

Oconee Federal Financial Corp.
Form 10-Q
February 14, 2014
[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly Period ended December 31, 2013

Or

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

For transition period from to

Commission File Number 001-35033

Oconee Federal Financial Corp.

(Exact Name of Registrant as Specified in Charter)

Federal
(State of Other Jurisdiction
of Incorporation)

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

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

29678
(Zip Code)

(864) 882-2765

Registrant's telephone number, including area code

Not Applicable

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Edgar Filing: Oconee Federal Financial Corp. - Form 10-Q

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 5,845,945 shares of Common Stock, par value \$.01 per share, outstanding as of February 1, 2014.

Table of Contents

OCONEE FEDERAL FINANCIAL CORP.

Form 10-Q Quarterly Report

Table of Contents

<u>PART I.</u>		2
<u>ITEM 1.</u>	<u>FINANCIAL STATEMENTS</u>	2
<u>ITEM 2.</u>	<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	26
<u>ITEM 3.</u>	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	36
<u>ITEM 4.</u>	<u>CONTROLS AND PROCEDURES</u>	36
<u>PART II.</u>		36
<u>ITEM 1.</u>	<u>LEGAL PROCEEDINGS</u>	36
<u>ITEM 1A.</u>	<u>RISK FACTORS</u>	36
<u>ITEM 2.</u>	<u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	36
<u>ITEM 3.</u>	<u>DEFAULTS UPON SENIOR SECURITIES</u>	37
<u>ITEM 4.</u>	<u>MINE SAFETY DISCLOSURES</u>	37
<u>ITEM 5.</u>	<u>OTHER INFORMATION</u>	37
<u>ITEM 6.</u>	<u>EXHIBITS</u>	37
<u>SIGNATURES</u>		38
<u>INDEX TO EXHIBITS</u>		39

Table of Contents

OCONEE FEDERAL FINANCIAL CORP.

CONSOLIDATED BALANCE SHEETS

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

PART I

ITEM 1. FINANCIAL STATEMENTS

	December 31, 2013 (Unaudited)	June 30, 2013 (*)
ASSETS		
Cash and due from banks	\$ 1,910	\$ 1,362
Interest-bearing deposits	22,280	36,580
Total cash and cash equivalents	24,190	37,942
Securities held-to-maturity (fair value: December 31, 2013 \$0 and June 30, 2013 - \$8,223)		8,039
Securities available-for-sale	97,113	87,985
Loans, net of allowance for loan losses of \$788 and \$751	224,287	221,163
Premises and equipment, net	2,980	3,047
Real estate owned, net	857	1,047
Accrued interest receivable		
Loans	800	863
Investments	238	269
Restricted equity securities	449	449
Bank owned life insurance	8,601	8,450
Other assets	1,087	841
Total assets	\$ 360,602	\$ 370,095
LIABILITIES		
Deposits		
Non-interest bearing	\$ 4,928	\$ 4,861
Interest bearing	279,266	287,561
Total deposits	284,194	292,422
Accrued interest payable and other liabilities	995	1,511
Total liabilities	285,189	293,933
SHAREHOLDERS EQUITY		
Common stock, \$0.01 par value, 100,000,000 shares authorized; 5,845,995 and 5,923,295 shares outstanding at December 31, 2013 and June 30, 2013	64	64
Treasury stock, at par 589,099 and 511,799 shares at December 31, 2013 and June 30, 2013	(6)	(5)
Additional paid in capital	12,201	13,413
Retained earnings	66,165	65,315
Accumulated other comprehensive loss	(1,096)	(559)
Unearned ESOP shares	(1,915)	(2,066)
Total shareholders equity	75,413	76,162
Total liabilities and shareholders equity	\$ 360,602	\$ 370,095

* Derived from audited consolidated financial statements

See accompanying notes to the consolidated financial statements

Edgar Filing: Oconee Federal Financial Corp. - Form 10-Q

Table of Contents

OCONEE FEDERAL FINANCIAL CORP.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

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

(Unaudited)

	Three Months Ended		Six Months Ended	
	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
Interest and dividend income:				
Loans, including fees	\$ 2,870	\$ 3,234	\$ 5,722	\$ 6,604
Securities, taxable	381	273	751	540
Federal funds sold and other	15	20	29	38
Total interest income	3,266	3,527	6,502	7,182
Interest expense:				
Deposits	383	568	811	1,193
Total interest expense	383	568	811	1,193
Net interest income	2,883	2,959	5,691	5,989
Provision for loan losses	(40)	(64)	41	76
Net interest income after provision for loan losses	2,923	3,023	5,650	5,913
Noninterest income:				
Service charges on deposit accounts	19	22	37	42
Gain on sales of securities	145	14	145	14
Gain (loss) on sales of real estate owned		9	(14)	66
Other	76	7	152	14
Total noninterest income	240	52	320	136
Noninterest expense:				
Salaries and employee benefits	995	824	1,855	1,614
Occupancy and equipment	165	154	320	330
Data processing	66	69	129	128
Professional and supervisory fees	144	97	255	176
Office expense	27	24	51	47
Advertising	17	16	38	36
FDIC deposit insurance	39	40	79	67
Charitable contributions		1		1
Provision for real estate owned and related expenses	20	16	53	54
Other	108	71	177	148
Total noninterest expense	1,581	1,312	2,957	2,601
Income before income taxes	1,582	1,763	3,013	3,448
Income tax expense	568	656	1,081	1,326
Net income	\$ 1,014	\$ 1,107	\$ 1,932	\$ 2,122

Edgar Filing: Oconee Federal Financial Corp. - Form 10-Q

Other comprehensive income (loss)								
Unrealized (loss) gain on securities								
available-for-sale	\$	(840)	\$	277	\$	(849)	\$	340
Tax effect		320		(105)		323		(129)
Reclassification adjustment for gains realized in net income								
		(63)		(14)		(63)		(14)
Tax effect		24		4		24		4
Total other comprehensive income (loss)		(559)		162		(565)		201
Comprehensive income								
	\$	455	\$	1,269	\$	1,367	\$	2,323
Basic net income per share: (Note 2)								
	\$	0.18	\$	0.18	\$	0.34	\$	0.34
Diluted net income per share: (Note 2)								
	\$	0.18	\$	0.18	\$	0.34	\$	0.34
Dividends declared per share:								
	\$	0.10	\$	0.10	\$	0.20	\$	0.20

See accompanying notes to the consolidated financial statements

Table of Contents

OCONEE FEDERAL FINANCIAL CORP.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

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

(Unaudited)

	Common Stock	Treasury Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Unearned ESOP Shares	Total
Balance at July 1, 2012	\$ 64	\$	\$ 20,880	\$ 63,693	\$ 599	\$ (2,252)	\$ 82,984
Net income				2,122			2,122
Other comprehensive income					201		201
Purchase of 163,200 shares of treasury stock		(2)	(2,534)				(2,536)
Stock-based compensation expense			115				115
Dividends				(1,191)			(1,191)
ESOP shares earned			39			96	135
Balance at December 31, 2012	\$ 64	\$ (2)	\$ 18,500	\$ 64,624	\$ 800	\$ (2,156)	\$ 81,830
Balance at July 1, 2013	\$ 64	\$ (5)	\$ 13,413	\$ 65,315	\$ (559)	\$ (2,066)	\$ 76,162
Net income				1,932			1,932
Other comprehensive loss					(565)		(537)
Transfers of securities from classified as held-to-maturity to available-for-sale					28		
Purchase of 89,900 shares of treasury stock (1)		(1)	(1,423)				(1,424)
Issuance of 12,600 shares of restricted stock (2)							
Stock-based compensation expense			119				119
Dividends (3) (4)				(1,068)			(1,068)
ESOP shares earned (4)			92	(14)		151	229
Balance at December 31, 2013	\$ 64	\$ (6)	\$ 12,201	\$ 66,165	\$ (1,096)	\$ (1,915)	\$ 75,413

(1) The weighted average cost of treasury shares purchased during the three months ended was \$15.85 per share. Treasury stock repurchases were accounted for using the par value method.

(2) On November 13, 2013, the Company granted 12,600 shares of restricted stock. The grant date fair value of these shares was \$17.16.

(3) Cash dividends declared on July 25, 2013 were paid on August 29, 2013. Cash dividends declared on October 24, 2013 were paid on November 21, 2013.

(4) Approximately \$99 of cash dividends paid on shares in the ESOP was used as additional principal reduction on the ESOP debt, resulting in the release of approximately 8,000 additional shares. The portion of the dividend paid on allocated shares of approximately \$14 was treated as a dividend. The remaining portion of the dividend payment and resulting release of approximately 7,000 shares was accounted for as additional compensation expense of approximately \$63 for the six months ended December 31, 2013.

See accompanying notes to the consolidated financial statements

Table of Contents

OCONEE FEDERAL FINANCIAL CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

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

	Six Months Ended	
	December 31, 2013	December 31, 2012
Cash Flows From Operating Activities		
Net income	\$ 1,932	\$ 2,122
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	41	76
Depreciation and amortization, net	479	569
Deferred loan fees, net	23	134
(Gain) loss on sale of real estate owned	14	(66)
Gain on sales of securities	(145)	(14)
Increase in cash surrender value of bank owned life insurance	(151)	
ESOP compensation expense	229	135
Stock based compensation expense	119	115
Net change in operating assets and liabilities:		
Accrued interest receivable	94	65
Accrued interest payable	(2)	(9)
Other	(430)	246
Net cash provided by operating activities	2,203	3,373
Cash Flows From Investing Activities		
Purchases of premises and equipment	(33)	(69)
Purchases of securities held-to-maturity	(3,486)	(1,245)
Purchases of securities available-for-sale	(18,300)	(19,673)
Proceeds from maturities, paydowns and calls of securities available-for-sale	6,538	6,037
Proceeds from maturities, paydowns and calls of securities held-to-maturity		1,602
Proceeds from sales of securities available-for-sale	10,788	1,243
Proceeds from sales of securities held-to-maturity	2,270	
Proceeds from sale of real estate owned	176	1,029
Loan originations and repayments, net	(3,188)	15,854
Net cash provided by (used in) investing activities	(5,235)	4,778
Cash Flows from Financing Activities		
Net change in deposits	(8,228)	(1,950)
Dividends paid	(1,068)	(1,191)
Purchase of treasury stock	(1,424)	(2,536)
Net cash used in financing activities	(10,720)	(5,677)
Change in cash and cash equivalents	(13,752)	2,474
Cash and cash equivalents, beginning of year	37,942	47,612
Cash and cash equivalents, end of period	\$ 24,190	\$ 50,086

See accompanying notes to the consolidated financial statements

Table of Contents

OCONEE FEDERAL FINANCIAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

(1) BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements of Oconee Federal Financial Corp., which include the accounts of its wholly owned subsidiary Oconee Federal Savings and Loan Association (the Association) (referred to herein as the Company, we, us, or our) have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. Intercompany accounts and transactions are eliminated during consolidation. The Company is majority owned (70.60%) by Oconee Federal, MHC. These financial statements do not include the transactions and balances of Oconee Federal, MHC.

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting only of normal recurring accruals) necessary to present fairly the Company's financial position as of December 31, 2013 and June 30, 2013 and the results of operations and cash flows for the interim periods ended December 31, 2013 and 2012. All interim amounts have not been audited, and the results of operations for the interim periods herein are not necessarily indicative of the results of operations to be expected for the year. These consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto included in the Form 10-K Annual Report of Oconee Federal Financial Corp. for the year ended June 30, 2013.

(2) EARNINGS PER SHARE (EPS)

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

	Three Months Ended		Six Months Ended	
	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
Earnings per share				
Net income	\$ 1,014	\$ 1,107	\$ 1,932	\$ 2,122
Less: distributed earnings allocated to participating securities	(8)	(6)	(16)	(14)
Less: (undistributed income) dividends in excess of earnings allocated to participating securities	(7)	(7)	(13)	(14)
Net earnings available to common shareholders	\$ 999	\$ 1,094	\$ 1,903	\$ 2,094

Edgar Filing: Oconee Federal Financial Corp. - Form 10-Q

Weighted average common shares outstanding including participating securities	5,839,969	6,388,536	5,845,245	6,406,091
Less: participating securities	(83,695)	(87,092)	(83,695)	(87,092)
Less: average unearned ESOP shares	(196,488)	(218,237)	(198,754)	(220,306)
Weighted average common shares outstanding	5,559,786	6,083,207	5,562,796	6,098,693
Basic earnings per share	\$ 0.18	\$ 0.18	\$ 0.34	\$ 0.34
Weighted average common shares outstanding	5,559,786	6,083,207	5,562,796	6,098,693
Add: dilutive effects of assumed exercises of stock options	53,456	29,823	50,668	21,966
Average shares and dilutive potential common shares	5,613,242	6,113,030	5,613,464	6,120,659
Diluted earnings per share	\$ 0.18	\$ 0.18	\$ 0.34	\$ 0.34

During the three and six months ended December 31, 2013, 7,700 shares were considered anti-dilutive. During the three and six months ended December 31, 2012, no shares were considered anti-dilutive.

Table of Contents

OCONEE FEDERAL FINANCIAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

(3) SECURITIES AVAILABLE-FOR-SALE AND HELD-TO-MATURITY

Debt, mortgage-backed and equity securities have been classified in the consolidated balance sheets according to management's intent. Investment securities at December 31, 2013 and June 30, 2013 are as follows:

	Amortized Cost		Gross Unrealized Gains		Gross Unrealized Losses		Fair Value
<u>December 31, 2013</u>							
Available-for-sale:							
FHLMC common stock	\$ 20	\$	216	\$	\$		236
Preferred stock (1)	271		28				299
Certificates of deposit	6,723		15		(26)		6,712
FNMA CMO/REMIC	3,209				(166)		3,043
FHLMC CMO/REMIC	1,839				(84)		1,755
GNMA CMO/REMIC	6,347				(372)		5,975
FNMA mortgage-backed securities	20,979		49		(291)		20,737
FHLMC mortgage-backed securities	18,555		28		(421)		18,162
GNMA mortgage-backed securities	4,569		72		(133)		4,508
U.S. Government agencies	36,370		224		(908)		35,686
Total available-for-sale	\$ 98,882	\$	632	\$	(2,401)	\$	97,113

June 30, 2013

Held-to-maturity: _____