

Oconee Federal Financial Corp.
Form 10-Q
May 15, 2012
[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly Period ended March 31, 2012

Or

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

For transition period from to

Commission File Number 001-35033

Oconee Federal Financial Corp.

(Exact Name of Registrant as Specified in Charter)

Federal
(State of Other Jurisdiction)

of Incorporation)

201 East North Second Street, Seneca, South Carolina
(Address of Principal Executive Officers)

32-0330122
(I.R.S Employer

Identification Number)

29678
(Zip Code)

(864) 882-2765

Registrant's telephone number, including area code

Not Applicable

(Former name or former address, if changed since last report)

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No .

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, or a smaller reporting company. See definitions 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

Non-accelerated filer

Smaller reporting company

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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 practicable date.

There were 6,348,000 shares of Common Stock, par value \$.01 per share, outstanding as of May 7, 2012.

Table of Contents

OCONEE FEDERAL FINANCIAL CORP.

Form 10-Q Quarterly Report

Table of Contents

<u>ITEM 1. FINANCIAL STATEMENTS</u>	1
<u>ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	20
<u>ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	28
<u>ITEM 4. CONTROLS AND PROCEDURES</u>	28
<u>PART II</u>	28
<u>ITEM 1. LEGAL PROCEEDINGS</u>	28
<u>ITEM 1A. RISK FACTORS</u>	28
<u>ITEM 3. DEFAULTS UPON SENIOR SECURITIES</u>	28
<u>ITEM 4. MINE SAFETY DISCLOSURES</u>	28
<u>ITEM 5. OTHER INFORMATION</u>	28
<u>ITEM 6. EXHIBITS</u>	28
<u>SIGNATURES</u>	29
<u>INDEX TO EXHIBITS</u>	30

Table of Contents

OCONEE FEDERAL FINANCIAL CORP.

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except share data)

PART I**ITEM 1. FINANCIAL STATEMENTS**

	March 31, 2012 (Unaudited)	June 30, 2011 (*)
ASSETS		
Cash and due from banks	\$ 18,864	\$ 11,453
Federal funds sold and overnight interest bearing deposits	30,384	49,377
Total cash and cash equivalents	49,248	60,830
Securities held to maturity (estimated fair value: March 31, 2012 - \$9,282 and June 30, 2011 - \$9,473)	8,843	9,035
Securities available for sale	55,484	30,631
Loans, net of allowance for loan losses of \$818 and \$749	255,717	264,913
Premises and equipment, net	3,199	3,255
Real estate owned, net	897	2,254
Accrued interest receivable		
Loans	944	936
Investments	286	107
Restricted equity securities	564	557
Bank owned life insurance	387	369
Prepaid FDIC insurance premiums	380	488
Other assets	928	902
Total assets	\$ 376,877	\$ 374,277
LIABILITIES AND EQUITY		
Deposits		
Non-interest bearing	\$ 3,137	\$ 2,014
Interest bearing	290,123	290,455
Total deposits	293,260	292,469
Accrued interest payable and other liabilities	1,454	1,597
Total liabilities	294,714	294,066
SHAREHOLDERS EQUITY		
Common stock, \$0.01 par value, 100,000,000 shares authorized; 6,348,000 shares outstanding at March 31, 2012 and June 30, 2011	63	63
Additional paid in capital	20,958	20,935
Retained earnings	63,133	61,516

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Accumulated other comprehensive income	302	136
Unearned ESOP shares	(2,293)	(2,439)
Total shareholders' equity	82,163	80,211
Total liabilities and shareholders' equity	\$ 376,877	\$ 374,277

(*) Derived from audited consolidated financial statements.

See accompanying notes to the consolidated financial statements

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Table of Contents

OCONEE FEDERAL FINANCIAL CORP.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(Unaudited)

(Dollars in thousands, except per share data)

	Three Months Ended		Nine Months Ended	
	March 31, 2012	March 31, 2011	March 31, 2012	March 31, 2011
Interest and dividend income:				
Loans, including fees	\$ 3,511	\$ 3,662	\$ 10,819	\$ 11,012
Securities, taxable	240	106	608	353
Federal funds sold and other	30	23	92	67
Total interest income	3,781	3,791	11,519	11,432
Interest expense:				
Deposits	747	1,199	2,535	3,906
Total interest expense	747	1,199	2,535	3,906
Net interest income	3,034	2,592	8,984	7,526
Provision for loan losses	82	(6)	224	47
Net interest income after provision for loan losses	2,952	2,598	8,760	7,479
Noninterest income:				
Service charges on deposit accounts	21	22	60	67
Gains on sales of securities	22		89	
Other	15	5	50	(11)
Total noninterest income	58	27	199	56
Noninterest expense:				
Salaries and employee benefits	700	664	2,124	1,906
Occupancy and equipment	165	173	492	540
Data processing	61	88	237	218
Professional and supervisory fees	118	67	361	171
Office expense	38	27	115	62
Advertising	14	9	51	36
FDIC deposit insurance	42	77	123	209
Charitable contributions	1	1,677	1	1,683
Provision for real estate owned and related expenses	199	78	536	217
Other	90	94	280	255
Total noninterest expense	1,428	2,954	4,320	5,297
Income before income taxes	1,582	(329)	4,639	2,238
Income tax expense (benefit)	634	(132)	1,821	837
Net income (loss)	\$ 948	\$ (197)	\$ 2,818	\$ 1,401

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Other comprehensive income (loss), net of tax								
Unrealized gain (loss) on securities available for sale, net of taxes	\$	111	\$	5	\$	208	\$	11
Reclassification adjustment for gains realized in income, net of taxes						(42)		(6)
Other comprehensive income		111		5		166		5
Comprehensive income (loss)	\$	1,059	\$	(192)	\$	2,984	\$	1,406
Net income (loss) per share	\$	0.16	\$	(0.04)	\$	0.46	\$	0.81
Dividends declared per share	\$	0.10	\$	0.10	\$	0.20	\$	0.10

See accompanying notes to the consolidated financial statements

Table of Contents

OCONEE FEDERAL FINANCIAL CORP.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

(Unaudited)

(Dollars in thousands)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Unearned ESOP Shares	Total
Balance July 1, 2010	\$	\$	\$ 59,661	\$	\$	\$ 59,661
Net income			1,401			1,401
Other comprehensive income				5		5
Common stock issued to Oconee Federal MHC, 4,127,470	41	(41)				
Initial funding of Oconee Federal, MHC		(50)				(50)
Common stock issued to Charitable Foundation, 125,690	1	1,256				1,257
Common stock issued in initial public offering, 2,094,840 shares, net of issuance costs \$1,166	21	19,760			(2,489)	17,292
Dividends (1)			(222)			(222)
ESOP shares earned		5			25	30
Balance March 31, 2011	\$ 63	\$ 20,930	\$ 60,840	\$ 5	\$ (2,464)	\$ 79,374
Balance July 1, 2011	\$ 63	\$ 20,935	\$ 61,516	\$ 136	\$ (2,439)	\$ 80,211
Net income			2,818			2,818
Other comprehensive income				166		166
Dividends (1)			(1,201)			(1,201)
ESOP shares earned		23			146	169
Balance March 31, 2012	\$ 63	\$ 20,958	\$ 63,133	\$ 302	\$ (2,293)	\$ 82,163

(1) On March 24, 2011 and on June 23, 2011 cash dividends of \$0.10 per share were declared on 2,220,530 of the 6,348,000 shares outstanding at March 31, 2011 and June 30, 2011, respectively. Oconee Federal, MHC, the Company's mutual holding company was granted a dividend payment waiver from the Office of Thrift Supervision for the 4,127,470 of Company shares held by Oconee Federal, MHC. Cash dividends of \$0.10 per share were declared on October 20, 2011 for all shareholders of record as of November 3, 2011. Cash dividends of \$0.10 per share were declared on January 19, 2012 for all stockholders of record as of February 2, 2012.

See accompanying notes to the consolidated financial statements

Table of Contents

OCONEE FEDERAL FINANCIAL CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Dollars in thousands)

	Nine Months Ended	
	March 31, 2012	March 31, 2011
Cash Flows From Operating Activities		
Net income	\$ 2,818	\$ 1,401
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	224	47
Provision for real estate owned	349	217
Depreciation and amortization, net	341	222
Deferred loan fees, net of accretion	(78)	4
Deferred income tax expense (benefit)	4	(644)
Gain on sale of real estate owned	(46)	(7)
Gains on sales of securities	(89)	
Loss from other-than-temporary impairment	7	9
Stock issued to charitable foundation		1,257
ESOP compensation expense	169	30
Net change in operating assets and liabilities:		
Accrued interest receivable	(187)	44
Accrued interest payable	(11)	89
Other	(168)	407
Net cash provided by operating activities	3,333	3,076
Cash Flows From Investing Activities		
Purchases of premises and equipment	(116)	(11)
Purchases of securities held-to-maturity	(1,743)	
Purchases of securities available-for-sale	(38,998)	
Proceeds from maturities, paydowns and calls of securities held-to-maturity	1,908	2,665
Purchases of restricted equity securities	(7)	(17)
Proceeds from maturities, paydowns and calls of securities available for sale	3,838	
Proceeds from sales of available-for-sale securities	10,509	
Proceeds from sale of real estate owned	1,642	261
Loan (originations) and repayments, net	8,462	(2,943)
Net cash used in investing activities	(14,505)	(45)
Cash Flows from Financing Activities		
Net change in deposits	791	23,493
Initial funding of Oconee Federal, MHC		(50)
Proceeds from sale of capital stock, net of issuance costs		17,292
Dividends paid	(1,201)	(222)
Net cash provided by (used in) financing activities	(410)	40,513
Change in cash and cash equivalents	(11,582)	43,544
Cash and cash equivalents, beginning of year	60,830	49,792

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Cash and cash equivalents, end of period	\$	49,248	\$	93,336
Cash paid during the period for:				
Interest paid	\$	2,546	\$	3,995
Income taxes paid	\$	1,850	\$	1,300
Supplemental noncash disclosures:				
Transfers from loans to real estate owned	\$	588	\$	1,516
Unrealized gains on securities available for sale, net of taxes	\$	166	\$	5

See accompanying notes to the consolidated financial statements

Table of Contents

OCONEE FEDERAL FINANCIAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollars in thousands)

(1) BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements of Oconee Federal Financial Corp. (referred to herein as the Company, we, us, or our), which include the accounts of its wholly owned subsidiary Oconee Federal Savings and Loan Association (the Association), have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. Intercompany accounts and transactions are eliminated during consolidation. The Company is majority owned (65.02%) by Oconee Federal, MHC. These financial statements do not include the transactions and balances of Oconee Federal, MHC.

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting only of normal recurring accruals) necessary to present fairly the Company s financial position as of March 31, 2012 and June 30, 2011 and the results of operations and cash flows for the interim periods ended March 31, 2012 and 2011. All interim amounts have not been audited, and the results of operations for the interim periods herein are not necessarily indicative of the results of operations to be expected for the year. These consolidated financial statements should be read in conjunction with the Company s audited consolidated financial statements and notes thereto included in the Form 10-K Annual Report of Oconee Federal Financial Corp. for the year ended June 30, 2011.

(2) NEW ACCOUNTING STANDARDS

ASU 2011-02, Receivables (Topic 310): A Creditor s Determination of Whether a Restructuring is a Troubled Debt Restructuring provides additional guidance to clarify when a loan modification or restructuring is considered a troubled debt restructuring (TDR) in order to address current diversity in practice and lead to more consistent application of U.S. GAAP for debt restructurings. In evaluating whether a restructuring constitutes a troubled debt restructuring, a creditor must separately conclude that both of the following exist: (1) the restructuring constitutes a concession, and (2) the debtor is experiencing financial difficulties. The amendments to Topic 310 clarify the guidance regarding the evaluation of both considerations above. Additionally, the amendments clarify that a creditor is precluded from using the effective interest rate test in the debtor s guidance on restructuring of payables (paragraph 470-60-55-10) when evaluating whether a restructuring constitutes a TDR. This amendment is effective for us July 1, 2011. Early adoption is permitted. Retrospective application to the beginning of the annual period of adoption for modifications occurring on or after the beginning of the annual adoption period is required. As a result of applying these amendments, we may identify receivables that are newly considered to be impaired. For purposes of measuring impairment of those receivables, an entity should apply the amendments prospectively for the first interim or annual period beginning on or after June 15, 2011. Implementation of these updates did not have a significant impact to the consolidated financial statements.

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In May 2011, the FASB has issued ASU No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. This ASU represents the converged guidance of the FASB and the IASB (the Boards) on fair value measurement. The collective efforts of the Boards and their staffs, reflected in ASU 2011-04, have resulted in common requirements for measuring fair value and for disclosing information about fair value measurements, including a consistent meaning of the term fair value. The Boards have concluded the common requirements will result in greater comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and IFRSs. The amendments to the FASB Accounting Standards Codification in this ASU are to be applied prospectively. For public entities, the amendments are effective during interim and annual periods beginning after December 15, 2011. Early application by public entities is not permitted. The Company has complied with this update, and the effect of applying this standard is reflected in our notes to the consolidated financial statements.

In June 2011, the FASB has issued ASU No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income. This ASU amends the FASB Accounting Standards Codification to allow an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in

Table of Contents

OCONEE FEDERAL FINANCIAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollars in thousands)

shareholders' equity. The amendments to the Codification in the ASU do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. ASU 2011-05 should be applied retrospectively. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. In December 2011, FASB issued ASU 2011-12, which defers the effective date of this requirement in ASU 2011-05 to present items that are reclassified from accumulated other comprehensive income to net income alongside their respective components for net income and other comprehensive income. Early adoption is permitted. The Company has already complied with this update and the changes are reflected in our consolidated financial statements.

(3) EARNINGS PER SHARE (EPS)

Basic EPS share is determined by dividing net earnings available to common shareholders by the weighted average number of common shares outstanding for the period. ESOP shares are considered outstanding for this calculation unless unearned. The factors used in the earnings per common share computation follow:

	Three Months Ended March 31, 2012	Nine Months Ended March 31, 2012	Three Months Ended March 31, 2011	Nine Months Ended March 31, 2011
Net income (loss)	\$ 948	\$ 2,818	\$ (197)	\$ 1,401
Weighted average common shares outstanding	6,348,000	6,348,000	5,501,600	1,087,095
Less: Average unearned ESOP shares	(232,179)	(237,403)	(215,644)	(70,832)
Average shares for basic EPS	6,115,821	6,110,597	5,285,956	1,016,263
Basic EPS (loss)	\$ 0.16	\$ 0.46	\$ (0.04)	\$ 0.81

There were no potential dilutive common shares for the period presented; therefore, basic and diluted EPS are the same. The average common shares outstanding for the three and nine months ended March 31, 2011 was computed for both periods using the days outstanding from January 13, 2011 (effective date of the conversion and reorganization) to March 31, 2011.

Table of Contents

OCONEE FEDERAL FINANCIAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollars in thousands)

(4) SECURITIES AVAILABLE FOR SALE AND HELD TO MATURITY

Debt, mortgage-backed and equity securities have been classified in the consolidated balance sheets according to management's intent. Investment securities at March 31, 2012 and June 30, 2011 are as follows:

	Amortized Cost		Gross Unrealized Gains		Gross Unrealized Losses		Fair Value
<u>March 31, 2012</u>							
Held to maturity:							
Certificates of deposit	\$ 1,743	\$	5	\$	(1)	\$	1,747
FHLMC mortgage-backed securities							
GNMA mortgage-backed securities	7,100		435				7,535
Total held-to-maturity	\$ 8,843	\$	440	\$	(1)	\$	9,282
Available for sale:							
FHLMC common stock	\$ 24	\$	1	\$		\$	25
FNMA mortgage backed securities	10,134		71		(4)		10,201
FHLMC mortgage backed securities	14,688		52		(31)		14,709
U.S. Government agencies	30,156		407		(14)		30,549
Total available for sale	\$ 55,002	\$	531	\$	(49)	\$	55,484
<u>June 30, 2011</u>							
Held to maturity:							
FHLMC mortgage-backed securities	\$ 384	\$	27	\$			