internal auditors and BNN the overall scope and plans for their respective audits. The Audit Committee met with the internal auditors and BNN, with and without management present, to discuss the results of their examinations, their evaluations of the Company's internal controls, and the overall quality of the Company's financial reporting. The Audit Committee reviewed and discussed the audited consolidated financial statements of Northeast Bancorp as of and for the year ended June 30, 2003 with management, our internal auditors, and our independent auditors. Based on the reviews and the discussions referred to above, in reliance on management and BNN, and subject to the limitations of the role of the Audit Committee, the Audit Committee recommended to the Board of Directors, and the Board of Directors has approved, the inclusion of the audited financial statements in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2003, for filing with the Securities and Exchange Commission.

SUBMITTED BY THE FISCAL 2003 AUDIT COMMITTEE

Stephen W. Wight, Chairman
John B. Bouchard
John H. Schiavi

Dennis A. Wilson
Judith W. Kelley
James P. Day

Compensation of Directors

Directors of the Company also are directors of the Bank. Each director receives a combined annual retainer from the Company and the Bank in the amount of \$1,000. In addition, each director receives \$700 for each meeting of the Board of Directors of the Company or the Bank that they attend, and an additional \$200 for each committee meeting that they attend (only if such committee meeting is held on a day other than one on which a Board of Directors' meeting is held). Directors receive only one meeting fee when meetings of the Board of Directors of the Company and the Bank are held on the same day. The Chairman of the Board of the Company and the Bank each receive an additional annual retainer of \$1,000 for services rendered in such capacity.

The Board of Directors recommends a vote FOR

the election of all 12 nominees.

COMPENSATION OF EXECUTIVE OFFICERS
Executive Compensation

The following summary compensation table sets forth the cash and non-cash compensation paid to or accrued for the past three fiscal years for the Company's Chief Executive Officer and for each of the executive officers of the Company or its subsidiaries and certain other individuals whose total compensation exceeded \$100,000 for the fiscal year ended June 30, 2003 (collectively, the Named Executive Officers).

SUMMARY COMPENSATION TABLE

Name and Principal Occupation	Fiscal Year	Annual Compensation		Long Term Compensation Awards (1)	All Other Compensation (2)
		Salary	Bonus	Securities Underlying Options (#)	
James D. Delamater	2003	\$ 172,719	\$ 15,000	0	\$ 8,729
President and Chief Executive Officer	2002	\$ 158,637	\$ 15,000	5,000	\$ 6,917
	2001	\$ 155,410	\$ 10,000	3,000	\$ 6,932
A. Daniel Keneborus	2003	\$ 122,908	\$ 5,000	0	\$ 6,941
Senior Vice President Commercial Banking of Northeast Bank	2002	\$ 101,796	\$ 0	2,000	\$ 5,646
	2001	\$ 85,615	\$ 0	3,000	\$ 4,364
Normand Poulin (3)	2003	\$ 228,111	\$ 0	0	\$ 7,020
Vice President Northeast Financial Services	2002	\$ 143,895	\$ 0	500	\$ 4,540
	2001	\$ 153,976	\$ 0	0	\$ 5,605
Dwight Pendexter (3)	2003	\$ 192,000	\$ 0	0	\$ 4,090
Vice President Northeast Financial Services	2002	\$ 203,821	\$ 0	500	\$ 5,027
	2001	\$ 78,573	\$ 0	0	\$ 2,656
Marcel Blais	2003	\$ 107,544	\$ 5,000	0	\$ 5,935
Senior Vice President Retail Banking	2002	\$ 89,745	\$ 0	2,000	\$ 2,957
	2001	\$ 76,856	\$ 0	3,000	\$ 3,185
Gary Berlucchi	2003	\$ 107,544	\$ 5,000	0	\$ 4,574
Senior Vice President Operations and Admin Services	2002	\$ 91,057	\$ 0	2,000	\$ 4,713
	2001	\$ 83,486	\$ 0	3,000	\$ 3,790
Robert S. Johnson (4)	2003	\$ 95,484	\$ 5,000	0	\$ 3,607
Chief Financial Officer	2002	\$ 51,587	\$ 0	1,000	\$ 894
	2001	\$ 0	\$ 0	0	\$ 0

- (1) The Company does not have a long-term compensation program that includes long-term incentive payments. However, the Company's stock option plans provide participants with performance-based compensation in the form of incentive stock options.
- (2) These amounts include payments made in 2003, 2002, and 2001, respectively, as follows: (i) term life insurance premiums of \$816, \$734, and \$883 for Mr. Delamater; \$1,551, \$1,218, and \$956 for Mr. Keneborus; \$490, \$488, and \$299 for Mr. Pendexter; and \$114, \$113, and \$112 for Mr. Poulin; \$248, \$155 and \$119 for Mr. Blais; \$853, \$682 and \$448 for Mr. Berlucchi; and \$388, \$200, and \$0 for Mr. Johnson;

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(ii) matching 401(k) contributions of \$4,908, \$2,901, and \$2,905 for Mr. Delamater; \$3,411, \$3,554, and \$2,568 for Mr. Keneborus; \$3,600, \$4,539, and \$2,357 for Mr. Pendexter; \$6,843, \$4,317, and

\$5,100 for Mr. Poulin; \$3,902, \$2,026, and \$2,305 for Mr. Blais; \$2,639, \$3,232, and \$2,504 for Mr. Berlucchi; and \$1,801, \$694, and \$0 for Mr. Johnson; (iii) additional performance based compensation of \$1,779, \$1,606, and \$1,583 to Mr. Delamater and \$1,979, \$874, and \$840 to Mr. Keneborus; \$63, \$110, and \$393 to Mr. Poulin; \$1,785, \$776, and \$761 to Mr. Blais; \$1,082, \$800, and \$838 to Mr. Berlucchi; and \$1,418, \$0, and \$0 to Mr. Johnson; and (iv) automobile reimbursement allowance of \$1,226, \$1,676, and \$1,561 for Mr. Delamater.

- (3) Salary for these individuals includes commissions.
 (4) Mr. Johnson joined the Company in December 2001.

Stock Option Grants

As of June 30, 2003, the Company did not have any long-term incentive plans nor had it awarded any restricted shares. During the fiscal year ended June 30, 2003, no stock options were awarded to any of the Named Executive Officers covered by the Summary Compensation Table.

Aggregated Options Exercised in Last Fiscal Year and Fiscal Year-End Option Values

The following table sets forth, for each of the Named Executive Officers in the Summary Compensation Table above who holds stock options, the number of shares of Common Stock acquired pursuant to the exercise of stock options during the 2003 fiscal year, the number of the stock options held at June 30, 2003, and the realizable gain of the stock options that are in-the-money. The in-the-money stock options are those with exercise prices that are below the year-end stock price because the stock value grew since the date of the grant.

AGGREGATED OPTION/SAR EXERCISES IN LAST FISCAL YEAR

AND FISCAL YEAR-END OPTIONS VALUES

Name	Shares Acquired on Exercised (#)	Value Realized	Number of Securities Underlying Unexercised Options at Fiscal Year End		Value of Unexercised In-the-Money Options at Fiscal Year End (1)(2)	
			Exercisable (#)	Unexercisable (#)	Exercisable (#)	Unexercisable (#)
James D. Delamater	0	0	27,500	0	\$ 181,130	\$ 0
A. Daniel Keneborus	0	0	7,500	0	\$ 49,050	\$ 0
Normand Poulin	0	0	1,000	0	\$ 5,950	\$ 0
Dwight Pendexter	0	0	1,000	0	\$ 5,950	\$ 0
Marcel Blais	0	0	9,500	0	\$ 78,052	\$ 0
Gary Berlucchi	0	0	7,000	0	\$ 46,050	\$ 0
Robert S. Johnson	0	0	1,000	0	\$ 3,750	\$ 0

- (1) Based upon the closing price of the Common Stock as quoted by the American Stock Exchange on June 30, 2003 of \$16.50 per share.
 (2) Value represents fair market value at exercise minus exercise price.

Employment Agreements

The Company does not have employment agreements with any of the Named Executive Officers.

401(k) Plan Employees Savings Plan

The Company maintains a tax-deferred defined contribution plan (the 401(k) Plan) for its employees. All employees who are scheduled to work at least 1,000 hours per year and are at least 21 years of age may elect to participate in the 401(k) Plan once he or she has completed ninety days of service. Under the 401(k) Plan, a participating employee is given an opportunity to make an elective contribution under a salary deferral savings

arrangement of up to a maximum of 15% of the participant's pre-tax compensation up to a maximum of \$11,000 per year. Each such contribution is fully vested in the participant. In addition, the Company may, in its sole discretion, make a separate matching contribution on behalf of employees who elect to participate in the plan by contributing a portion of their compensation to the plan. Messrs. Delamater, Keneborus, Pendexter, Poulin, Blais, Berlucchi, and Johnson participated in the 401(k) Plan at approximately 6%, 9%, 6%, 7%, 10%, 10%, and 4% of their salaries, respectively. For the year ended June 30, 2003, the Company made 401(k) matching contributions on behalf of its employees in the amount of approximately \$150,200. No profit sharing contributions were paid under the plan for the fiscal year ended June 30, 2003.

REPORT ON EXECUTIVE COMPENSATION

Overview

The Personnel and Compensation Committee of the Board of Directors (the Compensation Committee) is comprised entirely of outside directors, none of whom is a current officer or employee of the Company or any of its subsidiaries. The Compensation Committee is responsible for the establishment of policies governing and for the implementation, administration, and interpretation of all aspects of executive compensation, which includes base salary, bonuses, and stock option grants. Executives also participate in benefit programs that are generally available to employees of the Company, including medical benefits and a 401(k) Plan and profit sharing plan. The Compensation Committee also evaluates executive performance.

Objectives of the Executive Compensation Program

The objectives of the compensation program are to attract and retain a high quality executive team and to encourage that team to achieve profitable growth and thereby increase shareholder value. To meet these objectives, the Company's compensation packages are intended to provide (i) an overall level of compensation that is competitive, and (ii) bonuses and stock-related compensation that reflect business results. The Compensation Committee believes that a recognition of, and reward for, individual and collective contributions maximizes shareholder value by encouraging and fostering consistently improving financial performance.

Base Salaries

The Compensation Committee regularly reviews the base salary of its executives, including each of its Named Executive Officers, with a view to providing both a competitive compensation package and to providing appropriate incentives to seek long-term growth in shareholder values. Base salaries are targeted at market levels and are determined by evaluating the executive's levels of responsibility, prior experience, breadth of knowledge, internal equity issues, and external pay practices. In evaluating the compensation packages provided to its executives, the Compensation Committee reviews compensation and financial data provided in annual surveys conducted by Berry, Dunn, McNeil & Parker to compare its compensation practices with those provided to executives performing similar jobs as the Company's executives. Base salaries offer security to executives and allow the Company to attract competent executive talent and maintain a stable management team.

Increases to base salaries, when given, are driven primarily by individual performance, evaluated based on sustained levels of individual contribution to the Company. The Compensation Committee considers the executive's efforts in promoting the Company objectives, continuing educational and management training, improving product quality, developing relationships with customers, vendors, and employees, and demonstrating leadership abilities and other goals.

Bonus Program

On an annual basis, the Compensation Committee has the discretion to propose and recommend to the Board of Directors the payment of bonuses to the Chief Executive Officer of the Company. These awards are to

be based upon job responsibilities, attainment of corporate financial goals, contributions to the business and other goals of the Company, including overall performance. The payment of a bonus to such individuals is subject to the sole discretion of the Compensation Committee and the Board of Directors of the Company. There is no specific formula, performance target, or other required performance measures that must be achieved in order to receive a bonus. On the other hand, achievement of certain financial results will not ensure the payment of bonuses either. Instead, bonuses are used as a tool for maintaining the competitiveness of the overall compensation paid to its Chief Executive Officer in light of current market conditions, and the Company's overall performance. To the extent that the base salary or adjustments in base salary are sufficient for these purposes, bonuses may not be recommended despite a strong performance, and vice versa.

Stock Option Plans

The key officers and employees of the Company, including the Named Executive Officers, are eligible to receive stock option awards under the Company's stock option plans. Stock options are granted at an option exercise price equal to the fair market value of the Common Stock on the date of the grant. Accordingly, stock options have value only if the stock price appreciates in value from the date that the options are granted. The stock option plans focus executives and other participants on the creation of shareholder value over the long-term and encourage equity ownership in the Company.

Compensation of Chief Executive Officer

The Company's Board of Directors relies on its Chief Executive Officer to provide effective leadership and to successfully execute the Company's business plan and strategies. Subject to the approval of the Board of Directors, the Compensation Committee establishes Mr. Delamater's base salary, bonuses, and stock option grants in accordance with the Company's compensation philosophy. In making its determination of the appropriate base salary, the Compensation Committee reviewed and analyzed surveys of compensation paid to chief executive officers of similarly sized institutions, and it evaluated the performance of Mr. Delamater. The Compensation Committee determined that an increase in Mr. Delamater's base salary was warranted in order to maintain the competitiveness of the Company's compensation package and to reflect Mr. Delamater's contributions to the Company's growth and operating results. Overall, the Chief Executive Officer's compensation is in keeping with the average compensation paid to chief executive officers at similarly sized financial institutions.

Conclusion

The Compensation Committee believes that its executive compensation policies and programs effectively serve the interests of the Company and its shareholders. The compensation packages are appropriately balanced to provide security and competitive levels of compensation to its executives while simultaneously providing increased motivation to contribute to the Company's overall future success and long-term enhancement of shareholder value. We will continue to monitor the effectiveness of our total compensation policies and programs to insure that they continue to meet the needs of the Company.

This report is respectfully submitted by:
PERSONNEL AND COMPENSATION COMMITTEE

Dennis A. Wilson, Chairman
Ronald J. Goguen

Ronald Kendall
John Rosmarin

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION