

SECURITIES AND EXCHANGE COMMISSION

FORM 10QSB

Optional form for quarterly and transition reports of small business issuers under section 13 or 15(d)

Filing Date: **1996-11-14** | Period of Report: **1996-09-30**
SEC Accession No. **0000950135-96-004949**

([HTML Version](#) on secdatabase.com)

FILER

NORTH EAST INSURANCE CO

CIK: **352162** | IRS No.: **010278387** | State of Incorporation: **ME** | Fiscal Year End: **1231**
Type: **10QSB** | Act: **34** | File No.: **000-11184** | Film No.: **96664774**
SIC: **6331** Fire, marine & casualty insurance

Mailing Address

482 PAYNE RD
SCARBOROUGH ME 04074

Business Address

482 PAYNE RD
SCARBOROUGH ME 04074
2078832232

U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 10 - QSB

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

For quarterly period ended September 30, 1996

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

For the transition period from _____ to _____

Commission File No. 0-11184

NORTH EAST INSURANCE COMPANY
(Name of small business issuer as specified in its charter)

Maine
(State or other Jurisdiction of
incorporation or organization)

01-0278387
(I.R.S employer
identification number)

482 Payne Road, Scarborough, Maine 04074
(Address of principal executive offices)

(207) 883-2232
(Issuer's telephone number)

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

As of November 12, 1996 there were 3,002,375 outstanding shares of Common Stock, \$1.00 par value, the only authorized class of the issuer.

Transitional Small Business Disclosure Format: Yes No

NORTH EAST INSURANCE COMPANY
AND SUBSIDIARIES

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North East Insurance Company and Subsidiaries

PART I: FINANCIAL INFORMATION

Item 1. FINANCIAL INFORMATION

<TABLE>

Consolidated Balance Sheet
as of September 30, 1996

<CAPTION>

<S>

ASSETS

Investments:

Fixed maturities available for sale, at
fair value (amortized cost \$15,055,375)

Investment property, at cost less

1996

<C>

\$14,814,452

accumulated depreciation of \$43,541	66,458
Equity securities available for sale, at fair value (cost \$71,393)	24,012
Short-term investments	2,842,999

Total investments	17,747,921
Reinsurance (loss and loss adjustment expense reserves and paid recoverables)	5,166,702
Premium balances receivable	4,090,700
Deferred policy acquisition costs	250,370
Cash	929,773
Prepaid reinsurance premiums (ceded unearned premium)	2,703,333
Investment income due and accrued	348,221
Property and equipment, net of accumulated depreciation	440,377
Other assets	172,747

Total Assets	\$31,850,144
	=====
LIABILITIES	
Losses and loss adjustment expenses	\$17,324,943
Unearned premiums	6,041,606
Ceded reinsurance balances payable	1,384,094
Reserve for unpaid expenses	660,840
Federal income tax payable	8,420

Total Liabilities	25,419,903
SHAREHOLDERS' EQUITY	
Common stock \$1.00 par value, authorized 6,000,000 shares, issued and outstanding 3,002,375 shares	3,002,375
Additional paid-in capital	6,348,039
Unrealized depreciation of investment	(288,304)
Accumulated deficit	(2,631,869)

Total Shareholders' Equity	6,430,241

Total Liabilities and Shareholders' Equity	\$31,850,144
	=====

</TABLE>

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

North East Insurance Company and Subsidiaries

<TABLE>

Consolidated Statements of Operations

for the Nine Months ended September 30,

<CAPTION>

	1996	1995
	-----	-----
<S>	<C>	<C>
Revenues:		
Premiums earned	\$ 8,581,144	\$ 9,047,866
Premiums ceded	3,455,500	3,705,791
	-----	-----
Net premiums earned	5,125,644	5,342,075
Net investment income	825,866	992,416
Realized capital gains (losses)	48,783	(170,791)
	-----	-----
Total revenues	6,000,293	6,163,700
Expenses:		
Losses and loss adjustment expenses	5,574,888	5,978,089
Reinsurance recoveries	(2,067,882)	(1,992,069)
	-----	-----
Net losses and loss adjustment expenses	3,507,006	3,986,020
Underwriting expenses incurred	1,822,264	1,973,463
	-----	-----
Total expenses	5,329,270	5,959,483
	-----	-----
Income before provision for income taxes	671,023	204,217
Provision for income taxes, net of \$241,908 and \$65,071 tax benefit from loss carryforward for 1996 and 1995, respectively	13,420	4,067
	-----	-----
Net income	\$ 657,603	\$ 200,150
	=====	=====
Earnings per common share:		
Net income	\$ 0.22	\$ 0.07
	=====	=====

</TABLE>

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

North East Insurance Company and Subsidiaries

<TABLE>

Consolidated Statements of Operations
for the Three Months ended September 30,

<CAPTION>

	1996	1995
	-----	-----
<S>	<C>	<C>
Revenues:		
Premiums earned	\$2,902,387	\$2,910,536
Premiums ceded	1,234,411	1,011,445
	-----	-----
Net premiums earned	1,667,976	1,899,091
Net investment income	307,606	311,308
Realized capital losses	(21,947)	(20,854)
	-----	-----
Total revenues	1,953,635	2,189,545
Expenses:		
Losses and loss adjustment expenses	1,898,588	1,456,124
Reinsurance recoveries	(848,788)	(416,534)
	-----	-----
Net losses and loss adjustment expenses	1,049,800	1,039,590
Underwriting expenses incurred	566,965	1,004,109
	-----	-----
Total expenses	1,616,765	2,043,699
	-----	-----
Income before provision for income taxes	336,870	145,846
Provision for income taxes, net of \$107,979 and \$46,392 tax benefit from loss carryforward for 1996 and 1995, respectively	6,737	2,900
	-----	-----
Net income	\$ 330,133	\$ 142,946
	=====	=====
Earnings per common share:		
Net income	\$ 0.11	\$ 0.05
	=====	=====

</TABLE>

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

North East Insurance Company And Subsidiaries

<TABLE>

Consolidated Statements of Cash Flows
for the Nine Months ended September 30,

<CAPTION>

1996	1995
-----	-----

<S>	<C>	<C>
Cash flow from operating activities:		
Insurance premium received	\$ 4,626,182	\$ 4,860,347
Loss and loss adjustment expenses paid	(5,273,529)	(5,401,644)
Operating expenses paid	(1,657,630)	(1,759,555)
Investment income received	806,429	1,096,026
	-----	-----
Net cash used in operating activities	(1,498,548)	(1,204,826)
	-----	-----
Cash flows from investing activities:		
Fixed maturities available for sale, sold	5,759,622	2,355,073
Fixed maturities available for sale, purchased	(2,770,473)	0
Proceeds from mortgage note	459,139	0
Proceeds from sale of real estate	108,000	0
Proceeds from issuance of common stock	16,944	0
Purchase of furniture, fixtures and equipment, net	(24,012)	(40,397)
	-----	-----
Net cash provided in investing activities	3,549,220	2,314,676
	-----	-----
Net increase in cash, book overdraft and short-term investments	2,050,672	1,109,850
Cash, book overdraft and short-term investments at beginning of year	1,722,100	844,155
	-----	-----
Cash, book overdraft and short-term investments at end of period	\$ 3,772,772	\$ 1,954,005
	=====	=====

</TABLE>

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

North East Insurance Company And Subsidiaries

<TABLE>

Consolidated Reconciliation of Cash Used In
Operating Activities to Net Income
for the Nine Months ended September 30,

<CAPTION>

<S>	1996	1995
	-----	-----
<S>	<C>	<C>
Net income	\$ 657,603	\$ 200,150
Decrease (increase) in net premium		

and ceded reinsurance balances	(588,291)	9,280
Increase (decrease) in unearned premium reserve	4,088	(725,888)
Decrease in loss and loss adjustment expense reserve	(1,681,782)	(1,180,744)
Decrease (increase) in investment income due and accrued	(19,437)	104,479
Decrease in deferred policy acquisition costs	61,853	16,470
Decrease in federal income tax payable	(6,080)	0
Increase (decrease) in expense accruals	(81,415)	47,838
Amortization of bond premium, net	60,339	59,029
Depreciation and amortization expense	143,357	93,769
Loss on investment activities	17,231	103,577
Loss on sale of real estate	13,125	0
Adjustment to book value of mortgage note receivable	(79,139)	67,214
	-----	-----
Net cash used in operating activities	\$ (1,498,548)	\$ (1,204,826)
	=====	=====

</TABLE>

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

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North East Insurance Company and Subsidiaries
Notes to Consolidated Financial Statements

SEPTEMBER 30, 1996

1. The condensed financial statements included herein have been prepared by the Registrant, without audit, pursuant to the rules and regulations of the Commission. Certain information and footnote disclosure normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Registrant believes that the disclosures which are made are adequate to make the information presented not misleading, particularly when read in conjunction with the financial statements and the notes thereto included in the Registrant's latest annual report on Form 10-KSB. In Management's opinion, the attached interim financial statements reflect all adjustments which are necessary for a fair statement of the results for the periods presented.
2. In March 1995, the FASB issued FAS No. 121 ("Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of"), which requires that long-lived assets and certain intangibles to be held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be

recoverable. The Statement is effective for financial statements for fiscal years beginning after December 15, 1995. The Company adopted the provisions of FAS No. 121 effective January 1, 1996. Adopting FAS No. 121 did not have a material effect on the Company's consolidated results of operations or financial position.

3. North East Insurance Company owns 100% of American Colonial Insurance Company and North Atlantic Underwriters, Inc. whose results are consolidated herein.
4. Earnings per share are computed using the weighted average method.

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North East Insurance Company and Subsidiaries

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

Nine Months Ended September 30, 1996

Net premiums written amounted to \$5,129,732 for the nine months ended September 30, 1996 compared with \$4,616,186 for the nine months ended September 30, 1995. Net premiums earned for the nine months ended September 30, 1996 and 1995 amounted to \$5,125,644 and \$5,342,075, respectively.

Loss and loss adjustment expenses represented 68.4 % and 74.6 % of net premium earned for the nine months ended September 30, 1996 and 1995, respectively. The 1996 improvement is the result of favorable loss experience in the most recent six months ended September 30, 1996. The first three months ended March 31, 1996 included higher than normal weather related claims. This is in sharp contrast to 1995 in which we experienced a mild winter and higher losses in the second quarter of 1995, primarily from our property lines of business.

Underwriting expenses incurred represented 35.5% and 42.8% of net premiums written for the nine months ended September 30, 1996 and 1995, respectively. The expense ratio benefits from the Company's reinsurance arrangements whereby the Company is recovering expenses from its reinsurers proportional to its direct experience.

Total return from investment activities amounted to \$874,649 for the nine months ended September 30, 1996 compared with \$821,625 for the nine months ended September 30, 1995. The return on invested assets, based on amortized cost, net of allocated expenses was 6.1 % for the nine months ended September 30, 1996 compared with 5.0 % for the nine months ended September 30, 1995.

Net income for the nine months ended September 30, 1996 amounted to \$657,603 or \$0.22 per share compared with \$200,150 or \$0.07 per share for the nine months ended September 30, 1995.

Shareholders' equity at September 30, 1996 amounted to \$6,430,241 or \$2.14 per share compared with \$6,421,051 or \$2.15 per share at December 31, 1995. Common stock issued and outstanding amounted to 3,002,375 and 2,992,314 at September 30, 1996 and December 31, 1995, respectively, representing an additional 10,061 shares issued during 1996. The increase in shareholders' equity for the nine month period ending September 30, 1996 includes net income of \$657,603 plus proceeds from new shares of common stock totaling \$16,944 less a \$665,357 decline in the market value of the Company's fixed maturities and equity securities available for sale.

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Three Months Ended September 30, 1996

Net premiums written amounted to \$1,732,070 for the three months ended September 30, 1996 compared with \$1,995,724 for the three months ended September 30, 1995. Net premiums earned for the three months ended September 30, 1996 and 1995 amounted to \$1,667,976 and \$1,899,091, respectively.

Loss and loss adjustment expenses represented 62.9 % and 54.7 % of net premium earned for the three months ended September 30, 1996 and 1995, respectively. Both ratios reflect favorable results with the ratio for the three months ended September 30, 1995 being exceptional.

Underwriting expenses incurred amounted to \$566,965 for the three months ended September 30, 1996 compared with \$1,004,109 for the three months ended September 30, 1995. Underwriting expenses for 1996 benefit from the Company's reinsurance arrangements whereby the Company is recovering expenses from its reinsurers proportional to its direct experience.

Net income for the three months ended September 30, 1996 amounted to \$330,133 or \$0.11 per share compared with \$142,946 or \$0.05 per share for the three months ended September 30, 1995.

Shareholders' equity at September 30, 1996 amounted to \$6,430,241 or \$ 2.14 per share compared with \$6,059,911 or \$2.02 per share at June 30, 1996. The increase in shareholders' equity for the three month period ending September 30, 1996 comprises net income of \$330,133 plus a \$40,197 net increase in the market value of the Company's fixed maturities and equity securities available for sale.

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North East Insurance Company and Subsidiaries

PART II: OTHER INFORMATION

Item 5. Other Information

As previously reported, the Company and Ballantrae Partners, LLC ("Ballantrae") as of August 22, 1996 entered into a Standstill Agreement concerning future ownership and control of NEIC stock. Ballantrae has entered into a contract to purchase 810,000 shares of NEIC Common Stock beneficially owned by Bernard D. Gershuny. The shares represent approximately 27% of the NEIC Common Stock presently outstanding. Ballantrae's purchase of the Gershuny shares was made subject to a number of conditions, including the receipt of prior regulatory approval from the Maine Bureau of Insurance and the New York Insurance Department, as required by applicable law. On September 20, 1996 the Maine Bureau of Insurance issued an Order approving Ballantrae's proposed transaction. To the Company's knowledge, the New York Insurance Department has not yet acted on Ballantrae's pending application for approval.

The Company, in June 1996, commenced a private placement of Common Stock through Advest, Inc., a registered broker-dealer. As previously reported, the Company terminated the offering in October 1996, and has returned all subscription funds to subscribers. The Company's decision to discontinue the private placement was based upon a number of factors, including changes in prevailing trading prices for NEIC stock since the commencement date of the offering, continued increases in retained earnings since such date due to favorable operating results, the status of Ballantrae's pending proposal to acquire Mr. Gershuny's stock and the execution of a Standstill Agreement with Ballantrae regarding future control of the Company, management's assessment of the prospects for achieving future improvements in the A.M. Best rating for the Company even without the private placement, costs associated with a further change in the terms of the private placement, potential costs of threatened litigation over the private placement, possible alternative capital raising transactions, and other factors. The Company plans to evaluate other alternatives for raising additional capital, but no decision has been made on whether to seek additional capital at this time.

Item 6. Exhibits and Reports on Form 8-K.

a) Exhibits pursuant to Item 601 of Regulation S-B

27 Financial Data Schedules

b) Reports on Form 8-K

The Company filed reports on Form 8-K on August 28, 1996 and October 23, 1996.

In accordance with the requirements of the Exchange Act, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NORTH EAST INSURANCE COMPANY

Date: November 12, 1996

By /s/ Robert G. Schatz

Robert G. Schatz
President and Chief Executive Officer

Date: November 12, 1996

By /s/ Graham S. Payne

Graham S. Payne
Treasurer and Chief Financial Officer

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North East Insurance Company and Subsidiaries
Form 10-QSB
Exhibit Index

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-----	-----	----
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13

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