

PRUDENTIAL BANCORP INC OF PENNSYLVANIA

Form 10-Q

August 14, 2013

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 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 June 30, 2013

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: 000-51214

Prudential Bancorp, Inc. of Pennsylvania  
(Exact Name of Registrant as Specified in Its Charter)

Pennsylvania  
(State or Other Jurisdiction of Incorporation or  
Organization)

68-0593604  
(I.R.S. Employer Identification  
No.)

1834 Oregon Avenue  
Philadelphia, Pennsylvania  
(Address of Principal Executive Offices)

19145  
Zip Code

(215) 755-1500  
(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).

x Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or smaller reporting company. See definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐

Accelerated filer ☐

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Non-accelerated filer ☐ (Do not check if a smaller reporting company)

Smaller reporting company ☒

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practical date: as of August 1, 2013, 10,023,495 shares were issued and outstanding.

PRUDENTIAL BANCORP, INC. OF PENNSYLVANIA

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## PRUDENTIAL BANCORP, INC. OF PENNSYLVANIA AND SUBSIDIARIES

## UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	June 30, 2013 (Dollars in Thousands)	September 30, 2012
ASSETS		
Cash and amounts due from depository institutions	\$2,697	\$3,001
Interest-bearing deposits	36,375	78,272
Total cash and cash equivalents	39,072	81,273
Investment and mortgage-backed securities available for sale (amortized cost—June 30, 2013, \$44,943; September 30, 2012, \$64,030)	43,364	65,975
Investment and mortgage-backed securities held to maturity (estimated fair value—June 30, 2013, \$82,987; September 30, 2012, \$66,401)	84,792	63,110
Loans receivable—net of allowance for loan losses (June 30, 2013, \$2,651; September 30, 2012, \$1,881)	283,174	260,684
Accrued interest receivable	1,869	1,661
Real estate owned	676	1,972
Federal Home Loan Bank stock—at cost	1,183	2,239
Office properties and equipment—net	1,511	1,688
Bank owned life insurance	7,071	6,919
Prepaid expenses and other assets	1,083	2,234
Deferred tax asset-net	2,254	2,749
TOTAL ASSETS	\$466,049	\$490,504

## LIABILITIES AND STOCKHOLDERS' EQUITY

## LIABILITIES:

## Deposits:

Noninterest-bearing	\$3,622	\$3,711
Interest-bearing	399,334	421,891
Total deposits	402,956	425,602
Advances from Federal Home Loan Bank	340	483
Accrued interest payable	1,225	2,382
Advances from borrowers for taxes and insurance	2,231	1,273
Accounts payable and accrued expenses	145	933
Total liabilities	406,897	430,673

## STOCKHOLDERS' EQUITY:

Preferred stock, \$.01 par value, 10,000,000 shares authorized, none issued	-	-
Common stock, \$.01 par value, 40,000,000 shares authorized, issued 12,563,750; outstanding - 10,023,495 at June 30, 2013 and September 30, 2012	126	126

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Additional paid-in capital	55,118	54,610
Unearned ESOP shares	(2,621 )	(2,787 )
Treasury stock, at cost: 2,540,255 shares at June 30, 2013 and September 30, 2012	(31,625 )	(31,625 )
Retained earnings	39,195	38,224
Accumulated other comprehensive (loss) income	(1,041 )	1,283
Total stockholders' equity	59,152	59,831
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$466,049	\$490,504

See notes to unaudited consolidated financial statements.

## PRUDENTIAL BANCORP, INC. OF PENNSYLVANIA AND SUBSIDIARIES

## UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2013	2012	2013	2012
	(Dollars in Thousands Except Per Share Amounts)		(Dollars in Thousands Except Per Share Amounts)	
INTEREST INCOME:				
Interest on loans	\$ 3,134	\$ 3,281	\$ 9,522	\$ 9,800
Interest on mortgage-backed securities	405	985	1,583	3,004
Interest and dividends on investments	566	527	1,594	1,731
Interest on interest-bearing assets	21	35	77	89
Total interest income	4,126	4,828	12,776	14,624
INTEREST EXPENSE:				
Interest on deposits	1,037	1,431	3,396	4,436
Interest on borrowings	-	1	-	3
Total interest expense	1,037	1,432	3,396	4,439
NET INTEREST INCOME	3,089	3,396	9,380	10,185
PROVISION FOR LOAN LOSSES	-	100	-	350
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	3,089	3,296	9,380	9,835
NON-INTEREST INCOME:				
Fees and other service charges	103	104	298	328
Gain on sale of securities available for sale, net	852	8	868	8
Total other-than-temporary impairment losses	(8 )	(22 )	(33 )	(166 )
Portion of loss recognized in other comprehensive income, before taxes	1	3	6	44
Net impairment losses recognized in earnings	(7 )	(19 )	(27 )	(122 )
Other	129	95	352	281
Total non-interest income	1,077	188	1,491	495
NON-INTEREST EXPENSE:				
Salaries and employee benefits	1,475	1,554	4,433	4,652
Data processing	106	107	329	327

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Professional services	246	200	690	771
Office occupancy	100	103	292	302
Depreciation	85	87	257	259
Payroll taxes	79	70	267	236
Director compensation	77	89	249	284
Deposit insurance	154	165	473	491
Real estate owned expense	56	166	442	398
Advertising	67	96	223	188
Other	272	299	944	892
Total non-interest expense	2,717	2,936	8,599	8,800
INCOME BEFORE INCOME TAXES	1,449	548	2,272	1,530
INCOME TAXES:				
Current expense (benefit)	43	232	(392 )	737
Deferred expense (benefit)	721	(144 )	1,693	(155 )
Total income tax expense	764	88	1,301	582
NET INCOME	\$ 685	\$ 460	\$ 971	\$ 948
BASIC EARNINGS PER SHARE	\$ 0.07	\$ 0.05	\$ 0.10	\$ 0.10
DILUTED EARNINGS PER SHARE	\$ 0.07	\$ 0.05	\$ 0.10	\$ 0.10

See notes to unaudited consolidated financial statements.



## PRUDENTIAL BANCORP, INC. OF PENNSYLVANIA AND SUBSIDIARIES

## UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three months ended June 30,		Nine months ended June 30,	
	2013	2012	2013	2012
	(Dollars in Thousands)		(Dollars in Thousands)	
Net income	\$685	\$460	\$971	\$948
Unrealized holding (loss) gain on available-for-sale securities	(2,117	) 215	(2,683	) 198
Tax effect	720	(8	) 914	(67
Reclassification adjustment for net gains realized in net income	(852	) (8	) (868	) (8
Tax effect	290	3	295	3
Reclassification adjustment for other than temporary impairment losses on debt securities	7	19	27	122
Tax effect	(2	) (6	) (9	) (41
Total Other Comprehensive (Loss) Income	(1,954	) 215	(2,324	) 207
Comprehensive (Loss) Income	\$(1,269	) \$675	\$(1,353	) \$1,155

See notes to unaudited consolidated financial statements

## PRUDENTIAL BANCORP, INC. OF PENNSYLVANIA AND SUBSIDIARIES

## UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Stock	Additional Paid-In Capital	Unearned ESOP Shares	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive (loss) Income	Total Stockholders' Equity
(Dollars in Thousands)							
BALANCE, OCTOBER 1, 2012	\$ 126	\$ 54,610	\$ (2,787 )	\$ (31,625 )	\$ 38,224	\$ 1,283	\$ 59,831
Net income					971		971
Other comprehensive loss						(2,324 )	(2,324 )
Excess tax benefit from stock compensation plans		90					90
Stock option expense		186					186
Recognition and Retention Plan expense		270					270
ESOP shares committed to be released (16,965 shares)		(38 )	166				128
BALANCE, June 30, 2013	\$ 126	\$ 55,118	\$ (2,621 )	\$ (31,625 )	\$ 39,195	\$ (1,041 )	\$ 59,152
	Common Stock	Additional Paid-In Capital	Unearned ESOP Shares	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
(Dollars in Thousands)							
BALANCE, OCTOBER 1, 2011	\$ 126	\$ 54,078	\$ (3,011 )	\$ (31,625 )	\$ 35,631	\$ 2,253	\$ 57,452
Net income					948		948
						207	207

Other comprehensive  
income

Excess tax benefit  
from stock

compensation plans	48	48
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Stock option expense	164	164
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Recognition and  
Retention Plan  
expense

261	261
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ESOP shares  
committed to be  
released (16,965  
shares)

(76 )	167	91
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BALANCE, June 30,  
2012

\$ 126	\$ 54,475	\$ (2,844 )	\$ (31,625 )	\$ 36,579	\$ 2,460	\$ 59,171
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See notes to unaudited consolidated financial statements

## PRUDENTIAL BANCORP, INC. OF PENNSYLVANIA AND SUBSIDIARIES

## UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended June 30,	
	2013	2012
OPERATING ACTIVITIES:	(Dollars in Thousands)	
Net income	\$971	\$948
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	-	350
Depreciation	257	259
Net accretion of premiums/discounts	(508)	(306)
Net accretion of deferred loan fees and costs	(22)	(242)
Impairment charge on investment and mortgage-backed securities	27	122
Share-based compensation expense	546	473
Gain on sale of investment and mortgage-backed securities	(868)	(8)
Loss on sale of real estate owned	46	123
Compensation expense of ESOP	128	91
Deferred income tax benefit (expense)	1,693	(155)
Changes in assets and liabilities which used cash:		
Accrued interest receivable	(208)	326
Prepaid expenses and other assets	1,217	467
Accrued interest payable	(1,157)	(554)
Accounts payable and accrued expenses	(788)	(597)
Net cash provided by operating activities	1,334	1,297
INVESTING ACTIVITIES:		
Purchase of investment and mortgage-backed securities held to maturity	(33,462)	(36,962)
Purchase of investment and mortgage-backed securities available for sale	(16,955)	(22,828)
Loans originated or acquired	(65,025)	(48,312)
Principal collected on loans	33,035	39,915
Principal payments received on investment and mortgage-backed securities:		
Held-to-maturity	11,798	82,210
Available-for-sale	21,215	20,389
Proceeds from redemption of FHLB stock	1,056	61
Proceeds from sale of investment and mortgage-backed securities	16,158	412
Proceeds from sale of loans	9,240	-
Proceeds from sale of real estate owned	1,226	186
Purchase bank owned life insurance	-	(1,147)
Purchases of equipment	(80)	(163)
Net cash (used in) provided by investing activities	(21,794)	33,761
FINANCING ACTIVITIES:		
Net increase in demand deposits, NOW accounts, and savings accounts	2,900	592
Net (decrease) increase in certificates of deposit	(25,546)	2,472
Repayment of advances from Federal Home Loan Bank	(143)	(56)
Increase in advances from borrowers for taxes and insurance	958	794

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Excess tax benefit related to stock compensation plans	90	48
Net cash (used in) provided by financing activities	(21,741 )	3,850
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(42,201 )	38,908
CASH AND CASH EQUIVALENTS—Beginning of period	81,273	53,829
CASH AND CASH EQUIVALENTS—End of period	\$39,072	\$92,737
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Interest paid on deposits and advances from Federal Home Loan Bank	\$4,553	\$4,993
Income taxes paid	\$-	\$1,305
SUPPLEMENTAL DISCLOSURES OF NONCASH ITEMS:		
Real estate acquired in settlement of loans	\$282	\$223

See notes to unaudited consolidated financial statements.

PRUDENTIAL BANCORP, INC. OF PENNSYLVANIA AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

**Basis of presentation**—The accompanying unaudited consolidated financial statements were prepared pursuant to the rules and regulations of the United States Securities and Exchange Commission (“SEC”) for interim information and therefore do not include all the information or footnotes necessary for a complete presentation of financial condition, results of operations, changes in equity and cash flows in conformity with accounting principles generally accepted in the United States of America (“GAAP”). However, all normal recurring adjustments that, in the opinion of management, are necessary for a fair presentation of the financial statements have been included. The results for the nine months ended June 30, 2013 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2013, or any other period. These financial statements should be read in conjunction with the audited consolidated financial statements of Prudential Bancorp, Inc. of Pennsylvania (the “Company”) and the accompanying notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended September 30, 2012.

**Use of Estimates in the Preparation of Financial Statements**—The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. The most significant estimates and assumptions in the Company’s consolidated financial statements are recorded in the allowance for loan losses, deferred income taxes, other-than-temporary impairment, and the fair value measurement for financial instruments. Actual results could differ from those estimates.

**Employee Stock Ownership Plan** – The Company maintains an employee stock ownership plan (“ESOP”) for substantially all of its full-time employees. The ESOP purchased 452,295 shares of the Company’s common stock for an aggregate cost of approximately \$4.5 million in fiscal 2005. Shares of the Company’s common stock purchased by the ESOP are held in a suspense account until released for allocation to participants. Shares are 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 the suspense account, the Company recognizes 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. As of June 30, 2013, the Company had allocated a total of 175,305 shares from the suspense account to participants and committed to release an additional 11,310 shares. For the nine months ended June 30, 2013, the Company recognized \$128,000 in compensation expense related to the ESOP. At June 30, 2013, 446,376 shares were held in the ESOP.

**Share-Based Compensation** – The Company accounts for stock-based compensation issued to employees, and where appropriate, non-employees, at fair value. Under fair value provisions, stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the appropriate vesting period using the straight-line method. The amount of stock-based compensation recognized at any date must at least equal the portion of the grant date fair value of the award that is vested at that date and as a result it may be necessary to recognize the expense using a ratable method. Determining the fair value of stock-based awards at the date of grant requires judgment, including estimating the expected term of the stock options and the expected volatility of the Company’s stock. In addition, judgment is required in estimating the amount of stock-based awards that are expected

to be forfeited. If actual results differ significantly from these estimates or different key assumptions were used, it could have a material effect on the Company's consolidated financial statements.

Dividends with respect to non-vested share awards are held by the Company's Recognition and Retention Plan ("Plan") Trust (the "Trust") for the benefit of the recipients and are paid out proportionately by the Trust to the recipients of stock awards granted pursuant to the Plan as soon as practicable after the stock awards are earned.

**Treasury Stock** – Stock held in treasury by the Company is accounted for using the cost method, which treats stock held in treasury as a reduction to total stockholders' equity. The average cost per share of the approximately 2.5 million shares which have been repurchased by the Company was \$12.45 for purchases through June 30, 2013. The repurchased shares are available for general corporate purposes. As of June 30, 2013, Prudential Mutual Holding Company (the "MHC") had purchased 568,000 shares at an average cost of \$10.30 per share. These shares remain issued and outstanding. As of June 30, 2013, 7,478,062 shares were owned by the MHC, 2,540,255 shares had been repurchased by the Company and were held as treasury stock with the remaining 2,545,433 shares owned by public shareholders.

**FHLB Stock** – FHLB stock is classified as a restricted equity security because ownership is restricted and there is not an established market for its resale. FHLB stock is carried at cost and is evaluated for impairment when certain conditions warrant further consideration. Management concluded that the FHLB stock was not impaired at June 30, 2013.

The Company is a member of the Federal Home Loan Bank of Pittsburgh and as such, is required to maintain a minimum investment in stock of the Federal Home Loan Bank that varies with the level of advances outstanding from the Federal Home Loan Bank. The stock is bought from and sold to the Federal Home Loan Bank based upon its \$100 par value per share. The FHLB stock does not have a readily determinable fair value and as such is classified as restricted stock, carried at cost and evaluated for impairment by management. The stock's value is determined by the ultimate recoverability of the par value rather than by recognizing temporary declines. The determination of whether the par value will ultimately be recovered is influenced by criteria such as the following: (a) the significance of the decline in net assets of the Federal Home Loan Bank as compared to the capital stock amount and the length of time this situation has persisted; (b) commitments by the Federal Home Loan Bank to make payments required by law or regulation and the level of such payments in relation to the operating performance; (c) the impact of legislative and regulatory changes on the customer base of the Federal Home Loan Bank; and (d) the liquidity position of the Federal Home Loan Bank.

#### Recent Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board ("FASB") issued ASU 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. The amendments in this Update require an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under GAAP to be reclassified in its entirety to net income. For other amounts that are not required under GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under GAAP that provide additional detail about those amounts. For public entities, the amendments are effective prospectively for reporting periods beginning after December 15, 2012. For nonpublic entities, the amendments are effective prospectively for reporting periods beginning after December 15, 2013. Early adoption is permitted. The Unaudited Consolidated Statement of Comprehensive Income is included in the financial statements presented herein.

In July 2013, the FASB issued ASU 2013-10, Derivatives and Hedging (Topic 815): Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting



Purposes. The amendments in this Update permit the Fed Funds Effective Swap Rate (OIS) to be used as a U.S. benchmark interest rate for hedge accounting purposes under Topic 815, in addition to UST and LIBOR. The amendments also remove the restriction on using different benchmark rates for similar hedges. The amendments are effective prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. The adoption of this standard is not expected to have a significant effect on future financial reporting.

In July 2013, the FASB issued ASU 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. This Update applies to all entities that have unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists at the reporting date. An unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as following situations. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The assessment of whether a deferred tax asset is available is based on the unrecognized tax benefit and deferred tax asset that exist at the reporting date and should be made presuming disallowance of the tax position at the reporting date. The amendments in this Update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. For nonpublic entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2014. Early adoption is permitted. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. The adoption of this standard is not expected to have a significant effect on future financial reporting.

## 2. EARNINGS PER SHARE

Basic earnings per common share is computed by dividing net income available to common shareholders by the weighted average number of shares of common stock outstanding, net of any treasury shares, during the period. Diluted earnings per share is calculated by dividing net income available to common shareholders by the weighted average number of shares of common stock outstanding, net of any treasury shares, after consideration of the potential dilutive effect of common stock equivalents, based upon the treasury stock method using an average market price for the period.

The calculated basic and diluted earnings per share are as follows:

Three Months Ended June 30,

	2013		2012	
	Basic	Diluted	Basic	Diluted
	(Dollars in Thousands Except Per Share Data)			
Net income	\$ 685	\$ 685	\$ 460	\$ 460
Weighted average shares outstanding	9,669,913	9,669,913	9,611,537	9,611,537
Effect of common stock equivalents	-	89,423	-	90,112
Adjusted weighted average shares used in earnings per share computation	9,669,913	9,759,336	9,611,537	9,701,649
Earnings per share - basic and diluted	\$ 0.07	\$ 0.07	\$ 0.05	\$ 0.05

Nine Months Ended June 30,

	2013		2012	
	Basic	Diluted	Basic	Diluted
	(Dollars in Thousands Except Per Share Data)			
Net income	\$ 971	\$ 971	\$ 948	\$ 948
Weighted average shares outstanding	9,651,415	9,651,415	9,593,196	9,593,196
Effect of common stock equivalents	-	88,522	-	16,047
Adjusted weighted average shares used in earnings per share computation	9,651,415	9,739,937	9,593,196	9,609,243
Earnings per share - basic and diluted	\$ 0.10	\$ 0.10	\$ 0.10	\$ 0.10

At June 30, 2013 and 2012, there were anti-dilutive shares of 565,369 and 442,400, respectively. The exercise price for the stock options representing the anti-dilutive shares ranged from \$7.25 to \$11.17.

### 3. ACCUMULATED OTHER COMPREHENSIVE INCOME (Loss)

The following table presents the changes in accumulated other comprehensive income (loss) by component net of tax for the nine months ended June 30, 2013:

	Unrealized gains (losses) on available for sale securities (a)
Balance as of October 1, 2012	\$ 1,283
Other comprehensive loss before reclassification	(1,769 )
Amount reclassified from accumulated other comprehensive income	(555 )
Total other comprehensive loss	(2,324 )
Balance as of June 30, 2013	\$ (1,041 )

(a) All amounts are net of tax. Amounts in parentheses indicate debits.

The following table presents significant amounts reclassified out of each component of accumulated other comprehensive income (loss) for the three and nine months ended June 30, 2013:

	Three Months Amount Reclassified from Accumulated Other Comprehensive Income (Loss) (a)	Nine Months Amount Reclassified from Accumulated Other Comprehensive Income (Loss) (a)	Affected Line Item in the Statement Where Net Income is Presented
Details about other comprehensive income			
Unrealized gains on available for sale securities	\$ 852 (290 ) (7 ) 2 \$ 557	\$ 868 (295 ) (27 ) 9 \$ 555	Gain on sale of securities available for sale Income taxes Net impairment losses recognized in earnings Income taxes Net of tax

(a) Amounts in parentheses indicate debits to net income.

## 4. INVESTMENT AND MORTGAGE-BACKED SECURITIES

The amortized cost and fair value of investment and mortgage-backed securities, with gross unrealized gains and losses, are as follows:

	June 30, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in Thousands)			
Securities Available for Sale:				
U.S. government and agency obligations	\$ 18,985	\$ -	\$ (1,394 )	\$ 17,591
Mortgage-backed securities - U.S. government agencies	22,444	251	(553 )	22,142
Mortgage-backed securities - non-agency (1)	3,508	202	(115 )	3,595
Total debt securities available for sale	44,937	453	(2,062 )	43,328
 FHLMC preferred stock	 6	 30	 -	 36
Total securities available for sale	\$ 44,943	\$ 483	\$ (2,062 )	\$ 43,364
Securities Held to Maturity:				
U.S. government and agency obligations	\$ 69,934	\$ 650	\$ (3,648 )	\$ 66,936
Mortgage-backed securities - U.S. government agencies	14,858	1,252	(59 )	16,051
Total securities held to maturity	\$ 84,792	\$ 1,902	\$ (3,707 )	\$ 82,987

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(1) Includes impaired securities.

	September 30, 2012			
	Amortized Cost (Dollars in Thousands)	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>Securities Available for Sale:</b>				
U.S. government and agency obligations	\$ 13,994	\$ 110	\$ (1 )	\$ 14,103
Mortgage-backed securities - U.S. government agencies	45,722	2,040	-	47,762
Mortgage-backed securities - non-agency	4,308	137	(342 )	4,103
Total debt securities available for sale	64,024	2,287	(343 )	65,968
FHLMC preferred stock	6	1	-	7
Total securities available for sale	\$ 64,030	\$ 2,288	\$ (343 )	\$ 65,975
<b>Securities Held to Maturity:</b>				
U.S. government and agency obligations	\$ 44,475	\$ 1,333	\$ (9 )	\$ 45,799
Mortgage-backed securities - U.S. government agencies	18,635	1,967	-	20,602
Total securities held to maturity	\$ 63,110	\$ 3,300	\$ (9 )	\$ 66,401

The following table shows the gross unrealized losses and related fair values of the Company's investment securities, aggregated by investment category and length of time that individual securities had been in a continuous loss position at June 30, 2013:

	Less than 12 months		More than 12 months		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
(Dollars in Thousands)						
<b>Securities Available for Sale:</b>						
U.S. government and agency obligations	\$ (1,394 )	\$ 17,591	\$ -	\$ -	\$ (1,394 )	\$ 17,591
Mortgage-backed securities - U.S. government agencies	(553 )	18,091	-	-	(553 )	18,091
Mortgage-backed securities - non-agency	(9 )	512	(106 )	594	(115 )	1,106
Total securities available for sale	\$ (1,956 )	\$ 36,194	\$ (106 )	\$ 594	\$ (2,062 )	\$ 36,788

Securities Held to

Maturity:

U.S. government and

agency obligations	\$ (3,648 )	\$ 54,935	\$ -	\$ -	\$ (3,648 )	\$ 54,935
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Mortgage-backed

securities - U.S.

government agencies	(59 )	2,387	-	-	(59 )	2,387
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Total securities held

to maturity	\$ (3,707 )	\$ 57,322	\$ -	\$ -	\$ (3,707 )	\$ 57,322
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Total	\$ (5,663 )	\$ 93,516	\$ (106 )	\$ 594	\$ (5,769 )	\$ 94,110
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The following table shows the gross unrealized losses and related fair values of the Company's investment securities, aggregated by investment category and length of time that individual securities had been in a continuous loss position at September 30, 2012:

	Less than 12 months		More than 12 months		Total	
	Gross	Fair	Gross	Fair	Gross	Fair
	Unrealized	Value	Unrealized	Value	Unrealized	Value
	Losses		Losses		Losses	
	(Dollars in Thousands)					
Securities Available for Sale:						
U.S. government and agency obligations	\$ (1 )	\$ 2,999	\$ -	\$ -	\$ (1 )	\$ 2,999
Mortgage-backed securities - non-agency	(21 )	144	(321 )	2,343	(342 )	2,487
Total securities available for sale	\$ (22 )	\$ 3,143	\$ (321 )	\$ 2,343	\$ (343 )	\$ 5,486
Securities Held to Maturity:						
U.S. government and agency obligations	\$ (9 )	\$ 10,982	\$ -	\$ -	\$ (9 )	\$ 10,982
Total securities held to maturity	\$ (9 )	\$ 10,982	\$ -	\$ -	\$ (9 )	\$ 10,982
Total	\$ (31 )	\$ 14,125	\$ (321 )	\$ 2,343	\$ (352 )	\$ 16,468

Management evaluates securities for other-than-temporary impairment ("OTTI") at least once each quarter, and more frequently when economic or market concerns warrant such evaluation. The Company determines whether the unrealized losses are temporary. The evaluation is based upon factors such as the creditworthiness of the issuers/guarantors, the underlying collateral, if applicable, and the continuing performance of the securities. Management also evaluates other facts and circumstances that may be indicative of an OTTI condition. This includes, but is not limited to, an evaluation of the type of security, the length of time and extent to which the fair value of the security has been less than cost, and the near-term prospects of the issuer.

The Company assesses whether a credit loss exists with respect to a security by considering whether (1) the Company has the intent to sell the security, (2) it is more likely than not that it will be required to sell the security before recovery, or (3) it does not expect to recover the entire amortized cost basis of the security. The Company bifurcates the OTTI impact on impaired securities where impairment in value was deemed to be other than temporary between the component representing credit loss and the component representing loss related to other factors. The portion of the fair value decline attributable to credit loss must be recognized through a charge to earnings. The credit component is determined by comparing the present value of the cash flows expected to be collected, discounted at the rate in effect before recognizing any OTTI, with the amortized cost basis of the debt security. The Company uses the cash flow expected to be realized from the security, which includes assumptions about interest rates, timing and severity of



defaults, estimates of potential recoveries, the cash flow distribution from the bond indenture and other factors, then applies a discount rate equal to the effective yield of the security. The difference between the present value of the expected cash flows and the amortized book value is considered a credit loss. The fair market value of the security is determined using the same expected cash flows; the discount rate is a rate the Company determines from open market and other sources as appropriate for the particular security. The difference between the fair market value and the security's remaining amortized cost is recognized in other comprehensive income.

The following is a rollforward for the nine months ended June 30, 2013 of the amounts recognized in earnings related to credit losses on securities on which the Company has recorded OTTI charges through earnings and comprehensive income (loss).

	(Dollars in Thousands)
Credit component of OTTI as of October 1, 2012	\$ 2,103
Additions for credit-related OTTI charges on previously unimpaired securities	-
Additional increases as a result of impairment charges recognized on investments for which an OTTI was previously recognized	27
Credit component of OTTI as of June 30, 2013	\$ 2,130

**U.S. Government Agency Obligations** - The Company's investments reflected in the tables above in U.S. Government sponsored enterprise notes consist of debt obligations of the FHLB and Federal Farm Credit System ("FFCS"). These securities are typically rated AAA by one of the internationally recognized credit rating services. At June 30, 2013, U.S. Government and agency obligations in a gross unrealized loss for less than 12 months consisted of 28 securities having an aggregate depreciation of \$5.0 million or 6.8% from the Company's amortized cost basis. There were no securities in a gross unrealized loss for more than 12 months at such date. The unrealized losses on these debt securities relate principally to the changes in market interest rates and a lack of liquidity currently in the financial markets and are not as a result of projected shortfall of cash flows. In addition, the Company does not intend to sell these securities and it is more likely than not that the Company will not be required to sell the securities. As such, the Company anticipates it will recover the entire amortized cost basis of the securities. As a result, the Company does not consider these investments to be other-than-temporarily impaired at June 30, 2013.

**U.S. Agency Issued Mortgage-Backed Securities** - At June 30, 2013, the gross unrealized loss in U.S. agency issued mortgage-backed securities in the category of experiencing a gross unrealized loss for less than 12 months was \$612,000 or 2.9% from the Company's amortized cost basis and consisted of one security. There were no securities in a gross unrealized loss position in the category of experiencing a gross unrealized loss for more than 12 months. These securities represent asset-backed issues that are issued or guaranteed by a U.S. Government sponsored agency or carry the full faith and credit of the United States through a government agency and are currently rated AAA by at least one bond credit rating agency. In September 2008, the U.S. Department of the Treasury announced the establishment of the Government Sponsored Enterprise Credit Facility to ensure credit availability to Fannie Mae and Freddie Mac. The U.S. Department of the Treasury also entered into senior preferred stock purchase agreements, which ensure that each entity maintains a positive net worth and effectively support the holders of debt and mortgage-backed securities issued or guaranteed by Fannie Mae and Freddie Mac. The preferred stock agreements enhance market stability by providing additional security to debt holders, senior and subordinated, thereby alleviating the concern of the credit driven impairment of the securities.

**Non-Agency Issued Mortgage-Backed Securities and Collateralized Mortgage Obligations** - This portfolio was acquired through the redemption-in-kind during 2008 of the Company's entire investment in a mutual fund and at June 30, 2013 includes 50 collateralized mortgage obligations ("CMO") and mortgage-backed securities issued by large commercial financial institutions. For the nine months ended June 30, 2013, management recognized an OTTI charge related to a portion of the portfolio securities in the amount of \$33,000 on a pre-tax basis due to the fact that, in management's judgment, the credit quality of the collateral pool underlying such securities had deteriorated during recent periods to the point that full recovery of the entire amortized cost of the investment was considered to be

uncertain. This portfolio consists primarily of securities with underlying collateral consisting of Alt-A loans and those collateralized by home equity lines of credit and other receivables as well as whole loans with more significant exposure to depressed real estate markets in the United States. For the overall portfolio of the securities, there was exposure to real estate markets that have experienced significant declines in real estate values such as California, Nevada, Arizona and Florida. Consequently, an additional OTTI charge was deemed to be warranted as of June 30, 2013. Of the recorded charge, a total of \$27,000 was concluded to be credit related and recognized currently in earnings and \$6,000 was concluded to be attributable to other factors and recognized in accumulated other comprehensive income.

As of June 30, 2013, with the exception of securities discussed above, there are no securities for which the Company currently believes it is not probable that it will collect all amounts due according to the contractual terms of the investment. Management concluded that an other-than-temporary impairment did not exist and the decline in value was attributed to the illiquidity in the financial markets. With respect to the \$115,000 in gross unrealized losses related to this part of the portfolio, eight securities had been in a loss position for longer than 12 months while eight securities had been in a loss position for less than 12 months. However, the Company does not intend to sell these securities and it is more likely than not that the Company will not be required to sell these securities.

The amortized cost and fair value of debt securities, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	June 30, 2013 Held to Maturity		Available for Sale	
	Amortized Cost (Dollars in Thousands)	Fair Value	Amortized Cost	Fair Value
Due within one year	\$ 3,000	\$ 3,014	\$ -	\$ -
Due after one through five years	-	-	-	-
Due after five through ten years	11,498	11,656	1,999	1,892
Due after ten years	55,436	52,266	16,986	15,699
Total	\$ 69,934	\$ 66,936	\$ 18,985	\$ 17,591

The maturity table above excludes mortgage-backed securities because the contractual maturities are not indicative of actual maturities due to significant prepayments.

## 5. LOANS RECEIVABLE

Loans receivable consist of the following:

	June 30, 2013	September 30, 2012
	(Dollars in Thousands)	
One-to-four family residential	\$ 248,188	\$ 222,793
Multi-family residential	5,783	5,051
Commercial real estate	18,951	19,333
Construction and land development	11,796	14,873
Commercial business	592	632
Consumer	457	523
Total loans	285,767	263,205
Undisbursed portion of loans-in-process	(1,618 )	(1,629 )
Deferred loan fees, net	1,676	989
Allowance for loan losses	(2,651 )	(1,881 )

Net loans	\$	283,174	\$	260,684
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The following table summarizes the loans individually evaluated for impairment by loan segment at June 30, 2013:

	One- to four- family residential	Multi-family residential	Commercial real estate	Construction and land development	Commercial business	Consumer	Total
	(Dollars in Thousands)						
Individually evaluated for impairment	\$ 12,211	\$ 388	\$ 2,811	\$ 1,198	\$ -	\$ 10	\$ 16,618
Collectively evaluated for impairment	235,977	5,395	16,140	10,598	592	447	269,149
Total loans	\$ 248,188	\$ 5,783	\$ 18,951	\$ 11,796	\$ 592	\$ 457	\$ 285,767

The following table summarizes the loans individually evaluated for impairment by loan segment at September 30, 2012:

	One- to four- family residential	Multi-family residential	Commercial real estate	Construction and land development	Commercial business	Consumer	Total
	(Dollars in Thousands)						
Individually evaluated for impairment	\$ 25,440	\$ 916	\$ 1,679	\$ 2,573	\$ -	\$ -	\$ 30,608
Collectively evaluated for impairment	197,353	4,135	17,654	12,300	632	523	232,597
Total loans	\$ 222,793	\$ 5,051	\$ 19,333	\$ 14,873	\$ 632	\$ 523	\$ 263,205

The loan portfolio is segmented at a level that allows management to monitor risk and performance. Management evaluates for potential impairment all construction loans, commercial real estate and commercial business loans and all loans 90 plus days delinquent as to principal and/or interest. Loans are considered to be impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement.

Once the determination is made that a loan is impaired, the determination of whether a specific allocation of the allowance is necessary is generally measured by comparing the recorded investment in the loan to the fair value of the loan using one of the following three methods: (a) the present value of the expected future cash flows discounted at the loan's effective interest rate; (b) the loan's observable market price; or (c) the fair value of the collateral less selling costs. Management primarily utilizes the fair value of collateral method as a practically expedient alternative. On collateral based loans, any portion of the loan deemed uncollectible is charged-off against the loan loss allowance.



The following table presents impaired loans by class, segregated by those for which a specific allowance was required and those for which a specific allowance was not necessary as of June 30, 2013:

	Impaired Loans with Specific Allowance (Dollars in Thousands)		Impaired Loans with No Specific Allowance	Total Impaired Loans	
	Recorded Investment	Related Allowance	Recorded Investment	Recorded Investment	Unpaid Principal Balance
One-to-four family residential	\$ -	\$ -	\$ 12,211	\$ 12,211	\$ 12,211
Mult-family residential	-	-	388	388	388
Commercial real estate	-	-	2,811	2,811	2,811
Construction and land development	-	-	1,198	1,198	1,198
Consumer	10	10	-	10	10
Total Loans	\$ 10	\$ 10	\$ 16,608	\$ 16,618	\$ 16,618

The following table presents impaired loans by class, segregated by those for which a specific allowance was required and those for which a specific allowance was not necessary as of September 30, 2012:

	Impaired Loans with Specific Allowance (Dollars in Thousands)		Impaired Loans with No Specific Allowance	Total Impaired Loans	
	Recorded Investment	Related Allowance	Recorded Investment	Recorded Investment	Unpaid Principal Balance