MSB FINANCIAL CORP.
Form 10-Q
May 14, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 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 March 31, 2010

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 001-33246

MSB FINANCIAL CORP.
(Exact name of registrant as specified in its charter)

UNITED STATES (State or other jurisdiction of incorporation or organization)	34-1981437 (I.R.S. Employer Identification Number)
1902 Long Hill Road, Millington, New Jersey (Address of principal executive offices)	07946-0417 (Zip Code)

Registrant's telephone number, including area code (908) 647-4000

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 [ ]

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). Yes [] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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.

Large accelerated filer [ ]	Accelerated filer [ ]
Non-accelerated filer [ ]	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). Yes [ ] No [X]

The number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date: May 10, 2010:

$0.10 par value common stock 5,185,510 shares outstanding

MSB FINANCIAL CORP. AND SUBSIDIARIES

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MSB FINANCIAL CORP AND SUBSIDARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Unaudited)

	March 31, 2010	June 30, 2009
	(In Thousands, except share and per share amounts)	
Assets		
Cash and due from banks	$ 4,727	$ 2,424
Interest-earning demand deposits with banks	11,203	7,075
Cash and Cash Equivalents	15,930	9,499
Trading securities	57	37
Securities held to maturity (fair value of $47,820 and $44,642 respectively)	47,925	44,687
Loans receivable, net of allowance for loan losses of $2,644 and $1,808 respectively	274,110	276,058
Other real estate	521	—
Premises and equipment	10,583	11,018
Federal Home Loan Bank of New York stock, at cost	1,617	2,122
Bank owned life insurance	5,669	4,894
Accrued interest receivable	1,536	1,780
Deferred income taxes	2,234	1,826
Other assets	2,205	342
Total Assets	$ 362,387	$ 352,263
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Non-interest bearing	$ 11,241	$ 9,972
Interest bearing	283,615	262,308
Total Deposits	294,856	272,280
Advances from Federal Home Loan Bank of New York	25,000	36,218
Advance payments by borrowers for taxes and insurance	294	342
Other liabilities	2,171	2,440
Total Liabilities	322,321	311,280
Commitments and Contingencies	—	—
Stockholders' Equity		
	562	562

Common stock, par value $0.10; 10,000,000 shares authorized; 5,620,625 issued; 5,226,086 and 5,310,921 shares outstanding		
Paid-in capital	23,573	24,348
Retained earnings	21,322	20,863
Unearned ESOP shares	(1,475)	(1,602)
Treasury stock, at cost, 394,539 and 309,704 shares, respectively	(3,899)	(3,169)
Accumulated other comprehensive loss	(17)	(19)
Total Stockholders' Equity	40,066	40,983
Total Liabilities and Stockholders' Equity	$ 362,387	$ 352,263

See notes to consolidated financial statements.

MSB FINANCIAL CORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2010	2009	2010	2009
	(In Thousands, except per share amounts)			
Interest Income:				
Loans receivable, including fees	$ 3,547	$ 3,722	$ 10,897	$ 11,241
Securities held to maturity	599	395	1,746	1,144
Other	29	23	94	93
Total Interest Income	4,175	4,140	12,737	12,478
Interest Expense				
Deposits	1,221	1,592	4,011	4,897
Borrowings	221	348	811	1,137
	1,442	1,940	4,822	6,034
Less: Capitalized Interest	--	--	--	(31)
Total Interest Expense	1,442	1,940	4,822	6,003
Net Interest Income	2,733	2,200	7,915	6,475
Provision for Loan Losses	375	91	1,125	223
Net Interest Income after Provision for Loan Losses	2,358	2,109	6,790	6,252
Non-Interest Income				
Fees and service charges	81	74	257	242
Income from bank owned life insurance	48	38	136	119
Unrealized gain (loss) on trading securities	10	(28)	20	(66)
Other	27	20	76	83
Total Non-Interest Income	166	104	489	378
Non-Interest Expenses				
Salaries and employee benefits	931	914	2,765	2,720
Directors compensation	106	85	287	253
Occupancy and equipment	414	426	1,199	1,197
Service bureau fees	105	93	304	286
Advertising	55	54	174	202
FDIC Assessment	124	108	360	206
Other	460	346	1,171	1,088
Total Non-Interest Expenses	2,195	2,026	6,260	5,952
Income before Income Taxes	329	187	1,019	678
Income Taxes	124	71	387	258
Net Income	205	116	632	420

Amortization component of net periodic pension cost, net of tax	-	-	2	(1)
Total Comprehensive Income	$ 205	$ 116	$ 634	$ 419
Weighted average number of shares of common stock outstanding - basic and diluted	5,108	5,205	5,118	5,261
Earnings per share - basic and diluted	$ 0.04	$ 0.02	$ 0.12	$ 0.08
Dividends Declared per share	$ 0.03	$ 0.03	$ 0.09	$ 0.09

See notes to consolidated financial statements.

MSB Financial Corp and Subsidiaries
Consolidated Statements of Cash Flows
Unaudited

	Nine Months Ended March 31,	
	2010	2009
	(In Thousands)	
Cash Flows from operating activities:		
Net income	$ 632	$ 420
Adjustments to reconcile net income to net cash provided by operating activities:		
Net accretion of securities discount and deferred of loan fees and costs	(84)	(62)
Depreciation and amortization of premises and equipment	522	543
Amortization component of restricted stock award	52	—
ESOP compensation	108	126
Stock based compensation	124	124
Provision for loan losses	1,125	223
Provision for loss on other real estate owned	71	—
Earnings on bank owned life insurance	(136)	(119)
Unrealized (gain) loss on trading securities	(20)	66
Decrease in accrued interest receivable	244	90
Deferred income taxes	(408)	(266)
(Increase) in other assets	(1,863)	(52)
(Decrease) increase in other liabilities	(151)	158
(Decrease) increase in accrued interest payable	(106)	9
Net Cash Provided by Operating Activities	110	1,260
Cash Flows from Investing Activities:		
Activity in held to maturity securities:		
Purchases	(18,000)	(7,290)
Proceeds from maturities, calls and principal repayments	14,762	3,168
Net decrease (increase) in loans receivable	315	(13,989)
Purchase of premises and equipment	(87)	(902)
Purchase of bank owned life insurance	(639)	—
Purchase Federal Home Loan Bank of New York stock	—	(2,490)
Redemptions of Federal Home Loan Bank of New York stock	505	2,518
Net Cash Used in Investing Activities	(3,144)	(18,985)
Cash Flows from Financing Activities:		
Net increase in deposits	22,576	44,014
Repayments of long-term borrowings	(11,218)	(635)
(Decrease) in advance payments by borrowers for taxes and insurance	(48)	(81)
Dividends paid to minority stockholders	(182)	(198)
Purchase of treasury stock	(731)	(2,052)
Purchase of stock for restricted stock award	(932)	—
Net Cash Provided by Financing Activities	9,465	41,048

Net Increase in Cash and Cash Equivalents		6,431		23,323
Cash and Cash Equivalents – Beginning		9,499		4,695
Cash and Cash Equivalents – Ending	$	15,930	$	28,018
Supplementary Cash Flows Information				
Interest paid	$	4,928	$	6,025
Income taxes paid	$	953	$	663
Loan receivable transferred to real estate owned	$	592	$	—

See notes to consolidated financial statements.

MSB FINANCIAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Note 1 – Organization and Business

MSB Financial Corp. (the "Company") is a federally-chartered corporation organized in 2004 for the purpose of acquiring all of the capital stock that Millington Savings Bank (the "Bank") issued in its mutual holding company reorganization. The Company's principal executive offices are located at 1902 Long Hill Road, Millington, New Jersey 07946-0417 and its telephone number at that address is (908) 647-4000.

A Registration Statement on Form S-1 (File No. 333-137294), as amended, was filed by the Company with the Securities and Exchange Commission pursuant to the Securities Act of 1933, as amended, relating to the offer for sale of up to 2,199,375 shares (subject to increase to 2,529,281 shares) of its common stock at $10.00 per share. The offering closed on January 4, 2007 and 2,529,281 shares were sold for gross proceeds of $25,292,810, including 202,342 shares sold to the Bank's newly established Employee Stock Ownership Plan ("ESOP"). Net proceeds of the offering totaled approximately $24.5 million. Concurrent with closing of the offering, the MHC received 3,091,344 shares of Company stock in exchange for the 10,000 shares previously owned by the MHC. The MHC is the majority stockholder of the Company owning 59.2% of the outstanding common stock at March 31, 2010.

MSB Financial, MHC (the "MHC") is a federally-chartered mutual holding company that was formed in 2004 in connection with the mutual holding company reorganization. The MHC has not engaged in any significant business since its formation. So long as MHC is in existence, it will at all times own a majority of the outstanding stock of the Company.

The Bank is a New Jersey-chartered stock savings bank and its deposits are insured by the Federal Deposit Insurance Corporation. The Bank is regulated by the New Jersey Department of Banking and Insurance and the Federal Deposit Insurance Corporation. The Office of Thrift Supervision regulates the MHC and the Company as savings and loan holding companies.

Note 2 – Basis of Consolidated Financial Statement Presentation

The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiary, the Bank, and the Bank's wholly-owned subsidiary, Millington Savings Service Corp. All significant inter-company accounts and transactions have been eliminated in consolidation. These consolidated statements were prepared in accordance with instructions for Form 10-Q and Regulation S-X, therefore, do not include information or footnotes necessary for a complete presentation of financial condition, results of operations, and cash flows in conformity with generally accepted accounting principles in the United States of America ("GAAP"). The Millington Savings Service Corp. is inactive.

In the opinion of management, all adjustments, consisting of only normal recurring adjustments or accruals, which are necessary for a fair presentation of the consolidated financial statements have been made at March 31, 2010 and June 30, 2009 and for the three and nine months ended March 31, 2010 and 2009. The results of operations for the three and nine months ended March 31, 2010 and 2009 are not necessarily indicative of the results which may be expected for an entire fiscal year or other interim periods.

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The data in the consolidated statements of financial condition for June 30, 2009 was derived from the Company's audited consolidated financial statements for that date. That data, along with the interim financial information presented in the consolidated statements of financial position, income and comprehensive income, and cash flows should be read in conjunction with the audited consolidated financial statements as of and for the year ended June 30, 2009, including the notes thereto included in the Company's Annual Report on Form 10-K.

The consolidated financial statements contained herein have been prepared in conformity with GAAP. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated statements of financial position and revenues and expenses for the periods then ended. Actual results could differ significantly from those estimates.

A material estimate that is particularly susceptible to significant change relates to the determination of the allowance for loan losses. The allowance for loan losses represents management's best estimate of losses known and inherent in the portfolio that are both probable and reasonable to estimate. While management uses the most current information available to estimate losses on loans, actual losses are dependent on future events and, as such, increases in the allowance for loan losses may be necessary.

Certain prior period amounts have been reclassified to conform to the current year's presentation. Such reclassifications did not have a material impact on the consolidated financial statements.

In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses. Such agencies may require the Bank to recognize additions to the allowance based on their judgments about information available to them at the time of their examinations.

Note 3 – Accounting Standards Codification

The Financial Accounting Standards Board (FASB) has issued the "FASB Accounting Standards Codification" (the "Codification" or the "ASC"). The Codification establishes the single source of authoritative GAAP to be applied by nongovernmental entities. The Codification supersedes all existing accounting and reporting standards. All other non-grandfathered accounting literature not included in the Codification became non-authoritative. As a result of the Codification, FASB no longer issues new standards in the form of Statements, FASB Staff Positions or Emerging Issues Task Force Abstracts. Instead, it issues Accounting Standards Updates, which serve to update the Codification, provide background information about the guidance and provide the basis for conclusions on the changes to the Codification. GAAP was not intended to be changed as a result of the FASB's Codification project, but it does change the way the guidance is organized and presented. As a result, these changes have a significant impact on how companies reference GAAP in their financial statements and in their accounting policies for financial statements issued for interim and annual periods ending after September 15, 2009. The Company previously implemented the Codification in its September 30, 2009 quarterly report by providing references to the Codification. The Codification had no impact on amounts reported in the Company's consolidated financial statements.

Note 4 – Subsequent Events

In accordance with ASC Topic 855, "Subsequent Events"' management has evaluated potential subsequent events through the date the consolidated financial statements were issued and has determined that no recognition or disclosure is necessary.

Note 5 – Earnings Per Share

Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding, exclusive of the Employee Stock Ownership Plan ("ESOP") shares not yet committed to be released. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock, such as outstanding stock options, were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company. Diluted earnings per share is calculated by adjusting the weighted average number of shares of common stock outstanding to include the effect of contracts or securities exercisable (such as stock options) or which could be converted into common stock, if dilutive, using the treasury stock method. Diluted earnings per share did not differ from basic earnings per share for the three and nine months ended March 31, 2010 and 2009, as the 275,410 weighted average number of outstanding stock options were all anti-dilutive.

Note 6 – Stock Based Compensation

On March 10, 2008 the Company's stockholders approved the 2008 Stock Compensation and Incentive Plan. This plan permits the granting of up to 275,410 options to purchase Company common stock. Pursuant to this plan, on May 9, 2008, the Board of Directors granted 275,410 options having an exercise price of $10.75 per share, the fair market value of the shares on the grant date. The fair value of these options was estimated to be $ 2.99 per share based on the Black-Scholes model. At March 31, 2010, the total future expense to be recorded for the stock option grants is $508,000 over a weighted average period of 3.1 years. Options are exercisable for 10 years from date of grant. The Company expensed $41,000 and $124,000 the three months and nine month periods ended March 31, 2010 and 2009, respectively.

On November 9, 2009 Company's stockholders approved an amendment to the 2008 Stock Compensation and Incentive Plan. The primary purpose of the Amendment to the 2008 Plan is to increase the number of shares of Company Common Stock authorized for issuance under the 2008 Plan from 275,410 to 385,574; with such additional shares to be available for awards in the form of Restricted Stock Awards. Such Restricted Stock Awards may be granted to officers, employees and directors of the Company or its subsidiary, Millington Savings Bank. On November 24, 2009, the Company purchased 110,164 shares at a purchase price of $932,000, which amount, in accordance with FASB guidance was charged to paid-in capital. Pursuant to this plan, on December 14, 2009, the Board of Directors granted 110,164 shares to certain employees and directors. The restricted stock awards are to be vested over a five year period and expensed accordingly based on the fair value at the date of grant. During the three and nine month periods ended March 31, 2010, the Company amortized $45,000 and $52,000, respectively, in expense pursuant to this plan and did not incur any expense for the three and nine month periods ended March 31, 2009.

Note 7 - Fair Value Measurements

The Company uses fair value measurements to record fair value adjustments to certain assets and to determined fair value disclosures.

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FASB ASC 820, Fair Market Value Disclosures ("ASC 820"), defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact and (iv) willing to transact.

ASC 820 requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement cost). Valuation techniques should be consistently applied. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, ASC 820 establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

- Level 1 Inputs – Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

- Level 2 Inputs – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, prepayment speeds, credit risks, etc.) or inputs that are derived principally from or corroborated by market data by correlation or other means.

- Level 3 Inputs – Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. An asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. The Company's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future values. While management believes the Company's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain

financial instruments could result in a different estimate of fair value at the reporting date.

Trading Securities. Securities classified as trading securities are reported at fair value utilizing Level 1 inputs. For these securities, the Company arrives at the fair value based upon the quoted market price at the close of business on the last business day on or prior to the statement of financial position date.

The following table summarizes financial assets measured at fair value on a recurring basis as of March 31, 2010 and June 30, 2009, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	March 31, 2010			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
	(In Thousands)			
Trading securities	$ 57	$ —	$ —	$ 57

	June 30, 2009			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
	(In Thousands)			
Trading securities	$ 37	$ —	$ —	$ 37

Certain financial and non-financial assets are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment).

The following table summaries those assets measured at fair value on a non-recurring basis as of March 31, 2010 and June 30, 2009:

	March 31, 2010			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
	(In Thousands)			
Other real estate	$ —	$ —	$ 257	$ 257
Impaired loans	$ —	$ —	$ 5,638	$ 5,638

	June 30, 2009			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
	(In Thousands)			
Impaired loans	$ —	$ —	$ 2,622	$ 2,622

Other real estate is generally carried at fair value, which value is determined based upon independent third-party appraisals of the properties, based upon the expected proceeds. These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements.

An impaired loan is evaluated and valued at the time the loan is identified as impaired at the lower of its amortized cost basis or fair value. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Fair value is measured in accordance with ASC 310, "Accounting by Creditors for Impairment of a Loan" using one of several methods, including collateral value, market value of similar debt, enterprise value, liquidation value and discounted cash flows. Impaired loans not requiring a specific allowance represent loans for which fair value equals or exceeds amortized cost basis of the loan. Such loans are not included in the above table since they are not measured at fair value. Impaired loans requiring specific allowances, and valued using Level 3 inputs, primarily appraisals, had principal balances totaling $6,865,000 and $3,201,000 at March 31, 2010 and June 30, 2009, respectively, with a valuation allowance of $1,227,000 and $579,000 at March 31, 2010 and June 30, 2009 respectively.

The fair value of a financial instrument is defined above. Significant estimates were used for the purposes of disclosing fair values. Estimated fair values have been determined using the best available data and estimation methodology suitable for each category of financial instruments. However, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts the Company could have realized in a sales transaction on the dates indicated. The estimated fair value amounts have been measured as of their respective reporting dates, and have not been reevaluated or updated for purposes of these consolidated financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported.

The following information should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only provided for a limited portion of the Company's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company's disclosures and those of other companies may not be meaningful.

Cash and Cash Equivalents

For cash and cash equivalents, the carrying amount is a reasonable estimate of fair value.

Trading Securities

Securities classified as trading securities are reported at fair value utilizing Level 1 inputs. For these securities, the Company arrives at the fair value based upon the quoted market price at the close of business on the last business day on or prior to the consolidated statement of financial position date.

Securities Held to Maturity

The fair value for securities held to maturity is based on quoted market prices, where available. If quoted market prices are not available, fair value is estimated using quoted market prices for similar securities.

Loans Receivable

The fair value of loans is based upon a multitude of sources, including assumed current market rates by category and the institution's current offering rates. Both fixed and variable rate loan fair values are derived at using a discounted cash flow methodology. For variable rate loans, repricing terms; including next reprice date, reprice frequency and reprice rate are factored into the discounted cash flow formula.

Federal Home Loan Bank of New York Stock

The carrying amount of Federal Home Loan Bank of New York stock approximates fair value due to its restrictive nature.

Accrued Interest Receivable and Payable

The carrying amounts of accrued interest receivable and payable approximate fair value.

Deposits

Fair values for demand deposits, savings accounts and club accounts are, by definition, equal to the amount payable on demand at the reporting date. Fair values of fixed-maturity certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on similar instruments with similar maturities.

Advances from Federal Home Loan Bank of New York

Fair values of advances are estimated using discounted cash flow analyses, based on rates currently available to the Company for advances from the Federal Home Loan Bank of New York with similar terms and remaining maturities.

Off-Balance Sheet Financial Instruments

Fair values of commitments to extend credit are estimated using the fees currently charged to enter into similar agreements, taking into account market interest rates, the remaining terms, and the present credit worthiness of the counterparties.

As of March 31, 2010 and June 30, 2009, the fair value of the commitments to extend credit was not considered to be material and was not included in the table below.

The carrying values and estimated fair values of financial instruments as of March 31, 2010 and June 30, 2009, were as follows:

	March 31, 2010		June 30, 2009	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(In Thousands)			
Financial assets:				
Cash and cash equivalents	$ 15,930	$ 15,930	$ 9,499	$ 9,499
Trading securities	57	57	37	37
Securities held to maturity	47,925	47,820	44,687	44,642
Loans receivable	274,110	274,337	276,058	270,709
Federal Home Loan Bank stock	1,617	1,617	2,122	2,122
Accrued interest receivable	1,536	1,536	1,780	1,780
Financial liabilities:				
Deposits	294,856	297,231	272,280	275,524
Advances from Federal Home Loan Bank of New York	25,000	27,406	36,218	40,608
Accrued interest payable	106	106	212	212

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Note 8 - Securities Held to Maturity

The amortized cost of securities held to maturity and their approximate fair values as of March 31, 2010 and June 30, 2009, are summarized as follows:

March 31, 2010	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In thousands)		
U.S U.S. Government Agencies:				
Due within one year	$ 2,000	$ 8	$ —	$ 2,008
Due after one through five years	3,000	—	2	2,998
Due after five through ten years	4,500	56	97	4,459
Due after ten years	35,523	90	327	35,286
	45,023	154	426	44,751
Mortgage-backed securities	2,902	167	—	3,069
	2,902	167	—	3,069
	$ 47,925	$ 321	$ 426	$ 47,820

June 30, 2009	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In thousands)		
U.S U.S. Government Agencies:				
Due within one year	$ 5,000	$ 24	$ —	$ 5,024
Due after one through five years	4,525	130	—	4,655
Due after ten years	31,790	44	389	31,445
	41,315	198	389	41,124
Mortgage-backed securities	3,372	146	—	3,518
	$ 44,687	$ 344	$ 389	$ 44,642

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All mortgage-backed securities at March 31, 2010 have been issued by FNMA, FHLMC or GNMA and are secured by 1-4 family residential real estate. The amortized cost and estimated fair value of securities held to maturity at March 31, 2010 and June 30, 2009, as shown above, are reported by contractual maturity. 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.

There were no sales of trading securities or securities held to maturity during the three and nine months ended March 31, 2010 and March 31, 2009. At March 31, 2010 and June 30, 2009, securities held to maturity with a carrying value of approximately $488,000 and $478,000, respectively were pledged to secure public funds on deposit.

The following table shows the gross unrealized losses and fair value of securities in an unrealized loss position as of March 31, 2010 and June 30, 2009, and the length of time that such securities have been in a continuous unrealized loss position:

	Less than 12 Months		More than 12 Months		Total	
March 31, 2010	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(In Thousands)					
U.S. Government agencies	$ 22,074	$ 426	$ 0	$ 0	$ 22,074	$ 426

	Less than 12 Months		More than 12 Months		Total	
June 30, 2009	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(In Thousands)					
U.S. Government agencies	$ 11,436	$ 354	$ 10,965	$ 35	$ 22,401	$ 389

At March 31, 2010, management concluded that the unrealized losses above (which related to 10 U.S. Government Agency bonds and no mortgage-backed securities compared to 9 and 2 respectively, as of June 30, 2009) are temporary in nature since they are not related to the underlying credit quality of the issuers. The Company does not intend to sell these securities and it is not more-likely-than-not that the Company would be required to sell these securities prior to the full recovery of fair value to a level which equals or exceeds amortized cost. The losses above are primarily related to market interest rates. Accordingly, the Company has not recognized an other-than-temporary impairment loss on these securities.

Note 9 – Retirement Plans

Periodic expenses for the Company's retirement plans, which include the Directors' Retirement Plan and the Executive Incentive Retirement Plan, were as follows:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2010	2009	2010	2009
	(In Thousands)		(In Thousands)	
Service Cost	$ 17	$ 25	$ 51	$ 76
Interest Cost	17	17	53	52
Amortization of Unrecognized (Gain)	(1)	(3)	(4)	(9)
Amortization of Past Service Liability	3	3	8	8
	$ 36	$ 42	$ 108	$ 127

As of March 31, 2010, the Bank expects to contribute $60,000 to the plans for the remainder of the fiscal year.

Note 10– Stock Repurchase Plan

On January 29, 2008, the Board of Directors authorized a stock repurchase program pursuant to which the Company intended to repurchase up to 5% of its outstanding shares (excluding shares held by the MHC), representing up to 126,464 shares. The timing of the repurchases depended on certain factors, including but not limited to, market conditions and prices, the Company's liquidity requirements and alternative uses of capital. Repurchased shares are held as treasury stock and are available for general corporate purposes. During the year ended June 30, 2008, the Company purchased 55,992 shares at a cost of $609,000 or approximately $10.88 per share. The remaining 70,472 shares were repurchased during the period July 1, 2008 through August 11, 2008, inclusive.

On August 21, 2008, the Company announced the Board of Directors had authorized a second stock repurchase program pursuant to which the Company intended to repurchase up to an additional 5%, or 120,140 shares. The timing of the repurchases depended on certain factors, including but not limited to, market conditions and prices, the Company's liquidity requirements and alternative uses of capital. Repurchased shares are held as treasury stock and are available for general corporate purposes. As of December 31, 2008, the Company repurchased 120,140 shares authorized under this repurchase program.

On February 9, 2009, the Board of Directors authorized a third stock repurchase program pursuant to which the Company intended to repurchase up to 114,134 shares or approximately 5% of its outstanding shares. As of August 10, 2009, the Company repurchased 63,100 shares authorized under this repurchase program.

On August 17, 2009, the Company announced the Board of Directors had authorized a fourth stock repurchase program pursuant to which the Company intended to repurchase the balance of shares that were still outstanding from the third stock repurchase program which expired on August 10, 2009. Under this program, the Company intended to repurchase up to 51,034 shares. As of December 31, 2009, the Company repurchased 51,034 shares authorized under this repurchase program.

On March 12, 2010, the Company announced the Board of Directors had authorized a fifth stock repurchase program pursuant to which the Company intends to repurchase up to an additional 5%, or 108,427 shares. The timing of the

repurchases depended on certain factors, including but not limited to, market conditions and prices, the Company's liquidity requirements and alternative uses of capital. Repurchased shares are held as treasury stock and are available for general corporate purposes. As of March 31, 2010, the Company repurchased 33,801 shares authorized under this repurchase program.

During the nine months ended March 31, 2010, an aggregate of 84,835 shares were repurchased under the aforementioned plans at a cost of $731,000 or $8.61 per share.

Note 11 – Dividends on Common Stock

The MHC has waived its right, upon the non-objection of the Office of Thrift Supervision, to receive cash dividends declared on the 3,091,344 shares of Company common stock that it owns. Such dividends amounted to approximately $93,000 during the quarter ended March 31, 2010. As of March 31, 2010, the aggregate amount of dividends waived by the MHC was approximately $927,000.

Note 12 – Recent Accounting Pronouncements

In January 2010, the FASB issued ASU 2010-01, Equity (Topic 505) - Accounting for Distributions to Shareholders with Components of Stock and Cash. The amendments in this Update clarify that the stock portion of a distribution to shareholders that allows them to elect to receive cash or stock with a potential limitation on the total amount of cash that all shareholders can elect to receive in the aggregate is considered a share issuance that is reflected in earnings per share prospectively and is not a stock dividend. This Update codifies the consensus reached in EITF Issue No. 09-E, "Accounting for Stock Dividends, Including Distributions to Shareholders with Components of Stock and Cash." This Update is effective for interim and annual periods ending on or after December 15, 2009, and should be applied on a retrospective basis. The implementation of this update had no effect on the Company's consolidated financial statements.

In January 2010, the FASB has issued ASU 2010-06, Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements. This ASU requires some new disclosures and clarifies some existing disclosure requirements about fair value measurement as set forth in Codification Subtopic 820-10. The FASB's objective is to improve these disclosures and, thus, increase the transparency in financial reporting. Specifically, ASU 2010-06 amends Codification Subtopic 820-10 to now require:

- A reporting entity to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers; and
- In the reconciliation for fair value measurements using significant unobservable inputs, a reporting entity should present separately information about purchases, sales, issuances, and settlements.

In addition, ASU 2010-06 clarifies the requirements of the following existing disclosures:

- For purposes of reporting fair value measurement for each class of assets and liabilities, a reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities; and
- A reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements.

ASU 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The Company is currently evaluating the potential impact the new pronouncement will have on its consolidated financial statements.

ITEM 2 – MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Form 10-Q contains forward-looking statements, which can be identified by the use of words such as "believes," "expects," "anticipates," "estimates" or similar expressions. Forward – looking statements include:

- Statements of our goals, intentions and expectations;
- Statements regarding our business plans, prospects, growth and operating strategies;
- Statements regarding the quality of our loan and investment portfolios; and
- Estimates of our risks and future costs and benefits.

These forward-looking statements are subject to significant risks and uncertainties. Actual results may differ materially from those contemplated by the forward-looking statements due to, among others, the following factors:

- General economic conditions, either nationally or in our market area, that are worse than expected;
- The volatility of the financial and securities markets, including changes with respect to the market value of our financial assets;
- Changes in government regulation affecting financial institutions and the potential expenses associated therewith;
- Changes in the interest rate environment that reduce our interest margins or reduce the fair value of financial instruments;
- Our ability to enter into new markets and/or expand product offerings successfully and take advantage of growth opportunities;
- Increased competitive pressures among financial services companies;
- Changes in consumer spending, borrowing and savings habits;
- Legislative or regulatory changes that adversely affect our business;
- Adverse changes in the securities markets;
- Our ability to successfully manage our growth; and
- Changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, the Financial Accounting Standards Board or the Public Company Accounting Oversight Board.

No forward-looking statement can be guaranteed and we specifically disclaim any obligation to update any forward-looking statement.

Critical Accounting Policies

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the dates of the consolidated statements of financial position and revenues and expenses for the periods then ended. Actual results

could differ significantly from those estimates. A material estimate that is particularly susceptible to significant change relates to the determination of the allowance for loan losses.

The allowance for loan losses represents our best estimate of losses known and inherent in our loan portfolio that are both probable and reasonable to estimate. In determining the amount of the allowance for loan losses, we consider the losses inherent in our loan portfolio and changes in the nature and volume of our loan activities, along with general economic and real estate market conditions. We utilize a two tier approach: (1) identification of impaired loans for which specific reserves may be established; and (2) establishment of general valuation allowances on the remainder of the loan portfolio. We maintain a loan review system which provides for a systematic review of the loan portfolio and the early identification of potential impaired loans. Such system takes into consideration, among other things, delinquency status, size of loan, type of collateral and the financial condition of the borrower. Specific loan loss allowances are established for identified loans based on a review of such information and/or appraisals of the underlying collateral. General loan loss allowances are based upon a combination of factors including, but not limited to, actual loan loss experience, composition of the loan portfolio, current economic conditions and management's judgment.

In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses. Such agencies may require the Bank to recognize additions to the allowance based on their judgments about information available to them at the time of their examinations.

Although specific and general loan loss allowances are established in accordance with management's best estimate, actual losses are dependent upon future events and, as such, further provisions for loan losses may be necessary in order to increase the level of the allowance for loan losses. For example, our evaluation of the allowance includes consideration of current economic conditions, and a change in economic conditions could reduce the ability of our borrowers to make timely repayments of their loans. This could result in increased delinquencies and increased non-performing loans, and thus a need to make increased provisions to the allowance for loan losses, which would be a charge to income during the period the provision is made, resulting in a reduction to our earnings. A change in economic conditions could also adversely affect the value of the properties collateralizing our real estate loans, resulting in increased charge-offs against the allowance and reduced recoveries, and thus a need to make increased provisions to the allowance for loan losses. Furthermore, a change in the composition of our loan portfolio or growth of our loan portfolio could result in the need for additional provisions.

Comparison of Financial Condition at March 31, 2010 and June 30, 2009

General. Total assets reached $362.4 million at March 31, 2010, compared to $352.3 million at June 30, 2009. The increase was fueled by purchases of securities and an increase in cash and cash equivalents, the funding for which was provided primarily by a $22.6 million or 8.3% increase in deposits, to $294.9 million at March 31, 2010, compared to $272.3 million at June 30, 2009.

Loans. Loans receivable, net, decreased by $2.0 million, or 0.7% at March 31, 2010 to $274.1 million compared to $276.1 million at June 30, 2009. As a percentage of assets, loans decreased to 75.6% from 78.4%. The Bank experienced demand for its one-to-four family residential loans in its market area; the one-to-four family portfolio grew by $2.1 million or 1.4% between June 30, 2009 and March 31, 2010. Commercial real estate loans grew by $968,000, a 9.5% increase, as did multi-family loans by $864,000 and overdraft protection loans by $ 3,000 or 2.5% and 1.8%, respectively, between June 30, 2009 and March 31, 2010. The home equity portfolio decreased by $4.2 million or 6.7%, as did construction loans by $709,000 or 3.4%; automobile loans by $111,000 or 29.1%; deposit account loans

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by $55,000 or 11.5%, and personal loans by $24,000 or 32.4%, between June 30, 2009 and March 31, 2010.

Securities. Our portfolio of securities held to maturity was at $47.9 million at March 31, 2010 as compared to $44.7 million at June 30, 2009. Maturities, calls and principal repayments during the nine months ended March 31, 2010 totaled $14.7 million. We purchased $18.0 million of new securities during the nine months ended March 31, 2010.

Deposits. Total deposits at March 31, 2010 were $294.9 million, a $22.6 million increase as compared to $272.3 million at June 30, 2009. Savings and club accounts increased by $12.2 million, certificate of deposit accounts increased by $5.7 million, and demand accounts, in the aggregate, increased by $4.7 million.

Borrowings. Total borrowings at March 31, 2010 amounted to $25.0 million, compared to $36.2 million at June 30, 2009. The Company did not make any long term borrowings during the nine months ended March 31, 2010 and did not have short-term borrowings at March 31, 2010 and June 30, 2009.

Our investment in Federal Home Loan Bank of New York ("FHLB") stock was at $1.6 million at March 31, 2010 compared to $2.1 million at June 30, 2009. The decreased ownership of Federal Home Loan Bank stock resulted from the decrease in FHLB borrowings.

Stockholders' Equity. Stockholders' equity was $40.1 million at March 31, 2010 compared to $41.0 million at June 30, 2009, a decrease of $0.9 or 2.2%. Paid in capital decreased primarily due to the purchase of $932,000 of stock for the Company's restricted stock award program, offset by $52,000 in amortized expenses. Treasury stock increased by $730,000 due to repurchases. Other changes in equity were due to the declaration of $173,000 in cash dividends declared on our common stock, offset by $632,000 in net income, a $2,000 decrease in accumulated other comprehensive loss, $124,000 in stock based compensation and $108,000 in ESOP shares earned.

Comparison of Operating Results for the Three and Nine Months Ended March 31, 2010 and 2009

General. Our net income for the three months ended March 31, 2010 was $205,000, compared to net income of $116,000 for the three months ended March 31, 2009, an increase of $89,000 or 76.7%. This increase was the result of an increase in net interest income and non-interest income, offset by increases in the provision for loan losses, non-interest expense and income taxes for the three month period ended March 31, 2010, compared to the same period ended March 31, 2009.

Our net income for the nine months ended March 31, 2010 was $632,000, compared to net income of $420,000 for the nine months ended March 31, 2009, an increase of $212,000 or 50.5%. This increase was the result of an increase in net interest income and non-interest income, offset by increases in the provision for loan losses, non-interest expense and income taxes for the nine months ended March 31, 2010, compared to the nine months ended March 31, 2009.

Net Interest Income. Net interest income increased by $533,000 or 24.2% to $2.7 million for the three month period ended March 31, 2010, compared to $2.2 million for the three months ended March 31, 2009. Interest income increased by $35,000 or 0.9%, and interest expense decreased by $498,000 or 25.7%, for the same three month comparative periods.

The increase of $35,000 or 0.9%% in total interest income for the three months ended March 31, 2010, resulted from a 9.0% increase in average interest-earning assets, offset by a decrease of 40 basis

points in the average yield to 4.97%. Average earning assets increased $27.7 million, to $336.0 million for the three months ended March 31, 2010, compared to $308.3 million for the three months ended March 31, 2009. Interest income on loans decreased by $175,000 or 4.7% for the three months ended March 31, 2010, compared to the same period ended March 31, 2009 primarily due to a 43 basis point reduction in average yield to 5.13%, tempered by an increase of $9.2 million or 3.4% in average loan balances. Interest on securities held to maturity increased $204,000 or 51.7% for the three months ended March 31, 2010, compared to the three months ended March 31, 2009, as a result of a $20.8 million or 70.7% increase in the average balance, offset by a 60 basis point decrease in yield to 4.76%. Other interest income reflected an increase of $6,000 or 26.1% in interest income primarily due to a 48 basis point increase in yield to 1.29%, offset by a decrease of $2.3 million or 20.6% in average balance for the three months ended March 31, 2010, compared to the same three month period ended March 31, 2009.

Balances held at the Federal Home Loan Bank of New York during the three months ended March 31, 2010 were lower due to excess funds being used to purchase securities.

Total interest expense decreased $498,000 or 25.7% for the three months ended March 31, 2010, compared to the three months ended March 31, 2009. Average interest-bearing liabilities increased $30.8 million or 11.1%, from $277.0 million for the three months ended March 31, 2009, to $307.8 million for the three months ended March 31, 2010, the effect of which was more than offset by a 93 basis point decrease in the average rate from 2.80% to 1.87%, for the respective periods. Interest expense on deposits decreased $371,000 or 23.3% for the three months ended March 31, 2010, compared to the three months ended March 31, 2009, as a result of a 92 basis point reduction to 1.73% in the average rate paid on interest-bearing deposits, tempered by an increase of $42.4 million or 17.7% in average interest-bearing deposits. The average certificates of deposit balance increased by $20.0 million or 17.4%; average savings balances increased $18.2 million or 18.3%; and average NOW balances increased by $4.2 million or 16.6% for the quarter ended March 31, 2010 compared to the same quarter ended March 31, 2009. The average rate on savings deposits, certificates of deposit and NOW accounts decreased by 106 basis points, 98 basis points, and 9 basis points, respectively, for the quarter ended March 31, 2010 compared to the quarter ended March 31, 2009. Total interest expense on borrowings decreased by $127,000 or 36.5% for the three months ended March 31, 2010, compared to the three months ended March 31, 2009. Federal Home Loan Bank of New York advance average balances decreased by $11.7 million or 31.8%, and the average rate decreased by 26 basis points, from 3.80% to 3.54% for the three months ended March 31, 2010 compared to the same three month period ended March 31, 2009.

Net interest income increased $1.4 million or 22.2% to $7.9 million for the nine months ended March 31, 2010, from $6.5 million for the nine months ended March 31, 2009. Interest income was $12.7 million and $12.5 million for the nine month periods ended March 31, 2010 and March 31, 2009, whereas interest expense reflected a $1.2 million or 19.7 % reduction for the nine month period ended March 31, 2010, compared to the nine month period ended March 31, 2009.

Average earning assets increased by $35.0 million or 11.7% for the nine months ended March 31, 2010, compared to the nine months ended March 31, 2009, whereas the average rate on earning assets decreased by 47 basis points to 5.07% for the nine month period ended March 31, 2010, compared to the nine month period ended March 31, 2009. Interest income on loans decreased by $344,000 or 3.1% for the nine months ended March 31, 2010, compared to the nine months ended March 31, 2009, while average yield declined 46 basis points to 5.22%. Average loan receivable balances increased $14.4 million or 5.5% to $278.5 million for the nine months ended March 31, 2010, compared to $264.1 million for the nine months ended March 31, 2009. Interest income on securities held to maturity increased $602,000 or 52.6% for the nine months ended March 31, 2010, compared to the nine months ended March 31, 2009. Average securities held to maturity balances increased $20.0 million or 70.4% for the nine months ended March 31, 2010, compared to the nine months ended March 31, 2009, as the yield on the investment held to maturity portfolio decreased by 56 basis points to 4.81% for the nine month period

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ended March 31, 2010, compared to the same nine month period ended March 31, 2009. Interest income on other interest-earning assets increased slightly by $1,000 or 1.1% for the nine month period ended March 31, 2010, compared to the same nine month period ended March 31, 2009 as an 8 basis point decrease in yield to 1.52% was partially offset by an average balance increase of $515,000 or 6.6%.

The $1.2 million or 19.7% decrease in interest expense for the nine months ended March 31, 2010, compared to the nine months ended March 31, 2009, was primarily due to an average rate decrease of 93 basis points to 2.10% on interest-bearing liabilities, offset by an increase of $41.9 million or 15.9% in average interest-bearing liabilities. Interest expense on deposits decreased by $886,000 or 18.1% for the nine months ended March 31, 2010, compared to the nine months ended March 31, 2009. The average rate on deposits decreased 100 basis points to 1.93%, while average interest-bearing deposit balances increased $53.9 million or 24.1%, from $223.1 million for the nine months ended March 31, 2009, to $277.0 million for the nine months ended March 31, 2010. Savings average balances increased $29.0 million or 34.2%, while the average rate decreased by 102 basis points for the nine months ended March 31, 2010, compared to the same nine month period ended March 31, 2009. Certificates of deposit and NOW accounts average balances increased by $22.1 million or 19.6% and $2.7 million or 10.6%, respectively, while average rates decreased 119 basis points and 13 basis points, respectively for the nine months ended March 31, 2010, compared to the nine months ended March 31, 2009. Interest expense on borrowings decreased by $326,000 or 28.7% for the nine months ended March 31, 2010, compared to the nine months ended March 31, 2009. Average Federal Home Loan Bank of New York advance balances decreased by $12.0 million or 29.1%, whereas the average rate increased by 12 basis points to 3.70% for the nine month period ended March 31, 2010, compared to the nine month period ended March 31, 2009.

Provision for Loan Losses. For the three month period ended March 31, 2010, a $375,000 provision was made, whereas a $91,000 provision was made for the same period in 2009. There were $212,000 in charge-offs and no recoveries of previously charged-off loans during the three month period ended March 31, 2010, compared to no charge-offs and no recoveries of previously charged-off loans during the three month period ended March 31, 2009. For the nine month period ended March 31, 2010, a $1.1 million provision was made, whereas a $223,000 provision was made for the same period in 2009. There were $289,000 in charge offs for the nine month periods ended March 31, 2010 compared to no charge-offs for the nine month period ended March 31, 2009. There were no recoveries of previously charged-off loans during the nine months ended March 31, 2010 and March 31, 2009. The increased provisions reflects the significant increase in non-performing loans in the loan portfolio. The allowance for loan losses totaled $2.6 million and $1.8 million, respectively, at March 31, 2010 and June 30, 2009, representing 0.94% and 0.64%, respectively of total loans. The ratio of non-performing loans to total loans was 6.37%, at March 31, 2010, as compared to 3.40% at June 30, 2009. The allowance for loan losses reflects our estimation of the losses inherent in our loan portfolio to the extent they are both probable and reasonable to estimate.

Non-Interest Income. This category includes fees derived from checking accounts, ATM transactions and debit card use and mortgage related fees. It also includes increases in the cash-surrender value of the bank owned life insurance and unrealized gain on trading securities.

Non-interest income increased by $62,000 to $166,000 for the three months ended March 31, 2010, from $104,000 for the three months ended March 31, 2009. Total non-interest income increased $111,000 from $378,000 for the nine months ended March 31, 2009 to $489,000 for the nine months ended March 31, 2010. The increase for the three month period ended March 31, 2010 compared to the same period ended March 31, 2009, was primarily due to a $38,000 increase in unrealized gains on trading securities. Income from bank owned life insurance increased by $10,000, and fees and service charges and other income both increased by $7.000. The increase for the nine month period ended March 31, 2010 compared to same period ended March 31, 2009, was primarily due to an unrealized gain of

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$20,000 on the Company's trading security portfolio for the nine months ended March 31, 2010, compared to a $66,000 loss in the prior year period. Income from bank owned life insurance increased $17,000 as did fees and service charges by $15,000, while other income decreased by $7,000 for the nine month period ended March 31, 2010 compared to the same period ended March 31, 2009.

Non-Interest Expenses. Total non-interest expenses grew by $169,000 or 8.3% for the three months ended March 31, 2010, compared to the three months ended March 31, 2009 and by $308,000 or 5.2% for the nine month period ended March 31, 2010 compared to the same period ended March 31, 2009.

Salaries and employee benefits expense increased $17,000 or 1.86% for the three months ended March 31, 2010, compared to the three months ended March 31, 2009 due to normal salary increases. Directors' compensation increased $21,000 or 24.7% for the three month period ended March 31, 2010 compared to the three month period ended March 31, 2009 primarily due to the implementation of the Bank's restricted stock award program in mid December 2009. Service bureau fees, advertising expense, and FDIC insurance premium expense increased by $12,000 or 12.9%, $1,000 or 1.9%, and $16,000 or 14.8%, respectively. Other expense increased $114,000 or 33.0% for the three month period ended March 31, 2010 compared to the same period ended March 31, 2009, primarily due to a $75,000 increase in other real estate owned expense and a $19,000 increase in legal expense, both loan related expenses.

Salaries and employee benefits increased by $45,000 or 1.7% for the nine month period ended March 31, 2010 compared to the same period ended March 31, 2009. The increase in expense for the period reflects normal salary increases. The $34,000 or 13.4% increase in director's compensation was primarily due to the implementation of the Bank's restricted stock award program in December 2009. FDIC premium expense increased by $154,000 or 74.8% for the nine months ended March 31, 2010 compared to the nine months ended March 31, 2009 due to increased premiums and deposit balances. Other expense increased $83,000 or 7.6%, primarily due to a $75,000 increase in other real estate expense. Occupancy and equipment and service bureau fees and advertising expense increased $2,000 or 0.2%, and $18,000 or 6.3%, respectively, for the nine month period ended March 31, 2010 compared to the same period ended March 31, 2009. Advertising expense decreased $28,000 or 13.9% for the nine months ended March 31, 2010 compared to the nine months ended March 31, 2009, due to a reduction in advertising.

Income Taxes. Income tax expense for the three months ended March 31, 2010 was $124,000 or 37.7% of income before income taxes as compared to $71,000 or 38.0% of income before income taxes for the three months ended March 31, 2009.

For the nine months ended March 31, 2010, income tax expense was $387,000 or 38.0% of income before taxes as compared to $258,000 or 38.1% of income before income taxes for the nine months ended March 31, 2009.

Liquidity, Commitments and Capital Resources

The Bank must be capable of meeting its customer obligations at all times. Potential liquidity demands include funding loan commitments, cash withdrawals from deposit accounts and other funding needs as they present themselves. Accordingly, liquidity is measured by our ability to have sufficient cash reserves on hand, at a reasonable cost and/or with minimum losses.

Senior management is responsible for managing our overall liquidity position and risk and is responsible for ensuring that our liquidity needs are being met on both a daily and long term basis. The

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Financial Review Committee, comprised of senior management and chaired by President and Chief Executive Officer Gary Jolliffe, is responsible for establishing and reviewing our liquidity procedures, guidelines, and strategy on a periodic basis.

Our approach to managing day-to-day liquidity is measured through our daily calculation of investable funds and/or borrowing needs to ensure adequate liquidity. In addition, senior management constantly evaluates our short-term and long-term liquidity risk and strategy based on current market conditions, outside investment and/or borrowing opportunities, short and long-term economic trends, and anticipated short and long-term liquidity requirements. The Bank's loan and deposit rates may be adjusted as another means of managing short and long-term liquidity needs. We do not at present participate in derivatives or other types of hedging instruments to meet liquidity demands, as we take a conservative approach in managing liquidity.

At March 31, 2010, the Bank had outstanding commitments to originate loans of $1.8 million, construction loans in process of $4.1 million, unused lines of credit of $25.9 million (including $20.6 million for home equity lines of credit), and standby letters of credit of $193,000. Certificates of deposit scheduled to mature in one year or less at March 31, 2010, totaled $78.7 million.

As of March 31, 2010, the Bank had contractual obligations related to the long-term operating leases for the three branch locations that it leases (Dewy Meadow, RiverWalk and Martinsville).

The Bank generates cash through deposits and/or borrowings from the Federal Home Loan Bank of New York to meet its day-to-day funding obligations when required. At March 31, 2010, its total loans to deposits ratio was 93.0%. At March 31, 2010, the Bank's collateralized borrowing limit with the Federal Home Loan Bank was $92.5 million, of which $25.0 million was outstanding. As of March 31, 2010, the Bank also had a $20.0 million line of credit with a financial institution for reverse repurchase agreements (which is a form of borrowing) that it could access if necessary.

Consistent with its goals to operate a sound and profitable financial organization, the Bank actively seeks to maintain its status as a well-capitalized institution in accordance with regulatory standards. As of March 31, 2010, the Bank exceeded all applicable regulatory capital requirements.

Off-Balance Sheet Arrangements

We are a party to financial instruments with off-balance-sheet risk in the normal course of our business of investing in loans and securities as well as in the normal course of maintaining and improving Millington Savings Bank's facilities. These financial instruments may include significant purchase commitments, such as commitments related to capital expenditure plans and commitments to purchase investment securities or mortgage-backed securities, and commitments to extend credit to meet the financing needs of our customers. At March 31, 2010, our significant off-balance sheet commitments consisted of commitments to originate loans of $1.8 million, construction loans in process of $4.1 million, unused lines of credit of $25.9 million (including $20.6 million for home equity lines of credit), and standby letters of credit of $193,000.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Our exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of those instruments. We use the same credit policies in making commitments and conditional obligations as we do for on-balance-sheet instruments. Since a number of commitments typically expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

ITEM 3 – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

This item is not applicable to the Company as it is a smaller reporting company.

ITEM 4T – CONTROLS AND PROCEDURES

An evaluation was performed under the supervision, and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended) as of March 31, 2010. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective as of March 31, 2010.

No change in the Company's internal controls over financial reporting (as defined in Rule 13a-15(f) promulgated under the Securities Exchange Act of 1934, as amended) occurred during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1 – LEGAL PROCEEDINGS

There were no material pending legal proceedings at March 31, 2010 to which the Company or its subsidiaries is a party other than ordinary routine litigation incidental to their respective businesses.

ITEM 1A – RISK FACTORS

This item is not applicable to the Company as it is a smaller reporting company.

ITEM 2 – UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table sets forth information regarding the Company's repurchases of its common stock during the quarter ended March 31, 2010.

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part Of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
January 1 through 31, 2010	—	—	—	—
February 1 through 28, 2010	—	—	—	—
March 1 through 31, 2010	33,801	$ 8.02	33,801	74,626
Total	33,801	$ 8.02	33,801	74,626

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ITEM 3 – DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4 – REMOVED AND RESERVED

ITEM 5 – OTHER INFORMATION

None

ITEM 6 – EXHIBITS

31.1	Certification of CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MSB FINANCIAL CORP.
(Registrant)

Date May 14, 2010

/s/ Gary T. Jolliffe
Gary T. Jolliffe
President and Chief Executive Officer

Date May 14, 2010

/s/ Jeffrey E. Smith
Jeffrey E. Smith
Vice President and Chief Financial Officer