

Oconee Federal Financial Corp.
Form 10-Q
November 07, 2012
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**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 September 30, 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)

32-0330122
(I.R.S Employer
Identification Number)

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

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

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

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Indicate the number of shares outstanding of each of the Issuer's classes of common stock as of the latest practicable date.

There were 6,423,645 shares of Common Stock, par value \$.01 per share, outstanding as of October 30, 2012.

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OCONEE FEDERAL FINANCIAL CORP.

Form 10-Q Quarterly Report

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OCONEE FEDERAL FINANCIAL CORP.

CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except share and per share data)

PART I

ITEM 1. FINANCIAL STATEMENTS

	September 30, 2012 (Unaudited)	June 30, 2012 (*)
ASSETS		
Cash and cash equivalents	\$ 21,731	\$ 14,977
Federal funds sold and overnight interest bearing deposits	28,207	32,635
Total cash and cash equivalents	49,938	47,612
Securities held-to-maturity (estimated fair value: September 30, 2012 - \$8,782 and June 30, 2012 - \$9,147)	8,383	8,733
Securities available-for-sale	70,544	64,540
Loans, net of allowance for loan losses of \$930 and \$857	243,751	249,832
Premises and equipment, net	3,161	3,183
Real estate owned, net	820	854
Accrued interest receivable		
Loans	975	953
Investments	291	230
Restricted equity securities	564	564
Bank owned life insurance	384	385
Prepaid FDIC insurance premiums	323	345
Other assets	521	522
Total assets	\$ 379,655	\$ 377,753
LIABILITIES		
Deposits		
Non-interest bearing	\$ 3,660	\$ 3,394
Interest bearing	289,852	289,974
Total deposits	293,512	293,368
Accrued interest payable and other liabilities	2,296	1,401
Total liabilities	295,808	294,769
SHAREHOLDERS EQUITY		
Common stock, \$0.01 par value, 100,000,000 shares authorized; 6,423,645 shares outstanding at September 30, 2012 and June 30, 2012	64	64
Additional paid in capital	20,947	20,880
Retained earnings	64,067	63,693

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Accumulated other comprehensive income	982	599
Unearned ESOP shares	(2,213)	(2,252)
Total shareholders' equity	83,847	82,984
Total liabilities and shareholders' equity	\$ 379,655	\$ 377,753

(*) Derived from audited financial statements

See accompanying notes to the consolidated financial statements

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OCONEE FEDERAL FINANCIAL CORP.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(Unaudited)

(Amounts in thousands, except per share data)

	Three Months Ended	
	September 30, 2012	September 30, 2011
Interest and dividend income:		
Loans, including fees	\$ 3,370	\$ 3,670
Securities, taxable	266	172
Federal funds sold and other	18	29
Total interest income	3,654	3,871
Interest expense:		
Deposits	625	946
Total interest expense	625	946
Net interest income	3,029	2,925
Provision for loan losses	141	28
Net interest income after provision for loan losses	2,888	2,897
Noninterest income:		
Service charges on deposit accounts	20	18
Gain on sales of securities		67
Gain on sales of real estate owned	57	12
Other	9	
Total noninterest income	86	97
Noninterest expense:		
Salaries and employee benefits	790	666
Occupancy and equipment	177	160
Data processing	59	75
Professional and supervisory fees	79	128
Office expense	23	27
Advertising	19	20
FDIC deposit insurance	27	41
Provision for real estate owned and related expenses	37	144
Other	76	126
Total noninterest expense	1,287	1,387
Income before income taxes	1,687	1,607
Income tax expense	670	630
Net income	\$ 1,017	\$ 977
Other comprehensive income, net of tax		
Unrealized gain on securities available-for-sale, net of taxes	\$ 383	\$ 78

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Reclassification adjustment for (gains) losses realized in income, net of taxes			(3)
Other comprehensive income		383	75
Comprehensive income	\$	1,400	\$ 1,052
Basic net income per share: (Note 2)	\$	0.16	\$ 0.16
Diluted net income per share (Note 2)	\$	0.16	\$ 0.16
Dividends declared per share	\$	0.10	\$

See accompanying notes to the consolidated financial statements

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OCONEE FEDERAL FINANCIAL CORP.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

(Unaudited)

(Amounts in thousands)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Unearned ESOP Shares	Total
Balance at July 1, 2011	\$ 63	\$ 20,935	\$ 61,516	\$ 136	\$ (2,439)	\$ 80,211
Net income			977			977
Other comprehensive income				75		75
ESOP shares earned		5			25	30
Balance at September 30, 2011	\$ 63	\$ 20,940	\$ 62,493	\$ 211	\$ (2,414)	\$ 81,293
Balance at July 1, 2012	\$ 64	\$ 20,880	\$ 63,693	\$ 599	\$ (2,252)	\$ 82,984
Net income			1,017			1,017
Other comprehensive income				383		383
Stock-based compensation expense		58				58
Dividends			(643)			(643)
ESOP shares earned		9			39	48
Balance at September 30, 2012	\$ 64	\$ 20,947	\$ 64,067	\$ 982	\$ (2,213)	\$ 83,847

See accompanying notes to the consolidated financial statements

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OCONEE FEDERAL FINANCIAL CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Amounts in thousands)

	Three Months Ended	
	September 30, 2012	September 30, 2011
Cash Flows From Operating Activities		
Net income	\$ 1,017	\$ 977
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	141	28
Provision for real estate owned		71
Depreciation and amortization, net	276	91
Deferred loan fees, net	70	13
Gain on sale of real estate owned	(57)	(12)
Gain on sales of securities		(67)
Loss from other-than-temporary impairment		4
ESOP compensation expense	48	30
Stock based compensation expense	58	
Net change in operating assets and liabilities:		
Accrued interest receivable	(83)	(114)
Accrued interest payable	5	(9)
Other	689	658
Net cash provided by operating activities	2,164	1,670
Cash Flows From Investing Activities		
Purchases of premises and equipment	(31)	(38)
Purchases of securities held-to-maturity	(498)	
Purchases of securities available-for-sale	(8,347)	(15,233)
Proceeds from maturities, paydowns and calls of securities available-for-sale	2,746	130
Proceeds from maturities, paydowns and calls of securities held-to-maturity	830	317
Proceeds from sales of securities available-for-sale		10,182
Proceeds from sale of real estate owned	674	51
Loan originations and repayments, net	5,287	(459)
Net cash provided by (used in) investing activities	661	(5,050)
Cash Flows from Financing Activities		
Net change in deposits	144	(698)
Dividends paid	(643)	(222)
Net cash used in financing activities	(499)	(920)
Change in cash and cash equivalents	2,326	(4,300)
Cash and cash equivalents, beginning of year	47,612	60,830
Cash and cash equivalents, end of period	\$ 49,938	\$ 56,530

See accompanying notes to the consolidated financial statements

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OCONEE FEDERAL FINANCIAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Amounts in thousands, except share and per share data)

(1) BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements of Oconee Federal Financial Corp., which include the accounts of its wholly owned subsidiary Oconee Federal Savings and Loan Association (the Association) (referred to herein as the Company, we, us, or our) 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 (64.25%) 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 September 30, 2012 and June 30, 2012 and the results of operations and cash flows for the interim periods ended September 30, 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, 2012.

(2) EARNINGS PER SHARE (EPS)

Basic EPS 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	
	September 30, 2012	September 30, 2011
Earnings per share		
Net income	\$ 1,017	\$ 977
Less: distributed earnings allocated to participating securities	(8)	
Less: (undistributed income) dividends in excess of earnings allocated to participating securities	(5)	
Net earnings available to common stock	\$ 1,004	\$ 977

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Weighted common shares outstanding including participating securities	6,423,645	6,348,000
Less: participating securities	(79,063)	
Less: average unearned ESOP shares	(222,912)	(241,377)
Weighted average shares	6,121,670	6,106,623
Basic earnings per share	\$ 0.16	\$ 0.16
Weighted average shares	6,121,670	6,106,623
Add: dilutive effects of assumed exercises of stock options	16,587	
Average shares and dilutive potential common shares	6,138,257	6,106,623
Diluted earnings per share	\$ 0.16	\$ 0.16

There were no potential dilutive common shares for the three months ended September 30, 2011; therefore, basic and diluted EPS are the same.

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(Unaudited)

(Amounts in thousands, except share and per share data)

(3) 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 September 30, 2012 and June 30, 2012 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<u>September 30, 2012</u>				
Held-to-maturity:				
Certificates of deposit	\$ 2,490	\$ 10	\$ (1)	\$ 2,499
GNMA mortgage-backed securities	5,893	390		6,283
Total held-to-maturity	\$ 8,383	\$ 400	\$ (1)	\$ 8,782
Available-for-sale:				
FHLMC common stock	\$ 20	\$ 1	\$	\$ 21
Preferred stock (1)	734	15		749
FNMA CMO/REMIC	2,040		(25)	2,015
FHLMC CMO/REMIC	2,063			2,063
FNMA mortgage-backed securities	14,734	342		15,076
FHLMC mortgage-backed securities	17,364	536		17,900
U.S. Government agencies	32,018	702		32,720
Total available-for-sale	\$ 68,973	\$ 1,596	\$ (25)	\$ 70,544
<u>June 30, 2012</u>				
Held-to-maturity:				
Certificates of deposit	\$ 1,992	\$ 9	\$ (1)	\$ 2,000
GNMA mortgage-backed securities	6,741	406		7,147
Total held-to-maturity	\$ 8,733	\$ 415	\$ (1)	\$ 9,147
Available-for-sale:				
FHLMC common stock	\$ 20	\$	\$	\$ 20
Preferred stock (1)	272			272
FNMA mortgage-backed securities	12,825	198	(6)	13,017
FHLMC mortgage-backed securities	18,380	262	(1)	18,641
U.S. Government agencies	32,081	511	(2)	32,590
Total available-for-sale	\$ 63,578	\$ 971	\$ (9)	\$ 64,540

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(1) Consists of 300 shares of Southern First Bancshares, Inc. cumulative perpetual preferred stock, series T and 500 shares of BNC Bancorp cumulative perpetual preferred stock, series T.

The Company evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. The Company considers the length of time and the extent to which the fair value has been less than cost and the financial condition and near-term prospects of the issuer. Additionally, the Company considers its intent to sell or whether it will be more likely than not it will be required to sell the security prior to the security's anticipated recovery in fair value. In analyzing an issuer's financial condition, the Company may consider whether the securities are issued by federal Government agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Amounts in thousands, except share and per share data)

There was one FNMA collateralized mortgage obligation (CMO) with an unrealized loss and two certificates of deposit with an unrealized loss at September 30, 2012. There were two U.S. Government agency securities, one FHLMC mortgage-backed security, one FNMA mortgage-backed security, and two certificates of deposits with fair values below their amortized cost at June 30, 2012. None of the unrealized losses for these securities have been recognized in net income for the three months ended September 30, 2012 because of the high credit quality of the securities, management does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates. The fair value is expected to recover as the bonds approach their maturity date or reset date.

During the three months ended September 30, 2011, management recorded an other-than-temporary impairment charge on the FHLMC common stock of \$4 based on management's evaluation of the length of time the FHLMC had been impaired and the prospects of recoverability. No impairment was recorded for the three months ended September 30, 2012.

The amortized cost and fair value of securities available-for-sale and held-to-maturity debt securities at September 30, 2012 by contractual maturity are summarized as follows:

	September 30, 2012	
	Amortized Cost	Estimated Fair Value
Due from one to five years	\$ 27,507	\$ 28,151
Due from five to ten years	7,001	7,068
Due after ten years		
Mortgage-backed securities	42,094	43,337
Total	\$ 76,602	\$ 78,556

There were no sales of securities for the three months ended September 30, 2012. Gross proceeds from sales of securities and gross gains for the three months ended September 30, 2011 were \$10,182 and \$67, respectively.

(4) LOANS

The components of loans at September 30, 2012 and June 30, 2012 were as follows:

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	September 30, 2012	June 30, 2012
Real estate loans:		
One- to four-family	\$ 228,193	\$ 234,125
Multi-family	262	264
Home equity	383	395
Nonresidential	9,110	9,226
Construction and land	7,345	7,232
Total real estate loans	245,293	251,242
Consumer and other loans	851	987
Total loans	246,144	252,229
Net deferred loan fees	(1,463)	(1,540)
Allowance for loan losses	(930)	(857)
Loans, net	\$ 243,751	\$ 249,832

The following tables present the activity in the allowance for loan losses for the three months ended September 30, 2012 and 2011 and the balances in the allowance for loan losses and the recorded investment in loans by portfolio segment based on impairment method at September 30, 2012 and 2011:

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Amounts in thousands, except share and per share data)

September 30, 2012	One-to-four family	Multi-family	Real estate Home Equity	Nonresidential	Construction and land	Consumer	Total
Beginning balance	\$ 773	\$ 4	\$ 1	\$ 56	\$ 21	\$ 2	\$ 857
Provision	139				1	1	141
Charge-offs	(68)						