

Oconee Federal Financial Corp.
Form 10-Q
May 16, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly Period ended March 31, 2011

Or

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

For transition period from to

Commission File Number 333-169410

Oconee Federal Financial Corp.

(Exact Name of Registrant as Specified in Charter)

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Federal
(State of Other Jurisdiction

32-0330122
(I.R.S Employer

of Incorporation)

Identification Number)

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

29678
(Zip Code)

(864) 882-2765

Registrant's telephone number, including area code

Not Applicable

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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

There were 6,348,000 shares of Common Stock, par value \$.01 per share, outstanding as of May 5, 2011.

OCONEE FEDERAL FINANCIAL CORP.

Form 10-Q Quarterly Report

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EXPLANATORY NOTE

On January 13, 2011, Oconee Federal Financial Corp. (the Registrant), headquartered in Seneca, South Carolina, became the stock holding company for Oconee Federal Savings and Loan Association following the mutual-to-stock conversion of Oconee Federal Savings and Loan Association. The financial statements for the three and nine months ended March 31, 2010 and information at June 30, 2010 are for Oconee Federal Savings and Loan Association.

Part I

ITEM 1. FINANCIAL STATEMENTS

OCONEE FEDERAL FINANCIAL CORP.

CONSOLIDATED BALANCE SHEETS

(All amounts in thousands, except share and per share data)

	March 31, 2011 (Unaudited)	June 30, 2010 (*)
ASSETS		
Cash and cash equivalents	\$ 5,063	\$ 3,704
Federal funds sold and overnight interest bearing deposits	88,273	46,088
Total cash and cash equivalents	93,336	49,792
Securities held to maturity (estimated fair value: March 31, 2011 - \$9,715 and June 30, 2010 - \$12,602)	9,441	12,117
Securities available for sale	32	33
Loans, net of allowance for loan losses of \$873 and \$888	265,704	264,328
Premises and equipment, net	3,321	3,521
Real estate owned, net	1,796	751
Accrued interest receivable		
Loans	953	965
Investments	36	68
Restricted equity securities	557	540
Bank owned life insurance	350	350
Prepaid FDIC insurance premiums	546	734
Other assets	891	347
Total assets	\$ 376,963	\$ 333,546
LIABILITIES AND SHAREHOLDERS EQUITY		
Deposits		
Non-interest bearing	\$ 2,517	\$ 2,017
Interest bearing	293,582	270,589
Total deposits	296,099	272,606
Accrued interest payable and other liabilities	1,490	1,279
Total liabilities	297,589	273,885
SHAREHOLDERS EQUITY		
Common stock, \$0.01 par value, 100,000,000 shares authorized; 6,348,000 and 0 shares outstanding at March 31, 2011 and June 30, 2010	63	
Additional paid in capital	20,930	
Accumulated other comprehensive income	5	
Unearned ESOP shares	(2,464)	
Retained earnings	60,840	59,661

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Total equity	79,374	59,661
Total liabilities and equity	\$ 376,963	\$ 333,546

* Derived from audited consolidated financial statements.
See accompanying notes to the financial statements

OCONEE FEDERAL FINANCIAL CORP.

CONSOLIDATED STATEMENTS OF INCOME AND OTHER COMPREHENSIVE INCOME (LOSS)

(Unaudited)

(All amounts in thousands, except share and per share data)

	Three Months Ended		Nine Months Ended	
	March 31, 2011	March 31, 2010	March 31, 2011	March 31, 2010
Interest and dividend income:				
Loans, including fees	\$ 3,662	\$ 3,661	\$ 11,012	\$ 10,940
Securities, taxable	106	94	353	304
Federal funds sold and other	23	9	67	30
Total interest income	3,791	3,764	11,432	11,274
Interest expense:				
Deposits	1,199	1,431	3,906	4,558
Total interest expense	1,199	1,431	3,906	4,558
Net interest income	2,592	2,333	7,526	6,716
Provision for loan losses	(6)	134	47	118
Net interest income after provision for loan losses	2,598	2,199	7,479	6,598
Noninterest income:				
Service charges on deposit accounts	22	24	67	69
Other	5	(1)	(11)	6
Total noninterest income	27	23	56	75
Noninterest expense:				
Salaries and employee benefits	664	648	1,906	1,974
Occupancy and equipment	173	179	540	518
Data processing	88	65	218	199
Professional and supervisory fees	67	36	171	107
Office expense	27	21	62	56
Advertising	9	10	36	40
FDIC deposit insurance	77	108	209	271
Charitable contributions	1,677	3	1,683	7
Provision for losses on real estate owned	78	15	217	25
Other	94	76	255	224
Total noninterest expense	2,954	1,161	5,297	3,421
Income (loss) before income taxes	(329)	1,061	2,238	3,252
Income tax expense (benefit)	(132)	401	837	1,237
Net income (loss)	\$ (197)	\$ 660	\$ 1,401	\$ 2,015

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Other comprehensive income (loss), net of tax				
Unrealized gain (loss) on securities available for sale, net of taxes	\$ 5	\$ (10)	\$ 11	\$ 33
Reclassification adjustment for losses realized in income, net of taxes			(6)	
Other comprehensive income (loss)	5	(10)	5	33
Comprehensive income (loss)	\$ (192)	\$ 650	\$ 1,406	\$ 2,048
Basic and diluted net earnings (loss) per common share: (Note 3)				
	\$ (0.04)	N/A	\$ 0.81	N/A
Dividends declared per common share	\$ 0.10	N/A	\$ 0.10	N/A

See accompanying notes to the financial statements

OCONEE FEDERAL FINANCIAL CORP.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

(Unaudited)

(All amounts in thousands, except share and per share data)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Unearned ESOP Shares	Total
Balance at July 1, 2009	\$	\$	\$ 57,068	\$	\$	\$ 57,068
Net income			2,015			2,015
Other comprehensive income				33		33
Balance at March 31, 2010	\$	\$	\$ 59,083	\$ 33	\$	\$ 59,116
Balance at July 1, 2010	\$	\$	\$ 59,661	\$	\$	\$ 59,661
Net income			1,401			1,401
Other comprehensive income				5		5
Common stock issued to Oconee Federal MHC, 4,127,470	41	(41)				
Initial funding of Oconee Federal, MHC		(50)				(50)
Common stock issued to Charitable Foundation, 125,690	1	1,256				1,257
Common stock issued in initial public offering, 2,094,840 shares, net of issuance costs \$1,166	21	19,760			(2,489)	17,292
Dividends (1)			(222)			(222)
ESOP shares earned		5			25	30
Balance at March 31, 2011	\$ 63	\$ 20,930	\$ 60,840	\$ 5	\$ (2,464)	\$ 79,374

- (1) Cash dividends of \$0.10 per share were declared on March 24, 2011 for 2,220,530 of the 6,348,000 shares at March 31, 2011. The Company was granted a dividend payment waiver from the Office of Thrift Supervision for the 4,127,470 of Company shares held by Oconee Federal, MHC.

See accompanying notes to the financial statements

OCONEE FEDERAL FINANCIAL CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(All amounts in thousands, except share and per share data)

	Nine Months Ended March 31,	
	2011	2010
Cash Flows From Operating Activities		
Net income	\$ 1,401	\$ 2,015
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	47	118
Provision for losses on real estate owned	217	25
Depreciation and amortization, net	222	213
Deferred loan fees, net	4	104
Deferred income tax benefit	(644)	(8)
Gain on sale of real estate owned	(7)	
Loss from other-than-temporary impairment	9	
ESOP compensation expense	30	
Stock issued to charitable foundation	1,257	
Net change in operating assets and liabilities:		
Accrued interest receivable	44	(37)
Accrued interest payable	89	(46)
Other	185	(827)
Net cash provided by operating activities	2,854	1,557
Cash Flows From Investing Activities		
Purchases of premises and equipment	(11)	(73)
Proceeds from maturities, paydowns and calls of securities held-to-maturity	2,665	1,463
Purchases of restricted equity securities	(17)	
Proceeds from sale of real estate owned	261	43
Loan originations and repayments, net	(2,943)	(18,611)
Net cash used in investing activities	(45)	(17,178)
Cash Flows from Financing Activities		
Net change in deposits	23,493	14,346
Initial funding of Oconee Federal, MHC	(50)	
Proceeds from sale of capital stock, net of issuance costs	17,292	
Net cash provided by financing activities	40,735	14,346
Change in cash and cash equivalents	43,544	(1,275)
Cash and cash equivalents, beginning of year	49,792	50,709
Cash and cash equivalents, end of period	\$ 93,336	\$ 49,434
Cash paid during the period for:		
Interest paid	\$ 3,995	\$ 4,604

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Income taxes paid	\$	1,300	\$	1,268
Supplemental noncash disclosures:				
Transfers from loans to real estate owned	\$	1,516	\$	1,159
Unrealized gains on securities available for sale, net of taxes	\$	5	\$	33

See accompanying notes to the financial statements

OCONEE FEDERAL FINANCIAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(All amounts in thousands, except share and per share data)

(1) BASIS OF PRESENTATION

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

On January 13, 2011, the Association completed its conversion and reorganization from a mutual savings association into a two-tier mutual holding stock company. In accordance with the plan of reorganization, Oconee Federal Financial Corp. (of which Oconee Federal Savings and Loan Association became a wholly-owned subsidiary) issued and sold shares of capital stock to eligible depositors of Oconee Federal Savings and Loan Association.

Since the entities are under common control, the reorganization was accounted for at historical cost and presented as if the transaction occurred at the beginning of the earliest period shown. A total of 2,094,840 shares were sold in the conversion at \$10 per share, raising \$20.9 million of gross proceeds. Approximately \$1.2 million of conversion expenses were offset against the gross proceeds. The Company s shares commenced trading on January 14, 2011 on The Nasdaq Capital Market under the symbol OFED. In addition, the Association contributed \$420 in cash and 125,690 shares of common stock to a charitable foundation that the Association established in connection with the reorganization. The contribution of cash and shares of common stock totaled \$1,677.

The combination of shares sold to the public and contributed to the charitable foundation represents 34.98% of the common stock of the Company s outstanding shares. Oconee Federal, MHC owns 65.02% or 4,127,470 shares.

In the opinion of management, the accompanying unaudited financial statements contain all adjustments (consisting only of normal recurring accruals) necessary to present fairly the Company s financial position as of March 31, 2011 and June 30, 2010 and the results of operations and cash flows for the interim periods ended March 31, 2011 and 2010. All interim amounts have not been audited, and the results of operations for the interim periods herein are not necessarily indicative of the results of operations to be expected for the year. These financial statements should be read in conjunction with the Association s audited financial statements and notes thereto filed as part of Oconee Federal Financial Corp. s Prospectus dated November 12, 2010, as filed with the Securities and Exchange Commission pursuant to Securities Act Rule 424(b)(3) on November 22, 2010.

(2) NEW ACCOUNTING STANDARDS

In July 2010, FASB issued an update to previously issued accounting standards with regard to disclosures about the credit quality of financing receivables and the allowance for credit losses. This update is intended to provide additional information to assist financial statement users in assessing an entity s credit risk exposures and evaluating the adequacy of its allowance for credit losses. The disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The amendments in this update encourage, but do not require, comparative disclosures for earlier reporting periods that ended before initial adoption. However, an entity should provide comparative disclosures for those reporting periods ending after initial adoption. The Company has implemented the new standards as required for the period ending after December 15, 2010 and beginning after December 15, 2010.

ASU No. 2010-06, Fair Value Measurements and Disclosures (Topic 820) - Improving Disclosures About Fair Value Measurements , requires expanded disclosures related to fair value measurements including (i) the amounts of significant transfers of assets or liabilities between Levels 1 and 2 of the fair value hierarchy and the reasons for the transfers, (ii) the reasons for transfers of assets or liabilities in or out of Level 3 of the fair value hierarchy, with significant transfers disclosed separately, (iii) the policy for determining when transfers between levels of the fair

value hierarchy are recognized

OCONEE FEDERAL FINANCIAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(All amounts in thousands, except share and per share data)

and (iv) for recurring fair value measurements of assets and liabilities in Level 3 of the fair value hierarchy, a gross presentation of information about purchases, sales, issuances and settlements. ASU 2010-06 further clarifies that (i) fair value measurement disclosures should be provided for each class of assets and liabilities (rather than major category), which would generally be a subset of assets or liabilities within a line item in the statement of financial position and (ii) company s should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements for each class of assets and liabilities included in Levels 2 and 3 of the fair value hierarchy. The implementation of these amendments did not have a significant effect to our financial statements.

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

(3) EARNINGS PER SHARE (EPS)

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

	Three months ended March 31, 2011	Nine months ended March 31, 2011
Basic		
Net loss	\$ (197)	\$ 1,401
Weighted average common shares outstanding	5,501,600	1,807,095
Less: Average unallocated ESOP shares	(215,644)	(70,832)
Average shares	5,285,956	1,736,263
Basic and diluted net earnings (loss) per common share	\$ (0.04)	\$ 0.81

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

OCONEE FEDERAL FINANCIAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(All amounts in thousands, except share and per share data)

(4) LOANS

The components of loans receivable at March 31, 2011 and June 30, 2010 were as follows:

	March 31, 2011 (Unaudited)	June 30, 2010
Real estate loans:		
One- to four-family	\$ 251,478	\$ 250,390
Multi-family	270	380
Home equity	486	510
Nonresidential	9,426	9,456
Construction and land	5,609	5,158
Total real estate loans	267,269	265,894
Consumer and other loans	1,002	1,012
Total loans	268,271	266,906
Net deferred loan fees	(1,694)	(1,690)
Allowance for loan losses	(873)	(888)
Loans, net	\$ 265,704	\$ 264,328

Activity in the allowance for loan losses for the three and nine months ended as follows:

	Three months ended March 31, (Unaudited)		Nine months ended March 31, (Unaudited)	
	2011	2010	2011	2010
Beginning balance	\$ 880	\$ 242	\$ 888	\$ 258
Provision for loan losses (recoveries)	(6)	134	47	118
Loans charged off	(1)	(128)	(62)	(128)
Recoveries				
Ending balance	\$ 873	\$ 248	\$ 873	\$ 248

OCONEE FEDERAL FINANCIAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(All amounts in thousands, except share and per share data)

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment based on impairment method at March 31, 2011:

	One-to-four		Real estate		Construction and land	Consumer	Total
	family	Multi-family	Home Equity	Nonresidential (Unaudited)			
Allowance for loan losses:							