PRUDENTIAL BANCORP INC OF PENNSYLVANIA
Form 10-Q
February 14, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2012

OR

o 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	68-0593604
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
1834 Oregon Avenue Philadelphia, Pennsylvania	19145 Zip Code
(Address of Principal Executive Offices)	

(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 x No o

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 o 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 o Accelerated filer o

Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
o Yes x 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 February 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

	December 31, 2012	September 30, 2012
	(Dollars in Thousands)	
ASSETS		
Cash and amounts due from depository institutions	$2,849	$ 3,001
Interest-bearing deposits	50,414	78,272
Total cash and cash equivalents	53,263	81,273
Investment and mortgage-backed securities available for sale (amortized cost—December 31, 2012, $64,863; September 30, 2012, $64,030)	66,462	65,975
Investment and mortgage-backed securities held to maturity (estimated fair value—December 31, 2012, $81,973; September 30, 2012, $66,401)	79,208	63,110
Loans receivable—net of allowance for loan losses (December 31, 2012, $2,081; September 30, 2012, $1,881)	273,971	260,684
Accrued interest receivable	1,898	1,661
Real estate owned	1,953	1,972
Federal Home Loan Bank stock—at cost	1,945	2,239
Office properties and equipment—net	1,633	1,688
Bank owned life insurance	6,972	6,919
Prepaid expenses and other assets	1,298	2,234
Deferred tax asset-net	2,568	2,749
TOTAL ASSETS	$491,171	$ 490,504
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Deposits:		
Noninterest-bearing	$3,279	$ 3,711
Interest-bearing	424,497	421,891
Total deposits	427,776	425,602
Advances from Federal Home Loan Bank	340	483
Accrued interest payable	25	2,382
Advances from borrowers for taxes and insurance	2,189	1,273
Accounts payable and accrued expenses	773	933
Total liabilities	431,103	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 December 31, 2012 and September 30, 2012	126	126
Additional paid-in capital	54,748	54,610
Unearned ESOP shares	(2,732)	(2,787)

Treasury stock, at cost: 2,540,255 shares at December 31, 2012 and September 30, 2012	(31,625)	(31,625)
Retained earnings	38,496	38,224
Accumulated other comprehensive income	1,055	1,283
Total stockholders' equity	60,068	59,831
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$491,171	$ 490,504

See notes to unaudited consolidated financial statements.

PRUDENTIAL BANCORP, INC. OF PENNSYLVANIA AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended December 31,	
	2012	2011
	(Dollars in Thousands Except Per Share Amounts)	
INTEREST INCOME:		
Interest on loans	$ 3,253	$ 3,268
Interest on mortgage-backed securities	634	1,044
Interest and dividends on investments	476	646
Interest on interest-bearing deposits	34	25
Total interest income	4,397	4,983
INTEREST EXPENSE:		
Interest on deposits	1,220	1,513
Interest on borrowings	-	1
Total interest expense	1,220	1,514
NET INTEREST INCOME	3,177	3,469
PROVISION FOR LOAN LOSSES	-	150
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	3,177	3,319
NON-INTEREST INCOME:		
Gain on sale of mortgage-backed securities available for sale	16	-
Gain on sale of real estate owned	10	-
Fees and other service charges	97	117
Total other-than-temporary impairment losses	(20)	(144)
Portion of losses recognized in other comprehensive income, before taxes	6	107
Net impairment losses recognized in earnings	(14)	(37)
Other	115	93
Total non-interest income	224	173
NON-INTEREST EXPENSE:		
Salaries and employee benefits	1,458	1,519
Data processing	110	109
Professional services	184	220
Office occupancy	97	98

Depreciation	86	84
Payroll taxes	71	64
Director compensation	98	107
Real estate owned expenses	103	152
Federal Deposit Insurance Corporation insurance	162	162
Other	409	352
Total non-interest expense	2,778	2,867
INCOME BEFORE INCOME TAXES	623	625
INCOME TAXES:		
Current expense	53	411
Deferred expense (benefit)	298	(190)
Total income tax expense	351	221
NET INCOME	$ 272	$ 404
BASIC EARNINGS PER SHARE	$ 0.03	$ 0.04
DILUTED EARNINGS PER SHARE	$ 0.03	$ 0.04

See notes to unaudited consolidated financial statements.

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PRUDENTIAL BANCORP, INC. OF PENNSYLVANIA AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three months ended December 31,	
	2012	2011
	(Dollars in Thousands)	
Net income	$272	$404
Unrealized holding loss on available-for-sale securities	(342)	(103)
Tax effect	116	35
Reclassification adjustment for net gains realized in net income	(16)	-
Tax effect	5	-
Reclassification adjustment for other than temporary impairment losses on debt securities	14	37
Tax effect	(5)	(13)
Total Other Comprehensive Loss	(228)	(44)
Comprehensive Income	$44	$360

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 Income	Total Stockholders' Equity
	(Dollars in Thousands except per share amounts)						
BALANCE, OCTOBER 1, 2012	$126	$54,610	$(2,787)	$(31,625)	$38,224	$ 1,283	$59,831
Net income					272		272
Other comprehensive loss						(228)	(228)
Excess tax benefit from stock compensation		39					39
Stock option expense		55					55
Recognition and Retention Plan expense		64					64
ESOP shares committed to be released (5,655 shares)		(20)	55				35
BALANCE, December 31, 2012	$126	$54,748	$(2,732)	$(31,625)	$38,496	$ 1,055	$60,068

	Common Stock	Additional Paid-In Capital	Unearned ESOP Shares	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	(Dollars in Thousands except per share amounts)						
BALANCE, OCTOBER 1, 2011	$126	$54,078	$(3,011)	$(31,625)	$35,631	$ 2,253	$57,452
Net income					404		404
Other comprehensive loss						(44)	(44)
Excess tax benefit from stock compensation		40					40
Stock option expense		55					55
Recognition and Retention Plan expense		64					64
ESOP shares committed to be released (5,655 shares)		(27)	56				29
BALANCE, December 31, 2011	$126	$54,210	$(2,955)	$(31,625)	$36,035	$ 2,209	$58,000

See notes to unaudited consolidated financial statements

PRUDENTIAL BANCORP, INC. OF PENNSYLVANIA AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended December 31,	
	2012	2011
OPERATING ACTIVITIES:	(Dollars in Thousands)	
Net income	$ 272	$ 404
Adjustments to reconcile net income to net cash used in operating activities:		
Provision for loan losses	-	150
Depreciation	86	84
Net accretion of premiums and discounts	(48)	(115)
Net accretion of deferred loan fees and costs	(50)	(59)
Impairment charge on investment and mortgage-backed securities	14	37
Share-based compensation expense	158	159
Compensation expense of ESOP	35	29
Gain on sale of real estate owned	(10)	-
Gain on sale of mortgage-backed securities	(16)	-
Deferred income tax expense (benefit)	298	(190)
Changes in assets and liabilities which used cash:		
Accrued interest receivable	(237)	(1)
Prepaid expenses and other assets	903	330
Accrued interest payable	(2,357)	(2,379)
Accounts payable and accrued expenses	(160)	(1,117)
Net cash used in operating activities	(1,112)	(2,668)
INVESTING ACTIVITIES:		
Purchase of investment and mortgage-backed securities held to maturity	(21,467)	(14,976)
Purchase of investment and mortgage-backed securities available for sale	(5,991)	(5,936)
Loans originated or acquired	(22,295)	(15,533)
Principal collected on loans	8,822	16,656
Principal payments received on investment and mortgage-backed securities:		
Held-to-maturity	5,379	25,117
Available-for-sale	4,893	5,297
Proceeds from redemption of FHLB stock	294	144
Proceeds from sale of mortgage-backed securities	304	-
Proceeds from sale of real estate owned	208	-
Purchases of equipment	(31)	(119)
Net cash (used in) provided by investing activities	(29,884)	10,650
FINANCING ACTIVITIES:		
Net increase in demand deposits, NOW accounts, and savings accounts	4,976	7,372
Net decrease in certificates of deposit	(2,802)	(3,884)
Repayment of advances from Federal Home Loan Bank	(143)	(10)
Increase in advances from borrowers for taxes and insurance	916	661
Excess tax benefit related to stock compensation	39	27
Net cash provided by financing activities	2,986	4,166
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(28,010)	12,148

CASH AND CASH EQUIVALENTS—Beginning of period	81,273	53,829
CASH AND CASH EQUIVALENTS—End of period	$ 53,263	$ 65,977
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Interest paid on deposits and advances from Federal Home Loan Bank	$ 3,577	$ 3,893
Income taxes paid	$ -	$ 550
SUPPLEMENTAL DISCLOSURES OF NONCASH ITEMS:		
Real estate acquired in settlement of loans	$ 236	$ -

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 three months ended December 31, 2012 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 for the year ended September 30, 2012 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.

Dividend Payable – Upon declaration of a dividend, a payable is established with a corresponding reduction to retained earnings at the declaration date. There was no dividend payable as of December 31, 2012.

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 December 31, 2012, the Company had allocated a total of 175,305 shares from the suspense account to participants. For the three months ended December 31, 2012, the Company recognized $35,000 in compensation expense.

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 December 31, 2012. The repurchased shares are available for general corporate purposes. As of December 31, 2012, Prudential Mutual Holding Company ("the MHC") had purchased 568,000 shares at an average cost of $10.30 per share. As of December 31, 2012, 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.

Comprehensive Income — For the three months ended December 31, 2012 and 2011, the only components of comprehensive income were net income, unrealized holding gains, net of income tax expense, on available for sale securities and reclassifications related to realized gains on sale of securities recognized in earnings, net of tax and realized losses due to other than temporary impairment, net of tax. Reclassifications are made to avoid double counting in comprehensive income items which are displayed as part of net income for the period.

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.

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. 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.

While the Federal Home Loan Banks have been negatively impacted by the current economic conditions, the Federal Home Loan Bank of Pittsburgh reported profits for 2011 and 2012, remains in compliance with regulatory capital and liquidity requirements and makes redemptions at the par value. With consideration given to these factors, management concluded that the FHLB stock was not impaired at December 31, 2012.

Recent Accounting Pronouncements

In June 2011, the FASB issued ASU 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income. The amendments in this Update improve the comparability, clarity, consistency, and transparency of financial reporting and increase the prominence of items reported in other comprehensive income. To increase the prominence of items reported in other comprehensive income and to facilitate convergence of U.S. GAAP and International Financial Reporting Standards ("IFRS"), the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity was eliminated. The amendments require that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In the two-statement approach, the first statement should present total net income and its components followed consecutively by a second statement that should present total other comprehensive income, the components of other comprehensive income, and the total of comprehensive income. All entities that report items of comprehensive income, in any period presented, will be affected by the changes in this Update. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The amendments in this Update should be applied retrospectively, and early adoption is permitted. The Unauditied Consolidated Statement of Comprehensive Income is included in the financial statements presented herein.

In December 2011, the FASB issued ASU 2011-10, Property, Plant, and Equipment (Topic 360): Derecognition of in Substance Real Estate-a Scope Clarification. The amendments in this Update affect entities that cease to have a controlling financial interest in a subsidiary that is in substance real estate as a result of default on the subsidiary's nonrecourse debt. Under the amendments in this Update, when a parent (reporting entity) ceases to have a controlling financial interest in a subsidiary that is in-substance real estate as a result of default on the subsidiary's nonrecourse debt, the reporting entity should apply the guidance in Subtopic 360-20 to determine whether it should derecognize the in-substance real estate. Generally, a reporting entity would not satisfy the requirements to derecognize the in-substance real estate before the legal transfer of the real estate to the lender and the extinguishment of the related nonrecourse indebtedness. That is, even if the reporting entity ceases to have a controlling financial interest under Subtopic 810-10, the reporting entity would continue to include the real estate, debt, and the results of the subsidiary's operations in its consolidated financial statements until legal title to the real estate is transferred to legally satisfy the debt. The amendments in this Update should be applied on a prospective basis to deconsolidation events occurring after the effective date. Prior periods should not be adjusted even if the reporting entity has continuing involvement with previously derecognized in substance real estate entities. For public entities, the amendments in this Update are effective for fiscal years, and interim periods within those years, beginning on or after June 15, 2012. Early adoption is permitted. This ASU did not have a significant impact on the Company's financial statements.

In December 2011, the FASB issued ASU 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities. The amendments in this Update affect all entities that have financial instruments and derivative instruments that are either (1) offset in accordance with either Section 210-20-45 or Section 815-10-45 or (2) subject to an enforceable master netting arrangement or similar agreement. The requirements amend the disclosure requirements on offsetting in Section 210-20-50. This information will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements on an entity's financial position, including the effect or potential effect of rights of setoff associated with certain financial instruments and derivative instruments in the scope of this Update. An entity is required to apply the amendments for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented. This ASU is not expected to have a significant impact on the Company's financial statements.

In October, 2012, the FASB issued ASU 2012-06, Business Combinations (Topic 805) - Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Financial Institution. ASU 2012-06 requires that when a reporting entity recognizes an indemnification asset (in accordance with Subtopic 805-20) as a result of a government-assisted acquisition of a financial institution and subsequently a change in the cash flows expected to be collected on the indemnification asset occurs (as a result of a change in cash flows expected to be collected on the assets subject to indemnification), the reporting entity should subsequently account for the change in the measurement of the indemnification asset on the same basis as the change in the assets subject to indemnification. Any amortization of changes in value should be limited to the contractual term of the indemnification agreement (that is, the lesser of the term of the indemnification agreement and the remaining life of the indemnified assets). ASU 2012-06 is effective for fiscal years, and interim periods within those years, beginning on or after December 15, 2012. Early adoption is permitted. The amendments should be applied prospectively to any new indemnification assets acquired after the date of adoption and to indemnification assets existing as of the date of adoption arising from a government-assisted acquisition of a financial institution. This ASU is not expected to have a significant impact on the Company's financial statements.

In February 2013, the 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 U.S. generally accepted accounting principles (GAAP) to be reclassified in its entirety to net income. For other amounts that are not required under U.S. 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 U.S. 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 Company is currently evaluating the impact that these disclosures will have on its financial statements.

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:

	Quarter Ended December 31,			
	2012		2011	
	Basic	Diluted	Basic	Diluted
	(Dollars in Thousands Except Per Share Data)			
Net income	$ 272	$ 272	$ 404	$ 404
Weighted average shares outstanding	9,727,421	9,727,421	9,564,450	9,564,450
Effect of common stock equivalents	-	35,681	-	48,613
Adjusted weighted average shares used in earnings per share computation	9,727,421	9,763,102	9,564,450	9,613,063
Earnings per share - basic and diluted	$ 0.03	$ 0.03	$ 0.04	$ 0.04

Options to purchase 442,400 shares of common stock with per share exercise prices greater than the market value per share of the common stock as of December 31, 2012 and September 30, 2012, respectively, were outstanding at both December 31, 2012 and September 30, 2012, but were not included in the computation of diluted earnings per share because to do so would have been antidilutive.

3. 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:

	December 31, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in Thousands)			
Securities Available for Sale:				
U.S. government and agency obligations	$ 19,984	$ 111	$ (26)	$ 20,069
Mortgage-backed securities -				
U.S. government agencies	41,012	1,623	(11)	42,624
Mortgage-backed securities - non-agency	3,861	149	(248)	3,762
Total debt securities available for sale	64,857	1,883	(285)	66,455
FHLMC preferred stock	6	1	-	7
Total securities available for sale	$ 64,863	$ 1,884	$ (285)	$ 66,462
Securities Held to Maturity:				
U.S. government and agency obligations	$ 61,944	$ 1,226	$ (111)	$ 63,059
Mortgage-backed securities -				
U.S. government agencies	17,264	1,650	-	18,914
Total securities held to maturity	$ 79,208	$ 2,876	$ (111)	$ 81,973

	September 30, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in Thousands)			
Securities Available for Sale:				
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
Securities Held to Maturity:				
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 December 31, 2012:

	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)					
Securities Available for Sale:						
U.S. government and agency obligations	$ (26)	$ 2,974	$ -	$ -	$ (26)	$ 2,974
Mortgage-backed securities - agency	(11)	1,968	-	-	(11)	1,968
Mortgage-backed securities - non-agency	(4)	94	(244)	2,119	(248)	2,213
Total securities available for sale	$ (41)	$ 5,036	$ (244)	$ 2,119	$ (285)	$ 7,155
Securities Held to Maturity:						
U.S. government and agency obligations	$ (111)	$ 23,862	$ -	$ -	$ (111)	$ 23,862

Total securities held to maturity	$ (111)	$ 23,862	$ -	$ -	$ (111)	$ 23,862
Total	$ (152)	$ 28,898	$ (244)	$ 2,119	$ (396)	$ 31,017

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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 Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(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 the credit loss existed 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 three months ended December 31, 2012 of the amounts recognized in earnings related to credit losses on securities which the Company has recorded OTTI charges through earnings and comprehensive income.

	(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		14
Credit component of OTTI as of December 31, 2012	$	2,117

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 December 31, 2012, U.S. Government and agency obligations in a gross unrealized loss for less than twelve months consisted of 11 securities having an aggregate depreciation of $137,000 or 0.17% from the Company's amortized cost basis. There were no securities in a gross unrealized loss for more than twelve months at such date. The unrealized losses on these debt securities relates 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 December 31, 2012.

U.S. Agency Issued Mortgage-Backed Securities - At December 31, 2012, the gross unrealized loss in U.S. agency issued mortgage-backed securities in the category of less than 12 months was $11,000 or 0.02% from the Company's amortized cost basis and consisted of one security. There were no securities in a gross unrealized loss in the category of 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 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 an investment in a mutual fund and includes 52 collateralized mortgage obligations ("CMO") and mortgage-backed securities issued by large commercial financial institutions. For the quarter ended December 31, 2012, management recognized an OTTI charge related to a portion of the portfolio securities in the amount of $20,000 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 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 the declining real estate markets such as California, Nevada, Arizona and Florida and consequently, an additional OTTI charge was deemed to be warranted as of December 31, 2012. Of the recorded charge, a total of $14,000 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 December 31, 2012, 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 $248,000 in gross unrealized losses related to this part of the portfolio, 17 securities had been in a loss position for longer than 12 months while 4 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.

	December 31, 2012			
	Held to Maturity		Available for Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in Thousands)			
Due within one year	$ 1,000	$ 1,005	$ -	$ -
Due after one through five years	4,000	4,038	-	-
Due after five through ten years	11,498	12,091	2,998	3,072
Due after ten years	45,446	45,925	16,986	16,997
Total	$ 61,944	$ 63,059	$ 19,984	$ 20,069

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

4. LOANS RECEIVABLE

Loans receivable consist of the following:

	December 31, 2012	September 30, 2012
	(Dollars in Thousands)	
One-to-four family residential	$ 237,511	$ 222,793
Multi-family residential	4,799	5,051
Commercial real estate	18,436	19,333
Construction and land development	15,817	14,873
Commercial business	603	632
Consumer	374	523
Total loans	277,540	263,205
Undisbursed portion of loans-in-process	(2,698)	(1,629)
Deferred loan fees, net	1,210	989
Allowance for loan losses	(2,081)	(1,881)
Net loans	$ 273,971	$ 260,684

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The following table summarizes the loans individually evaluated for impairment by loan segment at December 31, 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	$ 24,676	$ 911	$ 1,672	$ 2,152	$ -	$ -	$ 29,411
Collectively evaluated for impairment	212,835	3,888	16,764	13,665	603	374	248,129
Total loans	$ 237,511	$ 4,799	$ 18,436	$ 15,817	$ 603	$ 374	$ 277,540

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 all construction loans, commercial real estate and commercial business loans and all loans 90 plus days delinquent as to principal and/or interest for potential impairment. 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.

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 December 31, 2012:

	Impaired Loans with Specific Allowance		Impaired Loans with No Specific Allowance	Total Impaired Loans	
	(Dollars in Thousands)				
	Recorded Investment	Related Allowance	Recorded Investment	Recorded Investment	Unpaid Principal Balance
One-to-four family residential	$ -	$ -	$ 24,676	$ 24,676	$ 24,676
Mult-family residential	-	-	911	911	911
Commercial real estate	-	-	1,672	1,672	1,672
Construction and land development	-	-	2,152	2,152	2,152
Total Loans	$ -	$ -	$ 29,411	$ 29,411	$ 29,411

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
One-to-four family residential	$ -	$ -	$ 25,440	$ 25,440	$ 25,440
Multi-family residential	-	-	916	916	916
Commercial real estate	-	-	1,679	1,679	1,679
Construction and land development	-	-	2,573	2,573	2,573
Total Loans	$ -	$ -	$ 30,608	$ 30,608	$ 30,608

The following table presents the average recorded investment in impaired loans and related interest income recognized for the periods indicated:

	Quarter Ended December 31, 2012	
	Average	Income