Ottawa Savings Bancorp, Inc.
Form 10-Q
August 12, 2009
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# 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 June 30, 2009**

**or**

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the transition period from ______ to ______**

**Commission File Number 000-51367**

# OTTAWA SAVINGS BANCORP, INC.

**(Exact name of registrant as specified in its charter)**

| | |
|---|---|
| **United States** | **20-3074627** |
| **(State or other jurisdiction of** | **(I.R.S. Employer** |
| **incorporation or organization)** | **Identification Number)** |

**925 LaSalle Street**

**Ottawa, Illinois 61350**

**(Address of principal executive offices)**

**(815) 433-2525**

**(Registrant s telephone number, including area code)**

**Not Applicable**

**(Former name, former address and former fiscal year, 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 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 (Section 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 the 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 ¨<br>(Do not check if a smaller reporting company) | Smaller Reporting Company x |

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date:

| **Class** | **Outstanding as of August 12, 2009** |
|---|---|
| Common Stock, $0.01 par value | 2,123,017 |

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**OTTAWA SAVINGS BANCORP, INC.**

**FORM 10-Q**

**For the quarterly period ended June 30, 2009**

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**OTTAWA SAVINGS BANCORP, INC.**

**Consolidated Balance Sheets**

**June 30, 2009 and December 31, 2008**

(Unaudited)

| | June 30, 2009 | December 31, 2008 |
|---|---|---|
| **Assets** | | |
| Cash and due from banks | $ 1,586,375 | $ 1,432,594 |
| Interest bearing deposits | 7,403,968 | 1,664,148 |
| **Total cash and cash equivalents** | 8,990,343 | 3,096,742 |
| Securities held to maturity (fair value of $772,219 and $821,840 at June 30, 2009 and December 31, 2008, respectively) | 778,168 | 839,236 |
| Securities available for sale | 28,072,252 | 30,582,039 |
| Non-marketable equity securities | 2,534,952 | 2,534,952 |
| Loans, net of allowance for loan losses of $1,627,787 and $1,604,731 at June 30, 2009 and December 31, 2008, respectively) | 150,575,790 | 156,444,223 |
| Premises and equipment, net | 7,412,813 | 7,503,726 |
| Accrued interest receivable | 930,824 | 981,330 |
| Mortgage servicing rights | 159,431 | 107,274 |
| Foreclosed real estate | 687,259 | 95,000 |
| Deferred tax asset | 1,497,765 | 1,182,387 |
| Cash value of life insurance | 1,476,217 | 1,465,753 |
| Other assets | 1,154,895 | 1,081,825 |
| **Total assets** | $ 204,270,709 | $ 205,914,487 |
| **Liabilities and Stockholders Equity** | | |
| Liabilities | | |
| Deposits: | | |
| Non-interest bearing | $ 2,898,360 | $ 2,295,792 |
| Interest bearing | 176,072,263 | 172,934,309 |
| **Total deposits** | 178,970,623 | 175,230,101 |
| Accrued interest payable | 199,008 | 204,425 |
| Federal funds purchased | 461,000 | |
| FHLB Advances | | 6,300,000 |
| Other liabilities | 2,498,977 | 2,180,283 |
| **Total liabilities** | 182,129,608 | 183,914,809 |
| Commitments and contingencies | | |
| Redeemable common stock held by ESOP plan | 204,953 | 171,270 |
| **Stockholders Equity** | | |
| Common Stock, $.01 par value 12,000,000 shares authorized; 2,224,911 shares issued | 22,249 | 22,249 |
| Additional paid-in-capital | 8,696,080 | 8,673,250 |
| Retained earnings | 14,970,150 | 14,976,595 |
| Unallocated ESOP shares | (534,198) | (559,636) |

| | | |
|---|---|---|
| Unearned MRP shares | (319,907) | (379,199) |
| Accumulated other comprehensive income | 484,980 | 444,672 |
| | 23,319,354 | 23,177,931 |
| Less: | | |
| Treasury Shares at cost; 101,894 shares | (1,178,253) | (1,178,253) |
| Maximum cash obligation related to ESOP shares | (204,953) | (171,270) |
| **Total Stockholders Equity** | 21,936,148 | 21,828,408 |
| **Total liabilities and stockholders equity** | $ 204,270,709 | $ 205,914,487 |

See accompanying notes to these unaudited consolidated financial statements.

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**OTTAWA SAVINGS BANCORP, INC.**

**Consolidated Statements of Operations**

**Three and Six Months Ended June 30, 2009 and 2008**

(Unaudited)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2009** | **2008** | **2009** | **2008** |
| Interest and dividend income: | | | | |
| Interest and fees on loans | $ 2,384,731 | $ 2,522,545 | $ 4,783,025 | $ 5,068,342 |
| Securities: | | | | |
| Mortgage-backed and related securities | 254,157 | 233,497 | 534,650 | 475,692 |
| U.S. agency securities | 76,754 | 73,347 | 163,592 | 152,071 |
| Interest-bearing deposits | 797 | 40,937 | 1,217 | 89,873 |
| **Total interest and dividend income** | 2,716,439 | 2,870,326 | 5,482,484 | 5,785,978 |
| Interest expense: | | | | |
| Deposits | 1,257,484 | 1,732,931 | 2,563,165 | 3,600,610 |
| Other Borrowings | 10 | | 5,943 | |
| **Total interest expense** | 1,257,494 | 1,732,931 | 2,569,108 | 3,600,610 |
| **Net interest income** | 1,458,945 | 1,137,395 | 2,913,376 | 2,185,368 |
| Provision for loan losses | 676,605 | 51,013 | 938,598 | 33,435 |
| **Net interest income after provision for loan losses** | 782,340 | 1,086,382 | 1,974,778 | 2,151,933 |
| Other income: | | | | |
| Gain on sale of securities available for sale | 22,480 | 54,220 | 22,480 | 58,879 |
| Gain on sale of loans | 80,564 | 28,693 | 136,669 | 39,518 |
| Origination of mortgage servicing rights, net of amortization | 33,932 | 1,958 | 52,157 | 5,712 |
| Customer service fees | 72,270 | 62,005 | 135,211 | 119,967 |
| Income on bank owned life insurance | 5,428 | 15,157 | 10,464 | 31,199 |
| Other | 13,455 | 8,034 | 24,404 | 26,879 |
| **Total other income** | 228,129 | 170,067 | 381,385 | 282,154 |
| Other expenses: | | | | |
| Salaries and employee benefits | 472,983 | 451,603 | 941,016 | 869,743 |
| Directors fees | 21,033 | 21,079 | 42,065 | 42,157 |
| Occupancy | 120,248 | 122,418 | 247,696 | 240,681 |
| Deposit insurance premium | 174,341 | 5,142 | 300,043 | 10,394 |
| Legal and professional services | 47,876 | 64,255 | 95,608 | 137,421 |
| Data processing | 67,265 | 67,508 | 135,683 | 158,167 |
| Foreclosed real estate | 84,284 | 4,269 | 152,373 | 7,677 |
| Loss (gain) on sale of foreclosed real estate | | (163) | | 8,668 |
| Loss on sale of repossessed assets | 13,930 | | 19,383 | 10,157 |
| Other | 162,658 | 166,949 | 293,812 | 286,863 |

| | | | | |
|---|---|---|---|---|
| **Total other expenses** | 1,164,618 | 903,060 | 2,227,679 | 1,771,928 |
| **(Loss) income before income taxes** | (154,149) | 353,389 | 128,484 | 662,159 |
| Income tax (benefit) expense | (51,701) | 95,331 | 51,248 | 235,500 |
| **Net (loss) income** | $ (102,448) | $ 258,058 | $ 77,236 | $ 426,659 |
| **Basic (loss) earnings per share** | $ (0.05) | $ 0.13 | $ 0.04 | $ 0.21 |
| **Diluted (loss) earnings per share** | $ (0.05) | $ 0.13 | $ 0.04 | $ 0.21 |
| **Dividends per share** | $ 0.05 | $ 0.05 | $ 0.10 | $ 0.10 |

See accompanying notes to these unaudited consolidated financial statements.

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**OTTAWA SAVINGS BANCORP, INC.**

**Consolidated Statements of Comprehensive Income**

**Three and Six Months Ended June 30, 2009 and 2008**

(Unaudited)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2009** | **2008** | **2009** | **2008** |
| Comprehensive (loss) income: | | | | |
| Net (loss) income | $ (102,448) | $ 258,058 | $ 77,236 | $ 426,659 |
| Other comprehensive (loss) income, net of tax: | | | | |
| Unrealized (loss) gain on securities available for sale arising during period, net of income taxes | (106,577) | (313,607) | 55,145 | (107,893) |
| Reclassification adjustment for gains included in net (loss) income, net of tax expense | (14,837) | (35,785) | (14,837) | (38,860) |
| Comprehensive (loss) income | $ (223,862) | $ (91,334) | $ 117,544 | $ 279,906 |

See accompanying notes to these unaudited consolidated financial statements.

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**OTTAWA SAVINGS BANCORP, INC.**

**Consolidated Statements of Cash Flows**

**Six Months Ended June 30, 2009 and 2008**

(Unaudited)

| | 2009 | 2008 |
|---|---|---|
| Cash Flows from Operating Activities | | |
| Net income | $ 77,236 | $ 426,659 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 114,127 | 131,968 |
| Provision for loan losses | 938,598 | 33,435 |
| Provision for deferred income taxes | (336,143) | (7,643) |
| Net amortization of premiums and discounts on securities | 12,738 | 5,503 |
| Gain on sale of available for sale securities | (22,480) | (58,879) |
| Origination of mortgage loans held for sale | (12,176,431) | (1,846,992) |
| Proceeds from sale of mortgage loans held for sale | 12,313,100 | 1,886,510 |
| Gain on sale of loans, net | (136,669) | (39,518) |
| Origination of mortgage servicing rights, net of amortization | (52,157) | (5,712) |
| Loss on sale of foreclosed real estate | | 8,668 |
| Loss on sale of repossessed assets | 13,963 | 10,157 |
| ESOP compensation expense | 24,124 | 29,572 |
| MRP compensation expense | 59,292 | 50,392 |
| Compensation expense on RRP options granted | 24,144 | 30,506 |
| Increase in cash surrender value of life insurance | (10,464) | (31,199) |
| Change in assets and liabilities: | | |
| Decrease in accrued interest receivable | 50,506 | 97,876 |
| Increase in other assets | (68,490) | (108,399) |
| Increase in accrued interest payable and other liabilities | 313,277 | 128,926 |
| **Net cash provided by operating activities** | 1,138,271 | 741,830 |
| Cash Flows from Investing Activities | | |
| Securities available for sale: | | |
| Purchases | (1,798,933) | (8,601,223) |
| Sales, calls, maturities and paydowns | 4,380,564 | 5,701,505 |
| Securities held to maturity: | | |
| Sales, maturities and paydowns | 60,039 | 75,009 |
| Net decrease in loans | 4,263,076 | 157,897 |
| Proceeds from sale of foreclosed real estate | | 178,848 |
| Proceeds from sale of repossessed assets | 55,957 | 59,643 |
| Purchase of premises and equipment | (23,214) | (2,471) |
| **Net cash provided (used in) by investing activities** | 6,937,489 | (2,430,792) |
| Cash Flows from Financing Activities | | |
| Net increase in deposits | 3,740,522 | 2,215,540 |
| Principal reduction of Federal Home Loan Bank advances | (6,300,000) | |
| Proceeds from Federal funds purchased | 461,000 | |
| Cash dividends paid | (83,681) | (87,207) |
| Purchase of treasury stock | | (932,690) |

| | | |
|---|---|---|
| **Net cash (used in) provided by financing activities** | (2,182,159) | 1,195,643 |
| | | |
| **Net increase (decrease) in cash and cash equivalents** | 5,893,601 | (493,319) |
| Cash and cash equivalents: | | |
| Beginning | 3,096,742 | 7,585,237 |
| | | |
| Ending | $ 8,990,343 | $ 7,091,918 |

See accompanying notes to these unaudited consolidated financial statements.

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**OTTAWA SAVINGS BANCORP, INC.**

**Consolidated Statements of Cash Flows**

**Six Months Ended June 30, 2009 and 2008**

(Unaudited)

| | 2009 | 2008 |
|---|---|---|
| Supplemental Disclosures of Cash Flow Information | | |
| Cash payments for: | | |
| Interest paid to depositors | $ 2,568,582 | $ 3,539,083 |
| Interest paid on other borrowings | 6,943 | |
| Income taxes, net of refunds received | 463,152 | 332,246 |
| Supplemental Schedule of Noncash Investing and Financing Activities | | |
| Real estate acquired through or in lieu of foreclosure | 592,259 | 251,497 |
| Other assets acquired in settlement of loans | 74,500 | 49,100 |
| Sale of foreclosed real estate through loan origination | | 28,000 |
| Liability arising from ESOP put option | 33,683 | 46,427 |

See accompanying notes to these unaudited consolidated financial statements.

**OTTAWA SAVINGS BANCORP, INC.**

**Notes to Unaudited Consolidated Financial Statements**

NOTE 1 NATURE OF BUSINESS

Ottawa Savings Bancorp, Inc. (the Company ) is the federally chartered savings and loan holding company of Ottawa Savings Bank (the Bank ) and was formed upon completion of the Bank s reorganization from a mutual to stock form of organization on July 11, 2005.

NOTE 2 BASIS OF PRESENTATION

The consolidated financial statements presented in this quarterly report include the accounts of the Company and the Bank. The consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles ( GAAP ) for interim financial information and predominant practices followed by the financial services industry, and are unaudited. In the opinion of the Company s management, all adjustments, consisting of normal recurring adjustments, which the Company considers necessary to fairly state the Company s financial position and the results of operations and cash flows have been recorded. The interim financial statements should be read in conjunction with the audited financial statements and accompanying notes of the Company for the year ended December 31, 2008. Certain amounts in the accompanying financial statements and footnotes for 2008 have been reclassified with no effect on net income or stockholders equity to be consistent with the 2009 classifications. The results of the Company s operations for any interim period are not necessarily indicative of the results of the Company s operations for any other interim period or for a full fiscal year.

NOTE 3 USE OF ESTIMATES

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect amounts reported in the consolidated financial statements. Changes in these estimates and assumptions are considered reasonably possible and may have a material impact on the consolidated financial statements and, thus, actual results could differ from the amounts reported and disclosed herein.

At June 30, 2009, there were no material changes in the Company s significant accounting policies or critical accounting estimates from those disclosed in the Form 10-K filed with the Securities and Exchange Commission on March 30, 2009.

NOTE 4 CRITICAL ACCOUNTING POLICIES

We consider accounting policies involving significant judgments and assumptions by management that have, or could have, a material impact on the carrying value of certain assets or income to be critical accounting policies. We consider the allowance for loan losses to be our critical accounting policy.

*Allowance for Loan Losses*. The allowance for loan losses is an amount necessary to absorb known or inherent losses that are both probable and reasonably estimable and is established through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. The allowance for loan losses is evaluated on a regular basis by management and is based upon management s periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect each borrower s ability to repay, the estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

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**OTTAWA SAVINGS BANCORP, INC.**

**Notes to Unaudited Consolidated Financial Statements**

**(continued)**

NOTE 5 EARNINGS PER SHARE

Basic earnings per share is based on net income (loss) divided by the weighted average number of shares outstanding during the period, including allocated and committed-to-be-released Employee Stock Ownership Plan ( ESOP ) shares and vested Management Recognition Plan ( MRP ) shares. Diluted earnings (loss) per share show the dilutive effect, if any, of additional common shares issuable under stock options and awards.

| | Three Months ended June 30, 2009 | Three Months ended June 30, 2008 | Six Months ended June 30, 2009 | Six Months ended June 30, 2008 |
|---|---|---|---|---|
| Net (loss) income available to common stockholders | $ (102,448) | $ 258,058 | $ 77,236 | $ 426,659 |
| Basic potential common shares: | | | | |
| Weighted average shares outstanding | 2,123,017 | 2,139,775 | 2,123,017 | 2,166,359 |
| Weighted average unallocated ESOP shares | (54,259) | (59,341) | (54,886) | (59,997) |
| Weighted average unvested MRP shares | (28,786) | (36,197) | (28,786) | (36,197) |
| Basic weighted average shares outstanding | 2,039,972 | 2,044,237 | 2,039,345 | 2,070,165 |
| Dilutive potential common shares: | | | | |
| Weighted average unrecognized compensation on MRP shares | 20,218 | 6,933 | 15,462 | 6,149 |
| Weighted average RRP options outstanding ** | | | | |
| Dilutive weighted average shares outstanding | 2,060,190 | 2,051,170 | 2,054,806 | 2,076,314 |
| Basic (loss) earnings per share | $ (0.05) | $ 0.13 | $ 0.04 | $ 0.21 |
| Diluted (loss) earnings per share | $ (0.05) | $ 0.13 | $ 0.04 | $ 0.21 |

** The effect of share options were not included in the calculation of diluted earnings per share because to do so would have been anti-dilutive.

NOTE 6 EMPLOYEE STOCK OWNERSHIP PLAN

On July 11, 2005, the Company adopted an ESOP for the benefit of substantially all employees. Upon adoption of the ESOP, the ESOP borrowed $763,140 from the Company and used those funds to acquire 76,314 shares of the Company s stock in the initial public offering at a price of $10.00 per share.

Shares purchased by the ESOP with the loan proceeds are held in a suspense account and are allocated to ESOP participants on a pro rata basis as principal and interest payments are made by the ESOP to the Company. The loan is secured by shares purchased with the loan proceeds and will be repaid by the ESOP with funds from the Company s discretionary contributions to the ESOP and earnings on the ESOP assets. Annual principal and interest payments of approximately $77,000 are to be made by the ESOP.

As shares are released from collateral, the Company will report compensation expense equal to the current market price of the shares, and the shares will become outstanding for earnings-per-share ( EPS ) computations. Dividends on allocated ESOP shares reduce retained earnings, and dividends on unallocated ESOP shares reduce accrued interest.

A terminated participant or the beneficiary of a deceased participant who received a distribution of employer stock from the ESOP has the right to require the Company to purchase such shares at their fair market value any time within 60 days of the distribution date. If this right is not exercised, an additional 60 day exercise period is available in the year following the year in which the distribution is made and begins after a new valuation of the stock has been determined and communicated to the participant or beneficiary. At June 30, 2009, 21,574 shares at a fair value of $9.50 have been classified as mezzanine capital.

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**OTTAWA SAVINGS BANCORP, INC.**

**Notes to Unaudited Consolidated Financial Statements**

**(continued)**

The following table reflects the status of the shares held by the ESOP:

| | June 30, 2009 | December 31, 2008 |
|---|---|---|
| Shares allocated | 22,895 | 20,351 |
| Shares withdrawn from the plan | (1,321) | (1,321) |
| Unallocated shares | 53,419 | 55,963 |
| Total ESOP shares | 74,993 | 74,993 |
| Fair value of unallocated shares | $ 507,481 | $ 503,667 |

NOTE 7 INVESTMENT SECURITIES

The amortized cost and fair values of securities, with gross unrealized gains and losses, follows:

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| **June 30, 2009:** | | | | |
| **Held to Maturity** | | | | |
| Mortgage-backed securities | $ 778,168 | $ 5,536 | $ 11,485 | $ 772,219 |
| **Available for Sale** | | | | |
| U.S. agency securities | $ 6,358,251 | $ 154,619 | $ | $ 6,512,870 |
| Mortgage-backed securities | 20,979,183 | 609,241 | 29,042 | 21,559,382 |
| | $ 27,337,434 | $ 763,860 | $ 29,042 | $ 28,072,252 |
| **December 31, 2008:** | | | | |
| **Held to Maturity** | | | | |
| Mortgage-backed securities | $ 839,236 | $ 887 | $ 18,283 | $ 821,840 |
| **Available for Sale** | | | | |
| U.S. agency securities | $ 7,354,779 | $ 240,124 | $ | $ 7,594,903 |
| Mortgage-backed securities | 22,553,515 | 526,423 | 92,802 | 22,987,136 |
| | $ 29,908,294 | $ 766,547 | $ 92,802 | $ 30,582,039 |

The amortized cost and fair value at June 30, 2009, by contractual maturity, are shown below. Maturities may differ from contractual maturities in mortgage-backed securities because the mortgages underlying the securities may be called or repaid without penalties. Therefore, stated maturities of mortgage-backed securities are not disclosed.

| | Securities Held to Maturity | | Securities Available for Sale | |
|---|---|---|---|---|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Due within one year | $ | $ | $ | $ |
| Due after one year through five years | | | 2,301,730 | 2,352,690 |
| Due after five years through ten years | | | 4,056,521 | 4,160,180 |
| Due after ten years | | | | |
| Mortgage-backed securities | 778,168 | 772,219 | 20,979,183 | 21,559,382 |
| | $ 778,168 | $ 772,219 | $ 27,337,434 | $ 28,072,252 |

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**OTTAWA SAVINGS BANCORP, INC.**

**Notes to Unaudited Consolidated Financial Statements**

**(continued)**

The following table reflects securities with gross unrealized losses for less than 12 months and for 12 months or more at June 30, 2009:

| | Less than 12 Months | | 12 Months or More | | Total | |
|---|---|---|---|---|---|---|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| **June 30, 2009** | | | | | | |
| **Securities Held to Maturity** | | | | | | |
| Mortgage-backed securities | $ | $ | $ 500,409 | $ 11,485 | $ 500,409 | $ 11,485 |
| **Securities Available for Sale** | | | | | | |
| Mortgage-backed securities | $ 2,188,538 | $ 3,687 | $ 1,276,140 | $ 25,355 | $ 3,464,678 | $ 29,042 |

The unrealized losses at June 30, 2009, relate principally to interest rates relative to the market. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell these securities and it is not more likely than not the Company will be required to sell these securities before recovery of their amortized cost basis, which may be maturity, the Company does not consider these investments to be other than temporarily impaired at June 30, 2009. In analyzing an issuer s financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analysts reports.

NOTE 8 ASSET QUALITY

The following is a summary of information pertaining to impaired and non-accrual loans:

| | At June 30, 2008 | At December 31, 2008 |
|---|---|---|
| Impaired loans without a valuation allowance | $ | $ |
| Impaired loans with a valuation allowance | 3,318,029 | 1,413,888 |
| Total impaired loans | $ 3,318,029 | $ 1,413,888 |
| Valuation allowance related to impaired loans | $ 537,971 | $ 818,063 |
| Total non-accrual loans | $ 3,912,716 | $ 5,207,757 |
| Total loans past due ninety days or more and still accruing interest | $ 54,965 | $ 73,411 |

Total non-accrual loans decreased $1.3 million due to the transfer of impaired loans to foreclosed real estate. The Company also charged off approximately $876,000 through the allowance for loan loss to record these properties at fair value.

The loan portfolio is reviewed on a regular basis to determine whether any loans require classification in accordance with applicable regulations. Not all non-performing assets are classified assets.

On the basis of management s review of its assets at June 30, 2009 and December 31, 2008, we classified $2.2 million and $4.0 million, respectively, of our assets as special mention, $3.4 million and $2.8 million, respectively, of our assets as substandard, and $311,000 and $1,000, respectively, of our assets as doubtful.

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**OTTAWA SAVINGS BANCORP, INC.**

**Notes to Unaudited Consolidated Financial Statements**

**(continued)**

Following is a summary of activity in the allowance for loan losses for the six months ended June 30, 2009 and 2008.

| | 2009 | 2008 |
|---|---|---|
| Balance at beginning of year | $ 1,604,731 | $ 605,450 |
| Provision charged (credited) to income | 938,598 | (17,578) |
| Loans charged off | (925,054) | (58,123) |
| Recoveries of loans previously charged off | 9,512 | 119 |
| Balance at end of period | $ 1,627,787 | $ 529,868 |

NOTE 9 STOCK COMPENSATION

The total stock-based compensation expense was approximately $83,000 and $80,000, for the six months ended June 30, 2009 and 2008, respectively. In accordance with Statement of Financial Accounting Standards ( SFAS ) No. 123(R), *Share-Based Payment,* compensation expense is recognized on a straight-line basis over the grantees vesting period or to the grantees retirement eligible date, if earlier. For the six months ended June 30, 2009 and 2008, the Company did not grant additional options or shares under the MRP.

NOTE 10 RECENT ACCOUNTING DEVELOPMENTS

In April 2009, the FASB issued FSP FAS 115 2 and FAS 124 2, *Recognition and Presentation of Other Than Temporary Impairments* ( FSP FAS 115 2/124 2 ). FSP FAS 115 2/124 2 requires that all disclosures required by FASB Statement No. 115, FSP No. 115-1, and FAS 124-1, must be reported in both interim and annual periods. This enables users of the Company s financial statements to understand the types of debt and equity securities held, including information about investments in an unrealized loss position for which an other than temporary impairment has or has not been recognized. In addition, the standard requires entities to separate an other than temporary impairment of a debt security into two components when there are credit related losses associated with the impaired debt security for which management asserts that it does not have the intent to sell the security, and it is more likely than not that it will not be required to sell the security before recovery of its cost basis. The amount of the other than temporary impairment related to a credit loss is recognized in earnings, and the amount of the other than temporary impairment related to other factors is recorded in other comprehensive loss. FSP FAS 115 2/124 2 is effective for periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company has elected to adopt FSP FAS 115 2/124 2 effective for the quarter ending June 30, 2009. The adoption of this Statement did not have a material impact on the Company s financial position and results of operations.

In April 2009, the FASB issued FSP FAS 157 4, *Determining Fair Value When Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions that are Not Orderly* ( FSP FAS 157 4 ). Under FSP FAS 157 4, if an entity determines that there has been a significant decrease in the volume and level of activity for the asset or the liability in relation to the normal market activity for the asset or liability (or similar assets or liabilities), then transactions or quoted prices may not accurately reflect fair value. In addition, if there is evidence that the transaction for the asset or liability is not orderly, the entity shall place little, if any weight on that transaction price as an indicator of fair value. FSP FAS 157 4 is effective for periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company has elected to adopt FSP FAS 157 4 effective for the quarter ending June 30, 2009. The adoption of this Statement did not have a material impact on the Company s financial position and results of operations.

In April 2009, the FASB issued FSP FAS 107 1 and APB 28 1, *Interim Disclosures about Fair Value of Financial Instruments* ( FSP FAS 107 1 and APB 28 1 ). FSP FAS 107 1 and APB 28 1 require disclosures about fair value of financial instruments in interim and annual financial statements. FSP FAS 107 1 and APB 28 1 is effective for periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company has elected to adopt FSP FAS 107 1 and APB 28 1 effective for the quarter ending June 30, 2009. The adoption of this Statement did not have a material impact on the Company s financial position and results of operations. The disclosures required by this statement are included in Note 12, Fair Value Measurements.

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**OTTAWA SAVINGS BANCORP, INC.**

**Notes to Unaudited Consolidated Financial Statements**

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In May 2009, the FASB issued SFAS No. 165, *Subsequent Events* ( SFAS 165 ). SFAS 165 establishes principles and requirements for subsequent events. In particular, this Statement sets forth the period after the balance sheet date during which management of a reporting entity shall evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity shall recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that an entity shall make about events or transactions that occurred after the balance sheet date. SFAS 165 is effective for interim or annual financial periods ending after June 15, 2009, and shall be applied prospectively. The adoption of this Statement did not have a material impact on the Company s financial position and results of operations. See Note 13 for subsequent events.

NOTE 11 FAIR VALUE DISCLOSURE

Effective January 1, 2008, the Company adopted FASB Statement No. 157, *Fair Value Measurements* ( SFAS No. 157 ). SFAS No. 157 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Under SFAS No. 157, fair value measurements are not adjusted for transaction costs. SFAS No. 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement inputs) and the lowest priority to unobservable inputs (Level 3 measurement inputs). The three levels of the fair value hierarchy under SFAS No. 157 are described below:

Basis of Fair Value Measurement:

Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets.

Level 2 Significant other observable inputs other than Level 1 prices such as quoted prices in markets that are not active, quoted prices for similar assets, or other inputs that are observable, either directly or indirectly, for substantially the full term of the asset.

Level 3 Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

Following is a description of valuation methodologies used for assets and liabilities recorded at fair value.

Securities Available for Sale

Securities classified as available for sale are recorded at fair value on a recurring basis utilizing Level 2 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bonds terms and conditions, among other things.

Foreclosed Real Estate and Foreclosed Assets

Foreclosed assets are adjusted to fair value upon transfer of the loans to foreclosed assets. Foreclosed assets are carried at the lower of cost or fair value. Fair value is based upon independent market prices, appraised values of the collateral or management s estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the foreclosed asset as non-recurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the foreclosed asset as non-recurring Level 3.

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**OTTAWA SAVINGS BANCORP, INC.**

**Notes to Unaudited Consolidated Financial Statements**

**(continued)**

Impaired Loans

Impaired loans are evaluated and adjusted to fair value at the time the loan is identified as impaired. Impaired loans are carried at the lower of cost or fair value. Fair value is measured based on the value of the collateral securing these loans. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the impaired loan as non-recurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the impaired loan as non-recurring Level 3. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on the same factors identified above.

The table below presents the recorded amount of assets measured at fair value on a recurring basis at June 30, 2009.

| | Level 1 | Level 2 | Level 3 | Total Fair Value |
|---|---|---|---|---|
| U.S. agency securities available for sale | $ | $ 6,512,870 | $ | $ 6,512,870 |
| Mortgage-backed securities available for sale | | 21,559,382 | | 21,559,382 |

The table below presents the recorded amount of assets measured at fair value on a non-recurring basis at June 30, 2009.

| | Level 1 | Level 2 | Level 3 | Total Fair Value |
|---|---|---|---|---|
| Foreclosed assets | $ | $ 733,789 | $ | $ 733,789 |
| Impaired loans | | 2,780,058 | | 2,780,058 |

NOTE 12 FAIR VALUE MEASUREMENTS

The following information presents estimated fair value of the Company s financial instruments as of June 30, 2009 and December 31, 2008.

| | June 30, 2009 | | December 31, 2008 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Financial Assets: | | | | |
| Cash and cash equivalents | $ 8,990,343 | $ 8,990,343 | $ 3,096,742 | $ 3,096,742 |
| Securities | 31,385,372 | 31,379,423 | 33,956,227 | 33,938,831 |
| Accrued interest receivable | 930,824 | 930,824 | 981,330 | 981,330 |
| Loans | 150,575,790 | 156,021,000 | 156,444,223 | 159,989,000 |
| Mortgage servicing rights | 159,431 | 159,431 | 107,274 | 107,274 |
| Financial Liabilities: | | | | |
| Deposits | 178,970,623 | 182,132,000 | 175,230,101 | 179,350,000 |
| Borrowings | 461,000 | 461,000 | 6,300,000 | 6,300,000 |
| Accrued interest payable | 199,008 | 199,008 | 204,425 | 204,425 |

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**OTTAWA SAVINGS BANCORP, INC.**

**Notes to Unaudited Consolidated Financial Statements**

**(continued)**

The following methods and assumptions were used by the Bank in estimating its fair value disclosures for financial instruments:

*Cash and Cash Equivalents:* The carrying amounts reported in the balance sheets for cash and cash equivalents approximate fair values.

*Securities:* The Company obtains fair value measurements of available for sale and held to maturity securities from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bonds terms and conditions, among other things. The carrying value of non-marketable equity securities approximates fair value.

*Loans:* For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying amounts. The fair values for other loans (for example, fixed rate commercial real estate and rental property mortgage loans and commercial and industrial loans) are estimated using discounted cash flow analysis, based on market interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Loan fair value estimates include judgments regarding future expected loss experience and risk characteristics. Fair values for impaired loans are estimated using underlying collateral values, where applicable.

*Deposits:* The fair values disclosed for demand deposits are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The carrying amounts of variable-rate, fixed-term money market accounts and certificates of deposit approximate their fair values. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies market interest rates currently offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

*Accrued Interest Receivable and Payable:* The carrying amounts of accrued interest receivable and payable approximate fair values.

*Mortgage Servicing Rights:* The carrying amounts of mortgage servicing rights approximate their fair values.

*Loan Commitments:* Commitments to extend credit were evaluated and fair value was estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counter-parties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The Bank does not charge fees to enter into these agreements. As of June 30, 2009 and December 31, 2008, these items are immaterial in nature.

*Borrowings:* Due to the short term nature of the advances, the carrying amounts of these advances approximate their fair values.

In addition, other assets and liabilities of the Bank that are not defined as financial instruments are not included in the above disclosures, such as property and equipment. Also, non-financial instruments typically not recognized in financial statements nevertheless may have value but are not included in the above disclosures. These include, among other items, the estimated earnings power of core deposit accounts, the trained work force, customer goodwill and similar items.

NOTE 13 SUBSEQUENT EVENTS

The Company has evaluated subsequent events as to their potential impact to the Financial Statements through August 11, 2009, which is the date the financial statements are issued.

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

Management s discussion and analysis of the financial condition and results of operations is intended to assist in understanding the financial condition and results of operations of the Company. The information contained in this section should be read in conjunction with the Unaudited Consolidated Financial Statements and footnotes appearing in Part I, Item 1 of this document.

FORWARD-LOOKING INFORMATION

Statements contained in this report that are not historical facts may constitute forward-looking statements (within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended), which involve significant risks and uncertainties. The Company intends such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and is including this statement for purposes of invoking these safe harbor provisions. Forward-looking statements, which are based on certain assumptions and describe future plans, strategies and expectations of the Company, are generally identifiable by the use of the words believe, expect, intend, anticipate, estimate, project, plan, or similar expressions. The Company s predict results or the actual effect of future plans or strategies is inherently uncertain and actual results may differ from those predicted. The Company undertakes no obligation to update these forward-looking statements in the future. The Company cautions readers of this report that a number of important factors could cause the Company s actual results subsequent to June 30, 2009, to differ materially from those expressed in forward-looking statements. Factors that could cause actual results to differ from those predicted and could affect the future prospects of the Company include, but are not limited to, fluctuations in market rates of interest and loan and deposit pricing, changes in the securities or financial market, a deterioration of general economic conditions either nationally or locally, delays in obtaining the necessary regulatory approvals, our ability to consummate proposed transactions in a timely manner, legislative or regulatory changes that adversely affect our business, adverse developments or changes in the composition of our loan or investment portfolios, significant increases in competition, changes in real estate values, difficulties in identifying attractive acquisition opportunities or strategic partners to complement our Company s approach and the products and services the Company offers, the possible dilutive effect of potential acquisitions or expansion, and our ability to raise new capital as needed and the timing, amount and type of such capital raises. These risks and uncertainties should be considered in evaluating forward-looking statements.

GENERAL

The Bank is a community and customer oriented savings bank. The Bank s business has historically consisted of attracting deposits from the general public and using those funds to originate one-to-four family residential loans, consumer loans and other loans. The Bank completed its reorganization pursuant to its plan of conversion on July 11, 2005, upon which the Bank converted from an Illinois-chartered mutual savings bank to a federally-chartered mutual savings bank. The Bank completed its reorganization on that same date, pursuant to which the Bank converted from a federally-chartered mutual savings bank to a federally-chartered stock savings bank, all of the outstanding stock of which was issued to the Company. As part of the reorganization, the Company issued 1,001,210 shares to the public and 1,223,701 shares to Ottawa Savings Bancorp MHC.

**COMPARISON OF FINANCIAL CONDITION AT JUNE 30, 2009 AND DECEMBER 31, 2008**

The Company s total assets decreased $1.6 million, or .80%, to $204.3 million at June 30, 2009, from $205.9 million at December 31, 2008. The decrease reflects a decrease in loans of $5.9 million, a decrease in securities available for sale of $2.5 million, and a decrease in accrued interest receivable of $51,000. The decreases were offset by an increase in cash and cash equivalents of $5.9 million, an increase in foreclosed real estate of $592,000 and an increase in the deferred tax asset of $315,000.

Cash and cash equivalents increased $5.9 million, or 190.32%, to $9.0 million at June 30, 2009, from $3.1 million at December 31, 2008. The increase in cash and cash equivalents is primarily due to sales, calls and repayments on securities, additions to the deposit portfolio, and payments received on loans.

Securities available for sale decreased $2.5 million, or 8.21%, to $28.1 million at June 30, 2009, from $30.6 million at December 31, 2008. The decrease was primarily the result of $4.4 million in sales, calls, maturities, and principal pay-downs, offset by purchases of $1.8 million and a $61,000 increase in market values of the available for sale securities.

Loans decreased $5.9 million, or 3.75%, to $150.6 million at June 30, 2009, from $156.4 million at December 31, 2008. The decrease in loans was primarily due to pay-offs and principal reductions on purchased non-residential real estate loans and purchased consumer loans.

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Foreclosed real estate increased $592,000, or 623.43%, to $687,000 at June 30, 2009, from $95,000 at December 31, 2008. The increase was due to the foreclosure on properties securing three loans previously identified by management as impaired.

Total deposits increased $3.7 million, or 2.13%, to $179.0 million at June 30, 2009, from $175.2 million at December 31, 2008. The increase reflects increases in savings accounts and checking accounts, offset by a slight decrease in certificate of deposit accounts. The increases in checking and savings accounts can be attributed to movement of funds to safer yet liquid FDIC insured accounts, while the decrease in certificate of deposit accounts is primarily due to decreased interest rates.

Accrued interest payable decreased $5,000, or 2.65% to $199,000 at June 30, 2009, from $204,000 at December 31, 2008. The decrease is due to lower interest rates on certificates of deposit accounts with terms of less than one year, which pay interest at maturity.

Other liabilities increased $319,000, or 14.62%, to $2.5 million at June 30, 2009, from $2.2 million at December 31, 2008. The increase was primarily due to increases in escrow payable of $53,000, increases in FDIC premiums payable of $159,000, increases in accrued property taxes payable of $36,000, increases in SERP expenses of $66,000, increases in accrued retirement benefits payable of $32,000, increases in the Certificate of Deposit Account Registry service payable of $22,000, and an increase in the deferred director compensation investment accounts payable of $28,000. The increases were offset by decreases in federal taxes payable of $75,000 due to lower pre-tax income and a decrease in accrued interest on borrowed funds of $3,000, due to the decrease in borrowed funds outstanding. The increase in FDIC insurance premiums payable is due to an increase in assessments imposed by the FDIC and the accrual for the FDIC special assessment calculated as 5 basis points of total assets less Tier 1 capital as of June 30, 2009. The increase in retirement benefits payable is due to continued accruals for the defined benefit plan, which was terminated effective April 1, 2007, in anticipation of overall costs associated with withdrawing from the defined benefit plan and the absence of quarterly payments to fund the defined benefit plan.

Stockholders equity increased $107,000, or .49%, to $21.9 million at June 30, 2009, from $21.8 million at December 31, 2008. The increase in stockholders equity reflects net income for the six months ended June 30, 2009 of approximately $77,000 and an increase in other comprehensive income of $40,000, net of taxes, due to increases in the market value of the available for sale securities portfolio, offset by dividends of $84,000 paid to stockholders. The remaining changes to stockholders equity include increases of approximately $108,000 from the allocation and amortization of ESOP shares, MRP shares, and RRP options, offset by a decrease to stockholders equity of $34,000 to increase the cash obligation related to redeemable common stock held by the ESOP.

**COMPARISON OF RESULTS OF OPERATION FOR THE THREE MONTHS ENDED JUNE 30, 2009 AND 2008**

*Net Income*. The Company had a net loss of $102,000 for the three months ended June 30, 2009, compared to net income of $258,000 for the three months ended June 30, 2008.

*Net Interest Income.* The following table summarizes interest and dividend income and interest expense for the three months ended June 30, 2009 and 2008.

| | Three Months Ended June 30, | | | |
|---|---|---|---|---|
| | 2009 | 2008 | $ change | % change |
| | (Dollars in thousands) | | | |
| Interest and dividend income: | | | | |
| Interest and fees on loans | $ 2,385 | $ 2,523 | $ (138) | (5.47)% |
| Securities: | | | | |
| Mortgage-backed and related securities | 254 | 233 | 21 | 9.01 |
| U.S. agency securities | 77 | 73 | 4 | 5.48 |
| Interest-bearing deposits | 1 | 41 | (40) | (97.56) |
| **Total interest and dividend income** | 2,717 | 2,870 | (153) | (5.33) |
| Interest expense: | | | | |
| Deposits | 1,258 | 1,733 | (475) | (27.41) |
| **Total interest expense** | 1,258 | 1,733 | (475) | (27.41) |

| | | | | |
|---|---|---|---|---|
| **Net interest income** | $ 1,459 | $ 1,137 | $ 322 | 28.32% |

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The following table summarizes average balances and average yield or cost of funds for the three months ended June 30, 2009 and 2008.

| | Three Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2009 | | | 2008 | | |
| | AVERAGE BALANCE | INTEREST | AVERAGE YIELD/ COST | AVERAGE BALANCE | INTEREST | AVERAGE YIELD/ COST |
| | (Dollars in thousands) | | | | | |
| Interest-earning assets | | | | | | |
| Securities, net | $ 28,201 | $ 331 | 4.69% | $ 26,526 | $ 306 | 4.63% |
| Loans receivable, net (1) | 153,507 | 2,385 | 6.21% | 157,766 | 2,523 | 6.39% |
| Other investments | 7,517 | 1 | 0.05% | 8,986 | 41 | 1.83% |
| Total interest-earning assets | 189,225 | 2,717 | 5.74% | 193,278 | 2,870 | 5.86% |
| Interest-bearing liabilities | | | | | | |
| Money Market accounts | $ 13,614 | $ 69 | 2.03% | $ 12,286 | $ 62 | 2.02% |
| Passbook accounts | 11,960 | 11 | 0.37% | 11,381 | 14 | 0.50% |
| Certificates of Deposit accounts | 141,931 | 1,169 | 3.29% | 149,806 | 1,644 | 4.39% |
| Checking accounts | 9,434 | 9 | 0.38% | 9,145 | 13 | 0.57% |
| Total interest-bearing liabilities | 176,939 | 1,258 | 2.84% | 182,618 | 1,733 | 3.80% |
| **NET INTEREST INCOME** | | $ 1,459 | | | $ 1,137 | |
| **NET INTEREST RATE SPREAD** (2) | | | 2.90% | | | 2.06% |
| **NET INTEREST MARGIN** (3) | | | 3.08% | | | 2.32% |
| **RATIO OF AVERAGE INTEREST-EARNING ASSETS TO AVERAGE INTEREST-BEARING LIABILITIES** | | | 106.94% | | | 105.84% |

(1) Net of loans in process, deferred loan costs (fees), and allowance for loan losses.
(2) The net interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average cost of interest-bearing liabilities.
(3) The net interest margin represents net interest income as a percent of average interest-earning assets.

The following table summarizes the changes in net interest income due to rate and volume for the three months ended June 30, 2009 and 2008. The column Net is segmented into the changes attributable to variations in volume and the changes attributable to changes in interest rates. The variations attributable to simultaneous volume and rate changes have been proportionately allocated to rate and volume.

| | Three Months Ended June 30, 2009 Compared to 2008 Increase (Decrease) Due to | | |
|---|---|---|---|
| | VOLUME | RATE | NET |
| | (Dollars in Thousands) | | |
| Interest and dividends earned on | | | |
| Securities, net | $ 20 | $ 5 | $ 25 |
| Loans receivable, net | (69) | (69) | (138) |
| Other investments | (1) | (39) | (40) |

| | | | |
|---|---|---|---|
| Total interest-earning assets | $ (50) | $ (103) | $ (153) |
| | | | |
| Interest expense on | | | |
| Money Market accounts | $ 7 | $ | $ 7 |
| Passbook accounts | 1 | (4) | (3) |
| Certificates of Deposit accounts | (65) | (410) | (475) |
| Checking | | (4) | (4) |
| | | | |
| Total interest-bearing liabilities | (57) | (418) | (475) |
| | | | |
| Change in net interest income | $ 7 | $ 315 | $ 322 |

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Net interest income increased $322,000, or 28.27%, for the three months ended June 30, 2009, compared to the three months ended June 30, 2008. Interest and dividend income decreased $153,000, or 5.36%, to $2.7 million for the three months ended June 30, 2009, from $2.9 million for the three months ended June 30, 2008 due to a decrease in the average rate on interest-earning assets to 5.74% from 5.86%, due to a declining interest rate environment, and a decrease of $4.1 million in average interest-earning assets to $189.2 million from $193.3 million for the three months ended June 30, 2009, compared to the same period in 2008. Interest expense decreased $475,000, or 27.38%, due to a decrease in the average cost of interest-bearing liabilities to 2.84% from 3.80%, due to a declining interest rate environment, and a decrease of $5.7 million in average interest-bearing liabilities for the three months ended June 30, 2009, compared to the same period in 2008.

*Provision for Loan Losses.* Management recorded a loan loss provision of $677,000 for the three months ended June 30, 2009, compared to $51,000 for the three months ended June 30, 2008. The increased loss provision is primarily due to an increase in non-performing loans primarily attributable to the current decline in economic conditions. Based on a general review of the loans that were in the loan portfolio at June 30, 2009, management believes that the allowance is maintained at a level that represents its best estimate of inherent losses in the loan portfolio that were both probable and reasonably estimable.

*Other Income.* The following table summarizes other income for the three months ended June 30, 2009 and 2008.

| | Three months ended June 30, | | | |
|---|---|---|---|---|
| | 2009 | 2008 | $ change | % change |
| | (Dollars in thousands) | | | |
| Other income: | | | | |
| Gain on sale of securities available for sale | $ 22 | $ 54 | $ (32) | (59.26)% |
| Gain on sale of loans | 81 | 29 | 52 | 179.31 |
| Origination of mortgage servicing rights, net of amortization | 34 | 2 | 32 | 1,600.00 |
| Customer service fees | 72 | 62 | 10 | 16.13 |
| Income on bank owned life insurance | 5 | 15 | (10) | (66.67) |
| Other | 14 | 8 | 6 | 75.00 |
| **Total other income** | $ 228 | $ 170 | $ 58 | 34.12% |

The increase in total other income was primarily due to increased gains on sale of loans and origination of mortgage servicing rights, net of amortization, due to the refinancing of mortgage loans resulting from a decline in market interest rates, and an increase in customer service fees, due to management s decision, effective June 1, 2009, to increase fees the Company charges. The increase was offset by a decrease in gains on sale of securities available for sale, due to fewer sales, calls and maturities and decreased income on bank-owned life insurance, due to the decline in interest rates.

*Other Expenses.* The following table summarizes other expenses for the three months ended June 30, 2009 and 2008.

| | Three months ended June 30, | | | |
|---|---|---|---|---|
| | 2009 | 2008 | $ change | % change |
| | (Dollars in thousands) | | | |
| Other expenses: | | | | |
| Salaries and employee benefits | $ 473 | $ 452 | $ 21 | 4.65% |
| Directors fees | 21 | 21 | | |
| Occupancy | 120 | 122 | (2) | (1.64) |
| Deposit insurance premium | 174 | 5 | 169 | 3,380.00 |
| Legal and professional services | 48 | 64 | (16) | (25.00) |
| Data processing | 67 | 68 | (1) | (1.47) |
| Foreclosed real estate | 84 | 4 | 80 | 2,000.00 |
| Loss on sale of repossessed assets | 14 | | 14 | 100.00 |
| Other | 163 | 167 | (4) | (2.40) |

| | | | | |
|---|---|---|---|---|
| **Total other expenses** | $ 1,164 | $ 903 | $ 261 | 28.90% |

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The increase in other expenses was primarily due to an increase in deposit insurance premiums of $159,000, due to increased assessments imposed by the FDIC and the accrual for the FDIC special assessment calculated as 5 basis points of total assets less Tier 1 capital as of June 30, 2009, an increase in salaries and employee benefits of $21,000, and an increase in expenses on foreclosed real estate of $80,000, due primarily to payment of expenses of $73,000 on one property and expenses on additional foreclosures. The increases were offset by a decrease in legal and professional services of $16,000, due to the completion of legal services in connection with the purchase of bank-owned life insurance in 2008 and a reduction in costs associated with the implementation of Sarbanes Oxley compliance.

*Income Taxes.* The income tax benefit was $52,000 for the three months ended June 30, 2009, compared to income tax expense of $95,000 for the same period in 2008. The difference in income taxes for the periods is primarily a result of the differences in pre-tax income (loss) for the applicable periods.

**COMPARISON OF RESULTS OF OPERATION FOR THE SIX MONTHS ENDED JUNE 30, 2009 AND 2008**

*Net Income*. The Company had net income of $77,000 for the six months ended June 30, 2009, compared to net income of $427,000 for the six months ended June 30, 2008.

*Net Interest Income.* The following table summarizes interest and dividend income and interest expense for the six months ended June 30, 2009 and 2008.

| | Six Months Ended June 30, | | | |
|---|---|---|---|---|
| | 2009 | 2008 | $ change | % change |
| | (Dollars in thousands) | | | |
| Interest and dividend income: | | | | |
| Interest and fees on loans | $ 4,783 | $ 5,068 | $ (285) | (5.62)% |
| Securities: | | | | |
| Mortgage-backed and related securities | 535 | 476 | 59 | 12.39 |
| U.S. agency securities | 163 | 152 | 11 | 7.24 |
| Interest-bearing deposits | 1 | 90 | (89) | (98.89) |
| **Total interest and dividend income** | 5,482 | 5,786 | (304) | (5.25) |
| Interest expense: | | | | |
| Deposits | 2,563 | 3,601 | (1,038) | (28.83) |
| Other borrowings | 6 | | 6 | |
| **Total interest expense** | 2,569 | 3,601 | (1,032) | (28.66) |
| **Net interest income** | $ 2,913 | $ 2,185 | $ 728 | 33.32% |

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The following table summarizes average balances and average yield or cost of funds for the six months ended June 30, 2009 and 2008.

| | Six Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2009 | | | 2008 | | |
| | AVERAGE BALANCE | INTEREST | AVERAGE YIELD/ COST | AVERAGE BALANCE | INTEREST | AVERAGE YIELD/ COST |
| | (Dollars in thousands) | | | | | |
| Interest-earning assets | | | | | | |
| Securities, net | $ 28,998 | $ 698 | 4.82% | $ 26,526 | $ 628 | 4.73% |
| Loans receivable, net (1) | 155,434 | 4,783 | 6.15% | 157,766 | 5,068 | 6.43% |
| Other investments | 4,893 | 1 | 0.04% | 8,986 | 90 | 2.00% |
| Total interest-earning assets | 189,325 | 5,482 | 5.79% | 193,278 | 5,786 | 5.91% |
| Interest-bearing liabilities | | | | | | |
| Money Market accounts | $ 12,714 | $ 131 | 2.05% | $ 12,286 | $ 112 | 1.82% |
| Passbook accounts | 11,784 | 21 | 0.36% | 11,381 | 28 | 0.50% |
| Certificates of Deposit accounts | 141,364 | 2,392 | 3.38% | 149,806 | 3,434 | 4.58% |
| Checking accounts | 9,499 | 19 | 0.41% | 9,145 | 27 | 0.59% |
| Advances from Federal Home Loan Bank | 1,710 | 6 | 0.70% | | | |
| Total interest-bearing liabilities | 177,071 | 2,569 | 2.90% | 182,618 | 3,601 | 3.94% |
| **NET INTEREST INCOME** | | $ 2,913 | | | $ 2,185 | |
| **NET INTEREST RATE SPREAD** (2) | | | 2.89% | | | 1.97% |
| **NET INTEREST MARGIN** (3) | | | 3.08% | | | 2.23% |
| **RATIO OF AVERAGE INTEREST-EARNING ASSETS TO AVERAGE INTEREST-BEARING LIABILITIES** | | | 106.92% | | | 105.84% |

(1) Net of loans in process, deferred loan costs (fees), and allowance for loan losses.
(2) The net interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average cost of interest-bearing liabilities.
(3) The net interest margin represents net interest income as a percent of average interest-earning assets.

The following table summarizes the changes in net interest income due to rate and volume for the six months ended June 30, 2009 and 2008. The column Net is segmented into the changes attributable to variations in volume and the changes attributable to changes in interest rates. The variations attributable to simultaneous volume and rate changes have been proportionately allocated to rate and volume.

| | Six Months Ended June 30, 2009 Compared to 2008 Increase (Decrease) Due to | | |
|---|---|---|---|
| | VOLUME | RATE | NET |
| | (Dollars in Thousands) | | |
| Interest and dividends earned on | | | |
| Securities, net | $ 59 | $ 11 | $ 70 |
| Loans receivable, net | (72) | (213) | (285) |
| Other investments | (1) | (88) | (89) |

| | | | |
|---|---|---|---|
| Total interest-earning assets | $ (14) | $ (290) | $ (304) |
| Interest expense on | | | |
| Money Market accounts | $ 5 | $ 14 | $ 19 |
| Passbook accounts | 1 | (8) | (7) |
| Certificates of Deposit accounts | (143) | (899) | (1,042) |
| Checking | | (8) | (8) |
| Advances from Federal Home Loan Bank | 6 | | 6 |
| Total interest-bearing liabilities | (131) | (901) | (1,032) |
| Change in net interest income | $ 117 | $ 611 | $ 728 |

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Net interest income increased $728,000, or 33.32%, for the six months ended June 30, 2009, compared to the six months ended June 30, 2008. Interest and dividend income decreased $304,000, or 5.25%, to $5.5 million for the six months ended June 30, 2009, from $5.8 million for the six months ended June 30, 2008 due to a decrease in the average rate on interest- earning assets to 5.79% from 5.91%, due to a declining interest rate environment, and a decrease of $4.0 million in average interest-earning assets to $189.3 million from $193.3 million for the six months ended June 30, 2009, compared to the same period in 2008. Interest expense decreased $1.0 million, or 28.62%, due to a decrease in the average cost of interest-bearing liabilities to 2.90% from 3.94%, due to a declining interest rate environment, and a decrease of $5.5 million in average interest-bearing liabilities for the six months ended June 30, 2009, compared to the same period in 2008.

*Provision for Loan Losses.* Management recorded a loan loss provision of $939,000 for the six months ended June 30, 2009, compared to $33,000 for the six months ended June 30, 2008. The increased loss provision is primarily due to an increase in non-performing loans primarily attributable to the current decline in economic conditions. Based on a general review of the loans that were in the loan portfolio at June 30, 2009, management believes that the allowance is maintained at a level that represents its best estimate of inherent losses in the loan portfolio that were both probable and reasonably estimable.

*Other Income.* The following table summarizes other income for the six months ended June 30, 2009 and 2008.

| | Six months ended June 30, | | | |
|---|---|---|---|---|
| | **2009** | **2008** | **$ change** | **% change** |
| | (Dollars in thousands) | | | |
| Other income: | | | | |
| Gain on sale of securities available for sale | $ 22 | $ 59 | $ (37) | (62.71)% |
| Gain on sale of loans | 137 | 39 | 98 | 251.28 |
| Origination of mortgage servicing rights, net of amortization | 52 | 6 | 46 | 766.67 |
| Customer service fees | 135 | 120 | 15 | 12.50 |
| Income on bank owned life insurance | 10 | 31 | (21) | (67.74) |
| Other | 25 | 27 | (2) | (7.41) |
| **Total other income** | $ 381 | $ 282 | $ 99 | 35.11% |

The increase in total other income was primarily due to increased gains on sale of loans and origination of mortgage servicing rights, net of amortization, due to the refinancing of mortgage loans resulting from a decline in market interest rates, and an increase in customer service fees, due to management s decision, effective June 1, 2009, to increase fees the Company charges. The increase was offset by a decrease in gains on sale of securities available for sale, due to fewer sales, calls and maturities and decreased income on bank-owned life insurance, due to the decline in interest rates.

*Other Expenses.* The following table summarizes other expenses for the six months ended June 30, 2009 and 2008.

| | Six months ended June 30, | | | |
|---|---|---|---|---|
| | **2009** | **2008** | **$ change** | **% change** |
| | (Dollars in thousands) | | | |
| Other expenses: | | | | |
| Salaries and employee benefits | $ 941 | $ 870 | $ 71 | 8.16% |
| Directors fees | 42 | 42 | | |
| Occupancy | 248 | 241 | 7 | 2.90 |
| Deposit insurance premium | 300 | 10 | 290 | 2,900.00 |
| Legal and professional services | 96 | 137 | (41) | (29.93) |
| Data processing | 136 | 158 | (22) | (13.92) |
| Foreclosed real estate | 152 | 8 | 144 | 1,800.00 |
| Loss on sale of foreclosed real estate | | 9 | (9) | (100.00) |
| Loss on sale of repossessed assets | 19 | 10 | 9 | 90.00 |
| Other | 294 | 287 | 7 | 2.44 |

| | | | | |
|---|---|---|---|---|
| **Total other expenses** | $ 2,228 | $ 1,772 | $ 456 | 25.73% |

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The increase in other expenses was primarily due to an increase in deposit insurance premiums of $290,000, due to increased assessments imposed by the FDIC and the accrual for the FDIC special assessment calculated as 5 basis points of total assets less Tier 1 capital as of June 30, 2009, an increase in salaries and employee benefits of $71,000, and an increase in expenses on foreclosed real estate of $144,000, due primarily to payment of expenses of $123,000 on one property and expenses on additional foreclosures. The increases were offset by a decrease in legal and professional services of $41,000, due to the completion of legal services in connection with the purchase of bank-owned life insurance in 2008 and a reduction in costs associated with the implementation of Sarbanes Oxley compliance.

*Income Taxes.* Income tax expense was $51,000 for the six months ended June 30, 2009, compared to $236,000 for the same period in 2008. The difference in income tax expense for the periods is a direct result of the differences in pre-tax income for the applicable periods.

LIQUIDITY AND CAPITAL RESOURCES

*Liquidity*. Liquidity management for the Bank is measured and monitored on both a short and long-term basis, allowing management to better understand and react to emerging balance sheet trends. After assessing actual and projected cash flow needs, management seeks to obtain funding at the most economical cost to the Bank. Our primary sources of funds are deposits, amortization, prepayments and maturities of outstanding loans and mortgage-backed and related securities, and other short term investments, and funds provided from operations. While scheduled payments from amortization of loans and mortgage-backed related securities and maturing investment securities and short-term investments are relatively predictable sources of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions and competition. We invest excess funds in short-term interest-earning assets, which enable us to meet lending requirements.

At June 30, 2009, the Bank had outstanding commitments to originate $7.6 million in loans, unfunded lines of credit of $10.5 million, unfunded commitments on construction loans of $557,000, and unfunded standby letters of credit of $502,000. In addition, as of June 30, 2009, the total amount of certificates of deposit that were scheduled to mature in the next 12 months was $107.3 million. The Bank believes that it has adequate resources to fund all of its commitments and that it can adjust the rate on certificates of deposit to retain deposits in changing interest rate environments. If the Bank requires funds beyond its internal funding capabilities, advances from the Federal Home Loan Bank of Chicago are available as an additional source of funds. As of June 30, 2009, the Bank had $46.9 million of available credit from the Federal Home Loan Bank of Chicago, based on 20 times the amount of our capital stock in the Federal Home Loan Bank of Chicago. There were no Federal Home Loan Bank advances outstanding at June 30, 2009. In addition, the Bank had $5.0 million of available credit from Bankers Bank of Wisconsin to purchase Federal Funds.

*Capital*. The Bank is required to maintain regulatory capital sufficient to meet Tier 1 leverage, Tier 1 risk-based and total risk-based capital ratios of at least 4.0%, 4.0% and 8.0%, respectively. The Bank exceeded each of its capital requirements with ratios at June 30, 2009 of 9.93%, 16.37% and 17.62%, respectively, compared to ratios at December 31, 2008 of 9.81%, 16.39% and 17.64%, respectively.

OFF-BALANCE SHEET ARRANGEMENTS

In the normal course of operations, we engage in a variety of financial transactions that, in accordance with generally accepted accounting principles, are not recorded in our financial statements. These transactions involve, to varying degrees, elements of credit, interest rate and liquidity risk. Such transactions are used primarily to manage customers requests for funding and take the form of loan commitments and lines of credit.

For the six months ended June 30, 2009, we did not engage in any off-balance sheet transactions reasonably likely to have a material effect on our financial condition, results of operations or cash flows.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

This Item is not applicable as the Company is a smaller reporting company.

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ITEM 4T. CONTROLS AND PROCEDURES

*Controls and Procedures*

As of the end of the period covered by this report, the Company carried out an evaluation under the supervision and with the participation of the Company s principal executive officer and principal financial officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedures. Based on this evaluation, the Company s principal executive officer and principal financial officer concluded that the Company s disclosure controls and procedures are effective in timely alerting them to material information to be included in the Company s periodic SEC reports. It should be noted that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

In addition, there have been no changes in the Company s internal control over financial reporting during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

**Part II Other Information**

ITEM 1 - LEGAL PROCEEDINGS

The Company is not involved in any pending legal proceedings other than routine legal proceedings occurring in the ordinary course of business that, in the aggregate, are believed by management to be immaterial to the financial condition and results of operations of the Company.

ITEM 1A - RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part 1, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2008, which could materially affect our business, financial condition or future results. As of June 30, 2009, the risk factors of the Company have not changed materially from those reported in the Company s Annual Report on Form 10-K. However, the risks described in our Annual Report on Form 10-K are not the only risks that we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

ITEM 2 - UNREGISTERED SALES OF SECURITIES AND USE OF PROCEEDS

Not applicable.

ITEM 3 - DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4 - SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company held its annual meeting of shareholders on May 20, 2009. At the meeting, two items were put to a vote of the shareholders. The shareholders voted to approve the ratification of McGladrey & Pullen, LLP as independent registered public accountants for the Company for the fiscal year ending December 31, 2009. The shareholders also voted to approve the election of Arthur C. Mueller and Daniel J. Reynolds as directors of the Company for a three year term.

The matters approved by the shareholders at the meeting and the number of votes cast for, against or withheld (as well as the number of abstentions) as to each matter are set forth below:

1. To ratify the selection of McGladrey & Pullen, LLP as the Company s independent registered public accountants for the fiscal year ending December 31, 2009:

| **FOR** | **WITHHELD** | **ABSTAIN** |
| --- | --- | --- |
| 1,704,000 | 76,204 | 2,566 |

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2. For the election of two directors of the Company:

| | FOR | WITHHELD |
|---|---|---|
| Arthur C. Mueller | 1,771,403 | 11,367 |
| Daniel J. Reynolds | 1,769,832 | 12,938 |

There were no broker non-votes for either proposal.

ITEM 5 - OTHER INFORMATION

Not applicable.

ITEM 6 - EXHIBITS

| Exhibit No. | Description |
|---|---|
| 3.1 | Certificate of Incorporation of Ottawa Savings Bancorp, Inc. (incorporated by reference to Exhibit 3.1 to Company s Registration Statement on Form SB-2, No. 333-123455, filed on May 3, 2005, as amended) |
| 3.2 | Bylaws of Ottawa Savings Bancorp, Inc. (incorporated by reference to Exhibit 3.2 to Company s Registration Statement on Form SB-2, No. 333-123455, filed on May 3, 2005, as amended) |
| 31.1 | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

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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.

| | |
|---|---|
| | OTTAWA SAVINGS BANCORP, INC.<br>Registrant |
| Date: August 12, 2009 | /s/ Gary L. Ocepek<br>Gary L. Ocepek<br>President and Chief Executive Officer<br>(Principal Executive Officer) |
| Date: August 12, 2009 | /s/ Jon L. Kranov<br>Jon L. Kranov<br>Senior Vice President and Chief Financial Officer<br>(Principal Accounting and Financial Officer) |