Home Federal Bancorp, Inc.
Form 10-Q
May 09, 2011
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 March 31, 2011

or

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

For the transition period from to

Commission File Number: 001-33795

HOME FEDERAL BANCORP, INC.

(Exact name of registrant as specified in its charter)

Maryland (State or other jurisdiction of incorporation or organization)	68-0666697 (I.R.S. Employer Identification Number)
500 12th Avenue South, Nampa, Idaho (Address of principal executive offices)	83651 (Zip Code)
Registrant's telephone number, including area code:	(208) 466-4634

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes [ ] No [ ]

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

Large accelerated filer	[ ]	Accelerated filer	[X]
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 [X]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: Common Stock, $.01 par value per share, 16,561,816 shares outstanding as of May 5, 2011.

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Item 1. Financial Statements

HOME FEDERAL BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
(In thousands, except share data) (Unaudited)

	March 31, 2011	September 30, 2010
ASSETS		
Cash and equivalents	$195,720	$416,426
Investments available for sale, at fair value	439,692	275,180
Loans and leases receivable, net of allowance for loan and lease losses of $14,281 and $15,432	531,130	620,493
Loans held for sale	671	5,135
Accrued interest receivable	3,036	2,694
FDIC indemnification receivable, net	74,518	64,574
Bank owned life insurance	12,643	12,437
Real estate and other property owned	24,577	30,481
FHLB stock, at cost	17,717	17,717
Core deposit intangible	3,590	3,971
Property and equipment, net	28,294	27,955
Other assets	3,942	5,798
TOTAL ASSETS	$1,335,530	$1,482,861
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposit accounts:		
Noninterest-bearing demand	$135,572	$138,300
Interest-bearing demand	235,428	225,794
Money market	177,790	180,454
Savings	80,421	69,079
Certificates	444,648	576,035
Total deposit accounts	1,073,859	1,189,662
Advances by borrowers for taxes and insurance	1,006	4,658
Interest payable	490	631
FHLB advances and other borrowings	53,302	67,622
Deferred compensation	5,680	5,583
Deferred income tax liability, net	1,577	2,211
Other liabilities	1,408	7,406
Total liabilities	1,137,322	1,277,773
STOCKHOLDERS' EQUITY		
Serial preferred stock, $.01 par value; 10,000,000 authorized; issued and outstanding, none	-	-
Common stock, $.01 par value; 90,000,000 authorized; issued and outstanding:	166	167
Mar. 31, 2011 - 17,506,997 issued; 16,562,213 outstanding		
Sept. 30, 2010 – 17,460,311 issued, 16,687,561 outstanding		
Additional paid-in capital	151,580	152,682

Retained earnings	52,676	56,942
Unearned shares issued to employee stock ownership plan	(8,136)	(8,657)
Accumulated other comprehensive income	1,922	3,954
Total stockholders' equity	198,208	205,088
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$1,335,530	$1,482,861

HOME FEDERAL BANCORP, INC. AND SUBSIDIARY CONSOLIDATED STATEMENTS OF OPERATIONS (In thousands, except share data) (Unaudited)	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010	Six Months Ended March 31, 2011	Six Months Ended March 31, 2010
Interest and dividend income:				
Loans, including fees	$8,395	$7,033	$17,741	$4,136
Investment securities	2,256	1,618	3,942	3,352
Other interest and dividends	134	87	345	136
Total interest and dividend income	10,785	8,738	22,028	17,624
Interest expense:				
Deposits	1,692	1,674	3,958	3,348
FHLB advances and other borrowings	558	762	1,222	1,593
Total interest expense	2,250	2,436	5,180	4,941
Net interest income	8,535	6,302	16,848	12,683
Provision for loan losses	3,000	2,375	6,000	3,075
Net interest income after provision for loan losses	5,535	3,927	10,848	9,608
Noninterest income:				
Service charges and fees	2,232	2,146	4,692	4,410
Gain on sale of loans	187	125	536	308
Increase in cash surrender value of bank owned life insurance	101	104	206	211
FDIC indemnification recovery	2,850	--	4,846	--
Other, net	724	94	2,117	415
Total noninterest income	6,094	2,469	12,397	5,344
Noninterest expense:				
Compensation and benefits	7,181	4,689	14,274	9,306
Occupancy and equipment	1,877	980	3,723	2,044
Data processing	950	797	2,127	1,597
Advertising	262	282	475	542
Postage and supplies	349	177	603	343
Professional services	1,036	505	1,754	984
Insurance and taxes	1,026	480	2,076	1,038
Amortization of Intangibles	186	--	381	--
Provision for losses on real estate and other property owned	357	1,290	1,032	2,091
Other	499	360	1,097	698
Total noninterest expense	13,723	9,560	27,542	18,643
Loss before income taxes	(2,094)	(3,164)	(4,297)	(3,691)
Income tax benefit	(892)	(1,233)	(1,763)	(1,451)
Loss before extraordinary item	(1,202)	(1,931)	(2,534)	(2,240)
Extraordinary gain on acquisition, less income taxes of $195	--	305	--	305
Net loss	$(1,202)	$(1,626)	$(2,534)	$(1,935)
Loss per common share before extraordinary item:				

Basic	$(0.08)	$(0.12)	$(0.16)	$(0.14)
Diluted	(0.08)	(0.12)	(0.16)	(0.14)
Loss per common share after extraordinary item:				
Basic	$(0.08)	$(0.10)	$(0.16)	$(0.12)
Diluted	(0.08)	(0.10)	(0.16)	(0.12)
Weighted average number of shares outstanding:				
Basic	15,648,721	15,481,827	15,656,159	15,464,699
Diluted	15,648,721	15,481,827	15,656,159	15,464,699
Dividends declared per share:	$0.055	$0.055	$0.110	$0.110

HOME FEDERAL BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)
(In thousands, except share data) (Unaudited)

	Common Stock						
	Shares	Amount	Additional Paid-In Capital	Retained Earnings	Unearned Shares Issued to Employee Stock Ownership Plan ("ESOP")	Accumulated Other Comprehensive Income (Loss)	Total
Balance at September 30, 2009	16,698,168	$167	$150,782	$64,483	$(9,699)	$3,932	$209,665
Restricted stock forfeited, net of new issuance	(25,607)	-	-				-
ESOP shares committed to be released			444		1,042		1,486
Exercise of stock options	15,000		161				161
Share-based compensation			1,279				1,279
Tax adjustment from equity compensation plans			16				16
Dividends paid ($0.220 per share)				(3,450)			(3,450)
Comprehensive income (loss):							
Loss before extraordinary item				(4,396)			(4,396)
Extraordinary gain, net of tax				305			305
Other comprehensive income:							
Change in unrealized holding loss on securities available for sale, net of taxes of $(49)						82	82
Adjustment for realized gains, net of taxes of $38						(60)	(60)
Comprehensive loss							(4,069)
Balance at September 30, 2010	16,687,561	167	152,682	56,942	(8,657)	3,954	205,088
Shares issued, net of forfeitures	30,666	-	-				-
ESOP shares committed to be released			128		521		649
Exercise of stock options	46,686	1	492				493
Share-based compensation			416				416

Dividends paid ($0.11 per share)				(1,732)			(1,732)
Stock Repurchase	(202,700)	(2)	(2,138)				(2,140)
Comprehensive income:							
Net loss				(2,534)			(2,534)
Other comprehensive income:							
Change in unrealized holding gain on securities available for sale, net of taxes of ($1,408)						(2,032)	(2,032)
Comprehensive loss							(4,566)
Balance at March 31, 2011	16,562,213	$166	$151,580	$52,676	$(8,136)	$1,922	$198,208

See accompanying notes.

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HOME FEDERAL BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands) (Unaudited)

	Six Months Ended March 31, 2011	Six Months Ended March 31, 2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(2,534)	$(1,935)
Adjustments to reconcile net loss to cash provided by operating activities:		
Depreciation and amortization	1,174	1,023
Amortization of core deposit intangible	381	-
Accretion of FDIC indemnification receivable	(1,571)	-
Net amortization of premiums and discounts on investments	2,925	206
(Gain) Loss on sale of fixed assets and repossessed assets	(398)	33
ESOP shares committed to be released	649	714
Share-based compensation	416	624
Provision for loan losses	6,000	3,075
Provision for losses on real estate and other property owned	1,032	2,091
Accrued deferred compensation expense, net	97	94
Net deferred loan fees	(230)	4
Deferred income tax benefit	773	65
Net gain on sale of loans	(536)	(308)
Proceeds from sale of loans held for sale	19,595	13,068
Originations of loans held for sale	(14,596)	(14,078)
Increase in cash surrender value of bank owned life insurance	(206)	(211)
Change in assets and liabilities:		
Interest receivable	(342)	359
Other assets	(4,933)	(3,512)
Interest payable	(141)	3
Other liabilities	(5,998)	(3,540)
Net cash used by operating activities	1,557	(2,225)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from repayments of mortgage-backed securities available for sale	45,290	21,485
Purchase of securities available for sale	(232,938)	(14,762)
Proceeds from maturities and calls of securities available for sale	16,773	6,000
Reimbursement of loan losses under loss share agreement	-	15,317
Purchases of property and equipment	(1,548)	(7,059)
Net decrease in loans	72,047	22,101
Proceeds from sale of fixed assets and real estate and other property owned	15,268	9,113
Net cash provided (used) by investing activities	(85,108)	52,195
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase (decrease) in deposits	(115,803)	40,042
Net decrease in advances by borrowers for taxes and insurance	(3,652)	(81)
Repayment of FHLB advances	(10,602)	(10,890)
Net proceeds from (repayments of) other borrowings	(3,719)	1,451
Proceeds from exercise of stock options	493	161
Repurchase of common stock	(2,140)	

Dividends paid	(1,732)	(1,725)
Net cash used by financing activities	(137,155)	28,958
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(220,706)	78,928
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	416,426	49,953
CASH AND CASH EQUIVALENTS, END OF PERIOD	$195,720	$128,881

(Continued)

See accompanying notes.

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HOME FEDERAL BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(In thousands) (Unaudited)

	Six months Ended March 31, 2011	2010
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$5,321	$4,938
Taxes	(159)	(700)
NONCASH INVESTING AND FINANCING ACTIVITIES:		
Acquisition of real estate and other assets in settlement of loans	$12,978	$6,327
Fair value adjustment to securities available for sale, net of taxes	(2,032)	(472)

See accompanying notes.

HOME FEDERAL BANCORP, INC. AND SUBSIDIARY
SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 - Basis of Presentation

The consolidated financial statements presented in this quarterly report include the accounts of Home Federal Bancorp, Inc., a Maryland corporation (the "Company"), and its wholly-owned subsidiary, Home Federal Bank (the "Bank"), which is headquartered in Nampa, Idaho. The financial statements of the Company have been prepared in conformity with U.S. generally accepted accounting principles for interim financial information and are unaudited. All significant intercompany transactions and balances have been eliminated. In the opinion of the Company's management, all adjustments consisting of normal recurring adjustments necessary for a fair presentation of the financial condition and results of operations for the interim periods included herein have been made. Operating results for the three and six month periods ended March 31, 2011, are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2011.

Certain information and note disclosures normally included in the Company's annual consolidated financial statements have been condensed or omitted. Therefore, these consolidated financial statements and notes thereto should be read in conjunction with the audited financial statements and notes included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2010 ("2010 Form 10-K"), filed with the Securities and Exchange Commission ("SEC") on December 14, 2010.

Certain reclassifications have been made to prior year's financial statements in order to conform to the current year presentation. The reclassifications had no effect on previously reported net income or equity.

Note 2 - Critical Accounting Estimates and Related Accounting Policies

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles 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. The Company considers the allowance for loan losses, acquired loans, the indemnification receivable due from the Federal Deposit Insurance Corporation ("FDIC"), deferred income taxes and valuation of real estate owned to be critical accounting estimates.

Allowance for Loan Losses. Management recognizes that losses may occur over the life of a loan and that the allowance for loan losses must be maintained at a level necessary to absorb specific losses on impaired loans and probable losses inherent in the loan portfolio. Management assesses the allowance for loan losses on a quarterly basis by analyzing several factors including delinquency rates, charge-off rates and the changing risk profile of the Bank's loan portfolio, as well as local economic conditions such as unemployment rates, bankruptcies and vacancy rates of business and residential properties.

The Company believes that the accounting estimate related to the allowance for loan losses is a critical accounting estimate because it is highly susceptible to change from period to period, requiring management to make assumptions about probable incurred losses inherent in the loan portfolio at the balance sheet date. The impact of a sudden large loss could deplete the allowance and require increased provisions to replenish the allowance, which would negatively affect earnings.

The Company's methodology for analyzing the allowance for loan losses consists of specific allocations on significant individual credits and a general allowance amount, including a range of losses. The specific allowance component is determined when management believes that the collectability of an individually reviewed loan has been impaired and a loss is probable. The general allowance component relates to assets with no well-defined deficiency or weakness and takes into consideration loss that is inherent within the portfolio but has not been identified. The general allowance is determined by applying a historical loss percentage to various types of loans with similar characteristics and classified loans that are not analyzed specifically. Adjustments are made to historical

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loss percentages to reflect current economic and internal environmental factors such as changes in underwriting standards and unemployment rates that may increase or decrease those loss factors. As a result of the imprecision in calculating inherent and potential losses, a range is added to the general allowance to provide an allowance for loan losses that is adequate to cover losses that may arise as a result of changing economic conditions and other qualitative factors that may alter historical loss experience.

The allowance for loan losses is increased by the provision for loan losses, which is charged against current period operating results and decreased by the amount of actual loan charge-offs, net of recoveries. Provisions for losses on covered loans are recorded gross of recoverable amounts from the FDIC under the loss sharing agreements. The recoverable portion of the provision for loan losses on covered loans is recorded in noninterest income.

Acquired Loans. On August 7, 2009, the Bank entered into a purchase and assumption agreement with loss sharing agreements with the FDIC to acquire certain assets and assume deposits and certain other liabilities of Community First Bank, a full-service commercial bank headquartered in Prineville, Oregon (“CFB Acquisition”). Under the loss sharing agreements, the FDIC has agreed to reimburse Home Federal Bank for 80% of losses and certain related expenses up to $34.0 million, and 95% of losses that exceed that amount. Loans acquired in the CFB Acquisition were valued as of the acquisition date in accordance with Statement of Financial Accounting Standard ("SFAS") No. 141, which has since been superseded by Accounting Standards Codification Topic (“ASC”) 805 [formerly SFAS No. 141(R)]. The Company was not permitted to adopt ASC 805 prior to its effective date, which was October 1, 2009. ASC 310-30 applies to a loan with evidence of deterioration of credit quality since origination, acquired by completion of a transfer for which it is probable, at acquisition, that the investor will be unable to collect all contractually required payments receivable. For loans purchased in the CFB Acquisition that were accounted for under ASC 310-30, management determined the value of the loan portfolio based on work provided by an appraiser. Factors considered in the valuation were projected cash flows for the loans, the type of loan and related collateral, classification status and current discount rates. Loans purchased in the CFB Acquisition accounted for under ASC 310-30 were not aggregated into pools and are accounted for on a loan-by-loan basis. An allowance for loan losses was established for loans purchased in the CFB Acquisition that are not accounted for under ASC 310-30.

On July 30, 2010, the Bank entered into a purchase and assumption agreement with loss sharing agreements with the FDIC to acquire certain assets and assume all of the deposits and certain other liabilities of LibertyBank, a full service commercial bank headquartered in Eugene, Oregon (“LibertyBank Acquisition”). Under the loss sharing agreements, the FDIC has agreed to reimburse the Bank for 80% of losses and certain related expenses. See Note 3 to the Selected Notes to the Consolidated Financial Statements for additional information on the LibertyBank Acquisition. Loans purchased in the LibertyBank Acquisition are valued as of acquisition date in accordance with ASC 805. Further, the Company elected to account for all loans purchased in the LibertyBank Acquisition within the scope of ASC 310-30. Under ASC 805 and ASC 310-30, loans purchased in the LibertyBank Acquisition were recorded at fair value at acquisition date, factoring in credit losses expected to be incurred over the life of the loan. Accordingly, an allowance for loan losses is not carried over or recorded as of the acquisition date, unlike the loans purchased in the CFB Acquisition, which are accounted for under previous accounting guidance as described above. In situations where loans have similar risk characteristics, loans were aggregated into pools to estimate cash flows under ASC 310-30. A pool is accounted for as a single asset with a single interest rate, cumulative loss rate and cash flow expectation. The Company aggregated all of the loans purchased in the LibertyBank Acquisition into 22 different pools, based on common risk characteristics such as loan classification, loan structure, nonaccrual status and collateral type.

The cash flows expected over the life of the pools are estimated using an internal cash flow model that projects cash flows and calculates the carrying values of the pools, book yields, effective interest income and impairment, if any, based on pool level events. Assumptions as to cumulative loss rates, loss curves and prepayment speeds are utilized to calculate the expected cash flows. Under ASC 310-30, the excess of the expected cash flows at acquisition over the fair value is considered to be the accretable yield and is recognized as interest income over the life of the loan or pool. The excess of the contractual cash flows over the expected cash flows is considered to be the nonaccretable difference. Subsequent increases in cash flow over those expected at purchase date in excess of fair value are recorded as an adjustment to accretable difference on a prospective basis. Any disposals of loans, including sales of loans, payments in full or foreclosures result in the removal of the loan from the ASC 310-30 portfolio at the carrying amount.

Loans and foreclosed and repossessed assets purchased in the CFB and Liberty Bank Acquisitions that are subject to the loss sharing agreements are referred to herein as “covered loans” and “covered assets.” Loans and foreclosed and repossessed assets organically originated or purchased loans not subject to loss sharing agreements are referred to herein as “noncovered loans” and “noncovered assets.”

FDIC Indemnification Receivable. As noted above, in conjunction with the CFB Acquisition and the LibertyBank Acquisition, the Bank entered into loss sharing agreements with the FDIC. At each acquisition date the Company elected to account for amounts receivable under the loss sharing agreements as an indemnification asset. Subsequent to the acquisitions, changes in the value of the indemnification asset are based upon the estimated losses in the covered assets purchased in the acquisitions. The FDIC indemnification asset is accounted for on the same basis as the related covered loans and is the present value of the cash flows the Company expects the Bank to collect from the FDIC under the loss sharing agreements. The difference between the present value and the undiscounted cash flow the Company expects the Bank to collect from the FDIC is accreted into noninterest income over the life of the FDIC indemnification receivable.

The FDIC indemnification receivable is adjusted for any changes in expected cash flows based on the loan performance. Any increases in cash flow of the loans over those expected will reduce the FDIC indemnification receivable and any decreases in cash flow of the loans over those expected will increase the FDIC indemnification receivable. The FDIC indemnification receivable will be reduced as loss sharing payments are received from the FDIC. Increases and decreases to the FDIC indemnification asset are recorded as adjustments to noninterest income.

Real Estate Owned. Real estate properties acquired through, or in lieu of, loan foreclosure are initially recorded at the lower of cost or fair value at the date of foreclosure minus estimated costs to sell. Any valuation adjustments required at the time of foreclosure are charged to the allowance for loan losses. After foreclosure, the properties are carried at the lower of carrying value or fair value less estimated costs to sell. Any subsequent valuation adjustments, operating expenses or income, and gains and losses on disposition of such properties are recognized in current operations. The valuation allowance is established based on our historical realization of losses and adjusted for current market trends.

Deferred Income Taxes. Deferred income taxes are reported for temporary differences between items of income or expense reported in the financial statements and those reported for income tax purposes. Deferred taxes are computed using the asset and liability approach as prescribed in ASC Topic 740, “Income Taxes.” Under this method, a deferred tax asset or liability is determined based on the enacted tax rates that will be in effect when the differences between the financial statement carrying amounts and tax basis of existing assets and liabilities are expected to be reported in an institution’s income tax returns. The deferred tax provision for the year is equal to the net change in the net deferred tax asset from the beginning to the end of the year, less amounts applicable to the change in value related to investments available for sale. The effect on deferred taxes of a change in tax rates is recognized as income in the period that includes the enactment date. The primary differences between financial statement income and taxable income result from acquisition intangibles, the allowance for loan losses, deferred compensation, purchase accounting adjustments and related deferred acquisition gains. Deferred income taxes do not include a liability for pre-1988 bad debt deductions allowed to thrift institutions that may be recaptured if the institution fails to qualify as a bank for income tax purposes in the future.

Note 3 – Acquisition of LibertyBank

As noted above, on July 30, 2010, the Bank entered into a purchase and assumption agreement with loss sharing agreements with the FDIC to assume all of the deposits and certain other liabilities and acquire certain assets of LibertyBank, headquartered in Eugene, Oregon. LibertyBank operated fifteen locations in central and western Oregon. The LibertyBank Acquisition consisted of assets with a preliminary fair value estimate on the acquisition date of approximately $690.6 million, including $373.1 million of cash and cash equivalents, $197.6 million of loans and leases and $34.7 million of securities. Liabilities with a preliminary fair value estimate of $688.6 million were also assumed, including $682.6 million of deposits. The LibertyBank Acquisition has been incorporated prospectively in the Company's financial statements; therefore, year over year results of operations may not be comparable.

Under the loss sharing agreements, the FDIC has agreed to reimburse the Bank for 80% of losses on purchased real estate owned ("REO"), nearly all of the loans and leases purchased in the LibertyBank Acquisition. Loans and foreclosed and repossessed assets purchased in all FDIC-assisted acquisitions (including the CFB Acquisition) that are subject to the loss sharing agreements are referred to herein as "covered loans" and "covered assets." Loans and foreclosed and repossessed assets organically originated or purchased loans not subject to loss sharing agreements are referred to herein as "noncovered loans" and "noncovered assets."

Note 4 - Earnings (Loss) Per Share

The Company has granted stock compensation awards with non-forfeitable dividend rights, which are considered participating securities. As such, earnings (loss) per share ("EPS") is computed using the two-class method as required by ASC 260-10-45. Basic EPS is computed by dividing net income (or loss) allocated to common stock by the weighted average number of common shares outstanding during the period which excludes the participating securities. Diluted EPS includes the dilutive effect of additional potential common shares from stock compensation awards, but excludes awards considered participating securities. ESOP shares are not considered outstanding for EPS until they are committed to be released. The following table presents the computation of basic and diluted EPS for the periods indicated:

	Three Months Ended March 31,		Six Months Ended March 31,	
	2011	2010	2011	2010
	(in thousands, except share and per share data)			
Net loss	$(1,202)	$(1,626)	$(2,534)	$(1,935)
Allocated to participating securities	12	24	28	32
Net loss allocated to common shareholders	(1,190)	(1,602)	(2,506)	(1,903)
Extraordinary gain, net of taxes	-	305	-	305
Net loss allocated to common stock before extraordinary gain	$(1,190)	$(1,907)	$(2,506)	$(2,208)
Weighted average common shares outstanding, including shares considered participating securities	15,803,662	15,721,805	15,835,515	15,723,760
Less: Average participating securities	(154,941)	(239,978)	(179,356)	(259,061)
Weighted average shares	15,648,721	15,481,827	15,656,159	15,464,699
Net effect of dilutive restricted stock	-	-	-	-
Weighted average shares and common stock equivalents	15,648,721	15,481,827	15,656,159	15,464,699
Basic loss per common share before extraordinary item	$(0.08)	$(0.12)	$(0.16)	$(0.14)
Basic loss per common share after extraordinary item	(0.08)	(0.10)	(0.16)	(0.12)
Diluted loss per common share before extraordinary item	(0.08)	(0.12)	(0.16)	(0.14)
Diluted loss per common share after extraordinary item	(0.08)	(0.10)	(0.16)	(0.12)
Options excluded from the calculation due to their anti-dilutive effect on EPS	895,460	873,324	895,460	873,324

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Note 5 - Investment securities

Investment securities available for sale consisted of the following at the dates indicated:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in thousands)		
March 31, 2011				
Obligations of U.S. Government Sponsored Enterprises (“GSE”)	$89,947	$102	$(1,097)	$88,952
Obligations of states and political subdivisions	13,613	52	(526)	13,139
Corporate note, FDIC-guaranteed	1,015	3	--	1,018
Mortgage-backed securities, GSE-issued	331,567	6,009	(1,378)	336,198
Mortgage-backed securities, private label	403	--	(18)	385
Total	$436,545	$6,166	$(3,019)	$439,692
September 30, 2010				
Obligations of U.S. GSE	$51,844	$255	$(77)	$52,022
Obligations of states and political subdivisions	6,786	86	(83)	6,789
Corporate note, FDIC-guaranteed	1,022	3	--	1,025
Mortgage backed securities, GSE-issued	208,492	6,692	(264)	214,920
Mortgage backed securities, private label	449	--	(25)	424
Total	$268,593	$7,036	$(449)	$275,180

Mortgage-backed securities are comprised of fixed and variable-rate residential mortgages.

The fair value of impaired securities, the amount of unrealized losses and the length of time these unrealized losses existed for the periods indicated were as follows:

	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(in thousands)			
March 31, 2011						
Obligations of U.S. GSE	$68,437	$(1,097)	$--	$--	$68,437	$(1,097)
Obligations of states and political subdivisions	11,582	(526)	--	--	11,582	(526)
Mortgage-backed securities, GSE-issued	157,143	(1,378)	--	--	157,143	(1,378)
Mortgage-backed securities, private label	--	-	384	(18)	384	(18)
Total	$237,162	$(3,001)	$384	$(18)	$237,546	$(3,019)
September 30, 2010						
Obligations of U.S. GSE	$14,111	$(77)	$--	$--	$14,111	$(77)
Obligations of states and political subdivisions	3,674	(83)	--	--	3,674	(83)
Mortgage-backed	50,997	(264)	--	--	50,997	(264)

securities, GSE-issued						
Mortgage-backed securities, private label	424	(25)	--	--	424	(25)
Total	$69,206	$(449)	$--	$--	$69,206	$(449)

Management has evaluated these securities and has determined that the decline in fair value is not other than temporary. These securities have contractual maturity dates and management believes it is reasonably probable that principal and interest balances on these securities will be collected based on the performance, underwriting, credit support and vintage of the loans underlying the securities. However, continued deteriorating economic conditions may result in degradation in the performance of the loans underlying these securities in the future. The Company has the ability and intent to hold these securities for a reasonable period of time for a forecasted recovery of the amortized cost. The Company does not intend to sell these securities and it is not likely that the Company would be required to sell securities in an unrealized loss position before recovery of its cost basis.

As of March 31, 2011, and September 30, 2010, the Bank pledged investment securities for the following obligations:

	March 31, 2011		September 30, 2010	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in thousands)			
FHLB borrowings	$42,081	$44,348	$51,174	$54,309
Treasury, tax and loan funds at the Federal Reserve Bank	3,093	3,211	3,767	3,916
Repurchase agreements	11,460	12,115	17,784	18,804
Deposits of municipalities and pubic units	19,795	20,928	19,977	21,106
Total	$76,429	$80,602	$92,702	$98,135

The contractual maturities of investment securities available for sale are shown below. Expected maturities may differ from the contractual maturities of such securities because borrowers have the right to prepay obligations without prepayment penalties.

	March 31, 2011	
	Amortized Cost	Fair Value
	(in thousands)	
Due within one year	$ 5,102	$ 5,108
Due after one year through five years	70,564	69,843
Due after five years through ten years	99,325	100,330
Due after ten years	261,554	264,411
Total	$ 436,545	$ 439,692

Note 6 - Loans Receivable and Allowance for Loan Losses

Loans receivable are summarized by collateral type as follows:

	March 31, 2011		September 30, 2010	
	Balance	Percent of Gross	Balance	Percent of Gross
	(dollars in thousands)			
Real estate:				
One-to-four family residential	$141,514	25.92 %	$157,574	24.75 %
Multi-family residential	20,115	3.68	20,759	3.26
Commercial	214,573	39.30	228,643	35.92
Total real estate	376,202	68.90	406,976	63.93
Real estate construction:				
One- to four-family residential	7,877	1.44	24,707	3.88
Multi-family residential	2,523	0.46	2,657	0.42
Commercial and land development	22,744	4.17	21,190	3.33
Total real estate construction	33,144	6.07	48,554	7.63
Consumer:				
Home equity	52,605	9.63	56,745	8.91
Automobile	1,129	0.21	1,466	0.23
Other consumer	6,210	1.14	7,762	1.22
Total consumer	59,944	10.98	65,973	10.36
Commercial business	72,220	13.22	108,051	16.97
Leases	4,540	0.83	6,999	1.10
Gross loans	546,050	100.00 %	636,553	100.00 %
Deferred loan fees	(639)		(628)	
Allowance for loan losses	(14,281)		(15,432)	
Loans receivable, net	$531,130		$620,493	

The following tables present loans at their recorded investment. Recorded investment includes the unpaid principal balance or the carrying amount of loans plus accrued interest less charge offs and net deferred loan fees. Accrued interest on loans was $1.2 million and $1.5 million as of March 31, 2011 and September 30, 2010 respectively.

The following table presents the recorded investment in nonperforming loans and an aging of performing loans by class as of March 31, 2011:

	Nonperforming Loans						
	Nonaccrual	Past Due 90 or More Days, Still Accruing	Total	Loans Delinquent 30-59 Days	Loans Delinquent 60-89 Days	Loans Not Past Due	Total Loans
				(in thousands)			
Noncovered loans:							
One-to-four family residential	$3,843	$-	$3,843	$2,674	$1,012	$115,846	$123,375
Multi-family residential	-	-	-	-	-	9,810	9,810
Commercial real estate	8,777	-	8,777	-	-	134,526	143,303
Total real estate	12,620	-	12,620	2,674	1,012	260,183	276,488
One-to-four family residential construction	-	-	-	-	-	7,357	7,357
Multi-family residential construction	-	-	-	-	-	1,526	1,526
Commercial and land development	3,136	-	3,136	-	-	4,644	7,780
Total real estate construction	3,136	-	3,136	-	-	13,527	16,663
Home equity	1,135	-	1,135	52	-	37,472	38,659
Automobile	17	-	17	-	-	694	711
Other consumer	1	-	1	-	-	4,411	4,412
Total consumer	1,153	-	1,153	52	-	42,577	43,782
Commercial business	1,174	-	1,174	-	-	6,186	7,360
Leases	-	-	-	-	-	344	344
Total noncovered loans	18,082	-	18,082	2,726	1,012	322,817	344,637
Covered loans:							
One-to-four family residential	1,050	-	1,050	-	-	17,252	18,302
Multi-family residential	2,942	-	2,942	-	-	7,362	10,304
Commercial real estate	9,378	-	9,378	-	-	61,892	71,270
Total real estate	13,370	-	13,370	-	-	86,506	99,876
	-	-	-	-	-	520	520

One-to-four family residential construction							
Multi-family residential construction	998	-	998	-	-	0	998
Commercial and land development	5,056	-	5,056	470	-	9,437	14,963
Total real estate construction	6,054	-	6,054	470	-	9,957	16,481
Home equity	39	-	39	-	241	13,838	14,118
Automobile	7	-	7	-	1	410	418
Other consumer	26	-	26	-	-	1,797	1,823
Total consumer	72	-	72	-	242	16,045	16,359
Commercial Business	697	-	697	-	-	64,395	65,092
Leases	-	-	-	-	-	4,196	4,196
Total covered loans	20,193	-	20,193	470	242	181,099	202,004
Total gross loans	$38,275	$-	$38,275	$3,196	$1,254	$503,916	$546,641

The recorded investment in nonperforming loans as of September 30, 2010 was $35.0 million.

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis is performed on a monthly basis. The Company uses the following definitions for risk classification ratings:

Watch: Loans that possess some reason for additional management oversight, such as correctable documentation deficiencies, recent financial setbacks, deteriorating financial position, industry concerns, and failure to perform on other borrowing obligations. Loans with this classification are to be monitored in an effort to correct deficiencies and upgrade the credit if warranted. At the time of this classification, they are not believed to expose the Bank to significant risk.

Special Mention: Performing loans that have developed minor credit weaknesses since origination. Evidence of credit weakness include the primary source of repayment has deteriorated and no longer meets debt service requirements as defined in policy, the borrower may have a short track record and little depth of management, inadequate current financial information, marginal capitalization, and susceptibility to negative industry trends. The primary source of repayment remains viable but there is increasing reliance on collateral or guarantor support.

Substandard: A loan is considered substandard if it is inadequately protected by the current net worth, liquidity and paying capacity of the borrower or collateral pledged. Substandard assets include those characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Doubtful: Loans classified as doubtful have all the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses present make collection or liquidation in full highly questionable and improbable on the basis of currently existing facts, conditions and values.

Loans not meeting the criteria above are considered to be Pass rated loans. As of March 31, 2011, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

	Pass	Watch	Special Mention	Substandard	Doubtful	Total Loans
	(in thousands)					
Noncovered loans:						
One-to-four family residential	$118,084	$80	$-	$5,211	$-	$123,375
Multi-family residential	5,533	1,702	1,027	1,548	-	9,810
Commercial real estate	87,545	8,777	22,096	24,885	-	143,303
Total real estate	211,162	10,559	23,123	31,644	-	276,488
One-to-four family residential construction	7,357	-	-	-	-	7,357
Multi-family residential construction	-	-	915	611	-	1,526
Commercial and land development	2,488	-	1,957	3,335	-	7,780
Total real estate construction	9,845	-	2,872	3,946	-	16,663
Home equity	37,600	-	39	1,020	-	38,659
Automobile	699	3	-	9	-	711
Other consumer	4,265	59	-	88	-	4,412
Total consumer	42,564	62	39	1,117	-	43,782
Commercial business	5,412	313	168	1,467	-	7,360
Leases	344	-	-	-	-	344
Total noncovered loans	269,327	10,934	26,202	38,174	-	344,637
Covered loans:						
One-to-four family residential	4,875	353	1,590	11,484	-	18,302
Multi-family residential	7,299	-	-	3,005	-	10,304

Commercial real estate	38,510	1,421	8,192	23,147	-	71,270
Total real estate	50,684	1,774	9,782	37,636	-	99,876
One-to-four family residential construction	324	-	-	196	-	520
Multi-family residential construction	-	-	-	998	-	998
Commercial and land development	3,617	123	1,831	9,392	-	14,965
Total real estate construction	3,941	123	1,831	10,586	-	16,481
Home equity	13,427	496	-	195	-	14,118
Automobile	411	-	-	7	-	418
Other consumer	1,740	5	34	44	-	1,823
Total consumer	15,578	501	34	246	-	16,359
Commercial business	47,773	2,370	3,001	11,948	-	65,092
Leases	3,869	-	154	173	-	4,196
Total covered loans	121,845	4,768	14,802	60,589	-	202,004
Total gross loans	$391,172	$15,702	$41,004	$ 98,763	$-	$546,641

A loan is considered impaired when, based upon currently known information, it is deemed probable that the Company will be unable to collect all amounts due as scheduled according to the original terms of the agreement with the borrower. The following table summarizes impaired loans at March 31, 2011, and September 30, 2010:

	March 31, 2011	September 30, 2010
	(in thousands)	
Impaired loans with related specific allowance	$ 11,345	$ 9,294
Impaired loans with no related allowance	14,857	6,197
Total impaired loans	$ 26,202	$ 15,491
Specific allowance on impaired loans	$ 2,881	$ 2,521

The average balance of impaired loans was $25.7 million and $23.9 million for the three months ended March 31, 2011 and 2010, respectively, and was $24.6 million and $21.0 million for the six months ended March 31, 2011 and 2010, respectively. Interest income recorded on impaired loans was immaterial during those periods.

The following table presents loans deemed impaired by class of loans as of and during the three months ended March 31, 2011:

	Unpaid Principal Balance	Recorded Investment	Allowance For Loan Losses Allocated	Average Recorded Investment
		(in thousands)		
Covered Loans				
With no related allowance recorded:				
One-to-four family residential	$ 270	$ 189	$ -	$ 191
Multi-family residential	930	953	-	964
Commercial real estate	6,899	6,819	-	6,084
Commercial and land development	1,850	1,876	-	1,661
Commercial business and leases	471	415	-	449
Total covered loans with no related allowance	10,420	10,252	-	9,349
Noncovered Loans				
With no related allowance recorded:				
One-to-four family residential	1,024	1,030	-	845
Commercial real estate	2,770	2,770	-	2,514
Commercial and land development	677	677	-	688
Home equity	85	85	-	51
Automobile	-	-	-	5
Commercial business and leases	43	43	-	246
Total noncovered loans with no related allowance	4,599	4,605	-	4,349
With an allowance recorded:				
One-to-four family residential	1,608	1,609	(428)	2,227

Commercial real estate	6,007	6,007	(1,291)	6,242
Commercial and land development	2,469	2,469	(535)	2,482
Home equity	129	129	(119)	130
Commercial business and leases	1,131	1,131	(508)	959
Total noncovered loans with an allowance recorded	11,344	11,345	(2,881)	12,040
Total impaired loans	$ 26,363	$ 26,202	$ (2,881)	$ 25,738

Troubled debt restructurings totaled $11.4 million and $10.1 million at March 31, 2011 and September 30, 2010, respectively, and are included in the impaired loan disclosures above. Of these amounts, $4.5 million and $4.7 million were covered under loss share agreements with the FDIC at March 31, 2011 and September 30, 2010 respectively. There were no commitments to lend additional amounts to customers with outstanding loans that are classified as troubled debt restructurings.

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of March 31, 2011, and September 30, 2010:

	March 31, 2011						September 30, 2010					
	Allowance for loan losses			Recorded investment			Allowance for loan losses			Recorded investment		
	Individually evaluated for impairment	Collectively evaluated for impairment	Acquired with deteriorated credit quality	Individually evaluated for impairment	Collectively evaluated for impairment	Acquired with deteriorated credit quality	Individually evaluated for impairment	Collectively evaluated for impairment	Acquired with deteriorated credit quality	Individually evaluated for impairment	Collectively evaluated for impairment	Acquired with deteriorated credit quality
	(in thousands)											
Noncovered loans(1):												
One-to-four family residential	$428	$1,688	$-	$2,639	$120,736	$-	$1,192	$1,973	$-	$3,098	$133,948	$-
Commercial and multifamily	1,291	4,287	-	8,777	144,336	-	227	4,961	-	2,215	153,107	-
Real estate construction	535	493	-	3,146	13,517	-	811	616	-	3,409	13,997	-
Home equity	119	1,395	-	214	38,445	-	-	1,517	-	-	40,859	-
Consumer	-	94	-	-	2,208	2,915	-	138	-	-	2,241	4,115
Commercial business	508	129	-	1,174	6,087	99	291	179	-	500	9,173	815
Leases	-	-	-	-	344	-	-	-	-	-	408	-
Total noncovered loans	2,881	8,086	-	15,950	325,673	3,014	2,521	9,384	-	9,222	353,733	4,930
Covered loans(2):												
One-to-four family residential	-	77	-	189	3,603	14,510	-	2,311	-	-	4,112	16,333
Commercial and multifamily	-	2,055	-	7,772	24,826	48,976	-	-	-	-	37,172	56,909
Real estate construction	-	500	-	1,876	2,424	12,181	-	448	-	-	6,940	24,207
Home equity	-	254	-	-	6,108	8,010	-	-	-	-	6,195	9,930
Consumer	-	41	-	-	1,754	487	-	248	-	-	2,116	-
Commercial business	-	387	-	415	6,990	57,687	-	520	-	-	16,502	89,135
Leases	-	-	-	-	4,196	-	-	-	-	-	-	-
	-	3,314	-	10,252	49,901	141,851	-	3,527	-	-	73,037	196,514

Total covered loans												
Total gross loans	$2,881	$11,400	$-	$26,202	$375,574	$144,865	$2,521	$12,911	$-	$9,222	$426,770	$201,444

(1) Loans directly originated by the Bank or purchased in FDIC-assisted acquisitions that are not covered under loss sharing agreements.
(2) Loans purchased in FDIC-assisted acquisitions subject to loss recovery under loss sharing agreements. Certain loans purchased in the CFB Acquisition are individually accounted for under ASC 310-30 as loans acquired with deteriorated credit quality. All loans purchased in the LibertyBank Acquisition have been aggregated into pools under ASC 310-30 and are considered to be loans acquired with deteriorated credit quality.

Activity in the allowance for loan losses for the three and six months ended March 31, 2010 was as follows:

	For the Three Months Ended March 31, 2010	For the Six Months Ended March 31, 2010
	(in thousands)	
Beginning balance	$28,141	$28,735
Provision for loan losses	2,375	3,075
Losses on loans charged-off	(2,821)	(4,185)
Recoveries on loans charged-off	84	154
Ending balance	$27,779	$27,779

Activity in the allowance for loan losses for the three months ended March 31, 2011 was as follows:

Noncovered Loans:	As of December 31, 2010	Provision	Charge-Offs	Recoveries	As of March 31, 2011
			(in thousands)		
One-to-four family residential	$2,210	$319	$(517)	$104	$2,116
Multi-family residential	-	-	-	-	-
Commercial real estate	6,536	(660)	(328)	30	5,578
One-to-four family residential construction	481	(60)	-	-	421
Multi-family residential construction	49	23	-	-	72
Commercial and land development	427	250	(150)	8	535
Home equity	1,356	285	(183)	56	1,514
Automobile	2	28	-	-	30
Other consumer	52	29	(18)	1	64
Commercial business	851	(214)	-	-	637
Leases	-	-	-	-	-
Total noncovered loans	11,964	-	(1,196)	199	10,967
Covered Loans:					
One-to-four family residential	70	91	(85)	1	77
Multi-family residential	-	-	-	-	-
Commercial real estate	2,010	1,111	(1,066)	-	2,055
One-to-four family residential construction	3	-	-	-	3
Multi-family residential construction	-	-	-	-	-
Commercial and land development	450	1,993	(2,465)	519	497
Home equity	421	(399)	(23)	1	-
Automobile	-	254	-	-	254
Other consumer	49	(15)	(3)	10	41
Commercial business	442	(35)	(24)	4	387
Leases	-	-	-	-	-

Total covered	3,445	3,000	(3,666)	535	3,314
Total	$15,409	$3,000	$(4,862)	$734	$14,281

Activity in the allowance for loan losses for the six months ended March 31, 2011 was as follows:

Noncovered Loans:	As of September 30, 2010	Provision	Charge-Offs	Recoveries	As of March 31, 2011
			(in thousands)		
One-to-four family residential	$3,165	$(51)	$(1,304)	$306	$2,116
Multi-family residential	-	-	-	-	-
Commercial real estate	5,188	718	(365)	37	5,578
One-to-four family residential construction	1,427	(938)	(78)	10	421
Multi-family residential construction	-	72	-	-	72
Commercial and land development	-	291	(150)	394	535
Home equity	1,517	836	(900)	61	1,514
Automobile	-	30	-	-	30
Other consumer	138	(54)	(25)	5	64
Commercial business	470	165	-	2	637
Leases	-	-	-	-	-
Total noncovered loans	11,905	1,069	(2,822)	815	10,967
Covered Loans:					
One-to-four family residential	2,311	(2,038)	(197)	1	77
Multi-family residential	-	-	-	-	-
Commercial real estate	-	3,819	(1,782)	18	2,055
One-to-four family residential construction	448	(445)	-	-	3
Multi-family residential construction	-	-	-	-	-
Commercial and land development	-	3,561	(3,612)	548	497
Home equity	-	22	(23)	1	-
Automobile	-	254	-	-	254
Other consumer	248	(184)	(33)	10	41
Commercial business	520	(58)	(82)	7	387
Leases	-	-	-	-	-
Total covered loans	3,527	4,931	(5,729)	585	3,314
Total	$15,432	$6,000	$(8,551)	$1,400	$14,281

The Bank has purchased loans, for which there was, at acquisition, evidence of deterioration of credit quality since origination and it was probable, at acquisition, that all contractually required payments would not be collected. At the acquisition date, management estimated the fair value of the acquired loan portfolios which represented the expected cash flows from the portfolio discounted at a market-based rate. Included in the estimate of fair value was a discount credit adjustment that reflected expected credit losses. In estimating the preliminary fair value, management calculated the contractual amount and timing of undiscounted principal and interest payments (the "undiscounted contractual cash flows") and estimated the amount and timing of undiscounted expected principal and interest payments (the "undiscounted expected cash flows"). The amount by which the undiscounted expected cash flows exceed the estimated fair value (the "accretable yield") is accreted into interest income over the life of the loans. The difference between the undiscounted contractual cash flows and the undiscounted expected cash flows is the nonaccretable difference. The nonaccretable difference represents an estimate of the credit risk in the acquired loan and lease portfolio at the acquisition date. The following table details activity of accretable yield:

	For the Three Months Ended March 31,		For the Six Months Ended March 31,	
	2011	2010	2011	2010
	(in thousands)			
Beginning balance of accretable yield	$31,727	$ -	$35,163	$ -
Accretable yield recognized as interest income	(2,918)	-	(6,354)	-
Ending balance of accretable yield	$28,809	$ -	$28,809	$ -

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The carrying amount of loans for which income is not being recognized on loans individually accounted for under ASC 310-30 totaled $13.4 million and $20.6 million at March 31, 2011 and September 30, 2010, respectively, all of which were purchased in the CFB Acquisition. There were no transfers from nonaccretable difference to accretable yield on loans during the six month periods ended March 31, 2011 and 2010, respectively.

Note 7 – Fair Value Measurement

ASC 820 defines fair value, establishes a consistent framework for measuring fair value and expands disclosure requirements about fair value measurements. There are three levels of inputs that may be used to measure fair values: Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date; Level 2 – Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data; and Level 3 – Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability. The Company attempts to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions.

The following table summarizes the Company's financial assets that were measured at fair value on a recurring basis at March 31, 2011 and September 30, 2010:

	Total (in thousands)	Level 1	Level 2	Level 3
March 31, 2011				
Obligations of U.S. GSE	$88,952	$-	$88,952	$-
Obligations of states and political subdivisions	13,139	-	13,139	-
Corporate note, FDIC guaranteed	1,018	-	1,018	-
Mortgage-backed securities, GSE issued	336,198	-	336,198	-
Mortgage-backed securities, private label	385	-	385	-
September 30, 2010				
Obligations of U.S. GSE	$52,022	$-	$52,022	$-
Obligations of states and political subdivisions	6,789	-	6,789	-
Corporate note, FDIC guaranteed	1,025	-	1,025	-
Mortgage-backed securities, GSE issued	214,920	-	214,920	-
Mortgage-backed securities, private label	424	-	424	-

Additionally, certain assets are measured at fair value on a non-recurring basis. These adjustments to fair value generally result from the application of lower-of-cost-or-market accounting or write-downs of individual assets due to impairment. The following table summarizes the Company's financial assets that were measured at fair value on a non-recurring basis at March 31, 2011 and September 30, 2010:

	Total (in thousands)	Level 1	Level 2	Level 3
March 31, 2011				
Impaired loans	$8,464	$-	$-	$8,464
Real estate owned	8,033	-	-	8,033

September 30, 2010				
Impaired loans	$6,773	$-	$-	$6,773
Real estate owned	8,288	-	-	8,288

Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, based on the loan's observable market price or the fair value of collateral, if the loan is collateral dependent. Impaired loans that are collateral dependent and have experienced a write-down in carrying value or have a recognized valuation allowance are included in the table above. Impaired loans whose fair value exceeds the carrying value are excluded from the table above as these loans do not represent assets measured and carried at fair value. Impaired loans, which are measured for impairment using the fair value of the collateral at March 31, 2011, had a carrying amount of $8.5 million, net of specific valuation allowances totaling $2.9 million. Impaired loans had a carrying amount of $6.8 million, net of specific valuation allowances of $2.5 million at September 30, 2010. The specific valuation allowance required a provision of $493,000 and $1.6 million during the quarters ended March 31, 2011 and March 31, 2010, respectively, and a provision of $1.4 million and $2.4 million during the six months ended March 31, 2011 and 2010, respectively.

Fair value for real estate owned is determined by obtaining appraisals on the properties. The fair value under such appraisals is determined by using an income, cost or comparable sales valuation technique. The fair value is then reduced by management's estimate for the direct costs expected to be incurred in order to sell the property. Holding costs or maintenance expenses are recorded as period costs when incurred and are not included in the fair value estimate. The impact on earnings as a result of write-downs to REO was $357,000 and $1.3 million for the three months ended March 31, 2011 and 2010, respectively, and was $1.0 million and $2.1 million for the six months ended March 31, 2011 and 2010, respectively. At March 31, 2011, other real estate owned carried at fair value consisted of $4.9 million of land, $2.2 million of commercial real estate properties and $893,000 of single family residential properties.

The estimated fair values of the Company's financial instruments at March 31, 2011, and September 30, 2010, were as follows:

	March 31, 2011		September 30, 2010	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(in thousands)			
Financial assets:				
Cash and cash equivalents	$195,720	$195,720	$416,426	$416,426
Investment securities	439,692	439,692	275,180	275,180
Loans held for sale	671	671	5,135	5,135
Loans receivable, net	531,130	534,789	613,494	627,764
FDIC indemnification receivable, net	74,518	74,518	64,574	64,574
FHLB stock	17,717	N/A	17,717	N/A
Accrued interest receivable	3,036	3,036	2,694	2,694
Financial liabilities:				
Demand and savings deposits	$629,211	$629,211	$613,627	$613,627
Certificates of deposit	444,648	449,220	576,035	584,634
FHLB advances and other borrowings	53,302	55,727	67,622	71,050
Advances by borrowers for taxes and insurance	1,006	1,006	4,658	4,658
Accrued interest payable	490	490	631	631

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash and cash equivalents: The carrying amount approximates fair value.

Investment securities: The Company's investment securities available for sale consist primarily of securities issued by U.S. Government sponsored enterprises that trade in active markets. These securities are included under Level 2 because there may or may not be daily trades in each of the individual securities and because the valuation of these securities may be based on instruments that are not exactly identical to those owned by the Company.

Loans held for sale: The carrying amount approximates fair value.

FDIC indemnification receivable: The carrying amount approximates fair value.

FHLB stock: The determination of fair value of FHLB stock was impractical due to restrictions on the transferability of the stock.

Loans receivable: Fair values for all performing loans are estimated using a discounted cash flow analysis, utilizing interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. In addition, the fair value reflects the decrease in loan values as estimated in the allowance for loan losses calculation.

Accrued interest receivable: The carrying amount approximates fair value.

Deposits: The fair value of demand deposits, savings accounts and certain money market deposits is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit are estimated using discounted cash flow analysis using the rates currently offered for deposits of similar remaining maturities.

FHLB advances: The fair value of the borrowings is estimated by discounting the future cash flows using the current rate at which similar borrowings with similar remaining maturities could be made.

Advances by borrowers for taxes and insurance: The carrying amount approximates fair value.

Accrued interest payable: The carrying amount approximates fair value.

Off-balance-sheet instruments: Fair values of off-balance-sheet lending commitments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the borrower's credit standing. The fair value of the fees at March 31, 2011 and 2010, were insignificant.

Note 8 –FDIC Indemnification Receivable

Activity in the FDIC indemnification receivable for the three month period ended March 31, 2011, was as follows:

	Reimbursement rate 80% (in thousands)	95%	Amount Receivable	Discount	Net Receivable
Balance at December 31, 2010	$82,017	$ 6,705	$71,983	$(2,437)	$69,546
Payments from FDIC for losses on covered assets	-	-	-	-	-
Adjustment for net increase in estimated losses	2,501	2,443	4,322	-	4,322
Discount accretion	-	-	-	649	649
Balance at March 31, 2011	$84,518	$ 9,148	$76,305	$(1,788)	$74,517

Activity in the FDIC indemnification receivable for the six month period ended March 31, 2011, was as follows:

	Reimbursement rate		Amount		Net
	80%	95%	Receivable	Discount	Receivable (in thousands)
Balance at September 30, 2010	$80,667	$3,578	$67,933	$(3,359)	$64,574
Payments from FDIC for losses on covered assets	-	-	-	-	-
Adjustment for net increase in estimated losses	3,851	5,570	8,372	-	8,372

Discount accretion	-	-	-	1,571	1,571
Balance at March 31, 2011	$84,518	$9,148	$76,305	$(1,788)	$74,517

For estimated losses on covered assets purchased in the CFB Acquisition, amounts receivable from the FDIC have been estimated at 80% of losses on covered assets (acquired loans and REO) up to $34.0 million. Reimbursable losses in excess of $34.0 million have been estimated at 95% of the amount recoverable from the FDIC. For estimated losses on covered assets purchased in the LibertyBank Acquisition, amounts receivable from the FDIC have been estimated at 80% of losses on all covered assets.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements and "Safe Harbor" statement under the Private Securities Litigation Reform Act of 1995

This report contains forward-looking statements, which can be identified by the use of words such as "believes," "intends," "expects," "anticipates," "estimates" or similar expressions. Forward-looking statements include, but are not limited to:

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

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

- the credit risks of lending activities, including changes in the level and trend of loan delinquencies and write-offs and changes in our allowance for loan losses and provision for loan losses that may be impacted by deterioration in the housing and commercial real estate markets;
- changes in general economic conditions, either nationally or in our market areas;
- changes in the levels of general interest rates, and the relative differences between short and long term interest rates, deposit interest rates, our net interest margin and funding sources;
- fluctuations in the demand for loans, the number of unsold homes, land and other properties and fluctuations in real estate values in our market areas;
- secondary market conditions for loans and our ability to sell loans in the secondary market;
- results of examinations of us by the Office of Thrift Supervision (the "OTS") or other regulatory authorities, including the possibility that any such regulatory authority may, among other things, require us to increase our reserve for loan losses, write-down assets, change our regulatory capital position or affect our ability to borrow funds or maintain or increase deposits, which could adversely affect our liquidity and earnings;
- legislative or regulatory changes such as the Dodd Frank Wall Street Reform and Consumer Protection Act and its implementing regulations that adversely affect our business including the recently enacted financial reform legislation and changes in regulatory policies and principles, or the interpretation of regulatory capital or other rules;
- our ability to attract and retain deposits;
- our ability to control operating costs and expenses;
- the use of estimates in determining fair value of certain of our assets, which estimates may prove to be incorrect and result in significant declines in valuation;
- difficulties in reducing risks associated with the loans on our balance sheet;
- staffing fluctuations in response to product demand or the implementation of corporate strategies that affect our workforce and potential associated charges;
- computer systems on which we depend could fail or experience a security breach;
- our ability to retain key members of our senior management team;
- costs and effects of litigation, including settlements and judgments;
- our ability to successfully integrate any assets, liabilities, customers, systems, and management personnel we may acquire from our merger and acquisition activities into our operations, our ability to retain customers and employees and our ability to realize related revenue synergies and cost savings within expected time frames and any goodwill charges related thereto;
- our ability to manage loan delinquency rates;

- the possibility that the expected benefits from the FDIC-assisted acquisitions will not be realized;
- increased competitive pressures among financial services companies;
- changes in consumer spending, borrowing and savings habits;
- the availability of resources to address changes in laws, rules, or regulations or to respond to regulatory actions;
- our ability to pay dividends on our common stock;

- § adverse changes in the securities markets;
- § inability of key third-party providers to perform their obligations to us;
- § changes in accounting policies and practices, as may be adopted by the financial institution regulatory agencies or the Financial Accounting Standards Board, including additional guidance and interpretation on accounting issues and details of the implementation of new accounting methods; and
- § other economic, competitive, governmental, regulatory, and technological factors affecting our operations, pricing, products and services and the other risks described as detailed from time to time in our filings with the SEC, including our 2010 Form 10-K and subsequently filed Quarterly Reports on Form 10-Q. Such developments could have an adverse impact on our financial position and our results of operations.

Any of the forward-looking statements that we make in this quarterly report and in other public statements we make may turn out to be wrong because of inaccurate assumptions we might make, because of the factors illustrated above or because of other factors that we cannot foresee. Because of these and other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements and you should not rely on such statements. The Company undertakes no obligation to publish revised forward-looking statements to reflect the occurrence of unanticipated events or circumstances after the date hereof. These risks could cause our actual results for fiscal year 2011 and beyond to differ materially from those expressed in any forward-looking statements by or on behalf of us, and could negatively affect the Company's financial condition, liquidity and operating and stock price performance.

Background and Overview

Home Federal Bancorp, Inc., ("we", "us", "our" the "Company"), is a Maryland corporation that serves as the holding company for Home Federal Bank (the "Bank"). The Company's common stock is traded on the NASDAQ Global Select Market under the symbol "HOME" and is included in the U.S. Russell 2000® Index.

The Bank is a community-oriented financial institution dedicated to serving the financial service needs of consumers and businesses within its market areas. The Bank's primary business is attracting deposits from the general public and using these funds to originate loans. The Bank emphasizes the origination of commercial business loans, commercial real estate loans, construction and residential development loans, consumer loans and loans secured by first mortgages on owner-occupied residential real estate.

On August 7, 2009, the Bank entered into a purchase and assumption agreement with loss share with the Federal Deposit Insurance Corporation ("FDIC") to assume all of the deposits (excluding nearly all brokered deposits) and certain other liabilities and acquire certain assets, including loans and REO of Community First Bank, a full service commercial bank, headquartered in Prineville, Oregon (the "CFB Acquisition"). The loans and REO purchased are covered by loss sharing agreements between the FDIC and Home Federal Bank which afford the Bank significant protection. Under the loss sharing agreements, Home Federal Bank will share in the losses and certain reimbursable expenses on assets covered under the agreement. The FDIC has agreed to reimburse Home Federal Bank for 80% of losses and certain reimbursable expenses up to $34.0 million, and 95% of losses that exceed that amount on covered assets.

On July 30, 2010, the Bank entered into a purchase and assumption agreement with the FDIC to assume all of the deposits and certain other liabilities and acquire certain assets of LibertyBank, headquartered in Eugene, Oregon (the "LibertyBank Acquisition"). Nearly all of the loans and REO purchased are covered by loss sharing agreements. The FDIC has agreed to reimburse Home Federal Bank for 80% of losses and certain reimbursable expenses on covered assets. The LibertyBank Acquisition has been incorporated prospectively in the Company's financial statements and significantly increased the Company's assets, income and expenses. As a result, year over year results of operations may not be comparable; therefore, we have incorporated narrative that describes changes in the financial position and result of operations of the Company since the previous quarter, which we believe provides the reader with an understanding of the incremental changes in the Company as the acquisitions are integrated.. In certain areas of this discussion and analysis, we have separately disclosed the impact of the LibertyBank Acquisition on the financial condition and results of operations of the Company. For additional information regarding the LibertyBank Acquisition, see Note 3 of the Selected Notes to Consolidated Financial Statements.

At March 31, 2011, Home Federal Bank had operations in three distinct market areas including Boise, Idaho, and surrounding communities, together known as the Treasure Valley region of southwestern Idaho, which we refer to as the Idaho Region. The CFB Acquisition resulted in the Bank's entrance to the Tri-County Region of Central Oregon, including the counties of Crook, Deschutes and Jefferson. We refer to this market as the Central Oregon Region. In addition to deepening its presence in Central Oregon, as a result of the LibertyBank Acquisition, the Bank also operates in Lane, Josephine, Jackson, and Multnomah counties in Oregon, including the communities of Eugene, Grants Pass and Medford, Oregon. We refer to these markets as our Western Oregon Region. At March 31, 2011, the Bank had 34 full-service banking offices.

The following summarizes key activities of the Company during the quarter and six months ended March 31, 2011:

§ Total assets decreased $45.1 million during the quarter as cash was used to fund maturing certificates of deposit and borrowings. Total assets have decreased $147.3 million since September 30, 2010.
§ Core deposits (defined as checking, savings and money market deposits) increased $15.6 million, or 2.5%, when compared to the linked quarter and have increased $15.6 million since September 30, 2010.
§ The Company repurchased 202,700 shares of its common stock during the quarter at an average cost of $10.56 per share for a total cost of $2.1 million.
§ Net interest income increased $2.2 million, or 35.5%, when compared to the same quarter in 2010.
§ The provision for loan losses, net of the FDIC indemnification recovery, decreased by $2.23 million, or 93.7%, when compared to the same quarter in fiscal year 2010.
§ Noninterest income, exclusive of FDIC indemnification recovery, decreased by $1.1 million, or 24.7%, when compared to the linked quarter and increased $775,000 compared to the same quarter last year.
§ Noninterest expense increased by $4.2 million, or 43.5%, when compared to the same quarter in 2010, but declined $96,000 from the linked quarter.
§ Service charges and fees decreased by $227,000, or 9.2%, when compared to the linked quarter and increased $86,000 compared to the second quarter of last fiscal year.
§ Loss on sale of foreclosed properties increased $231,000, when compared to the linked quarter.
§ The Company and the Bank submitted applications with the Federal Reserve Bank of San Francisco to register the Company as a bank holding company and with the Idaho Department of Finance to convert the Bank to an Idaho chartered commercial bank.
§ We closed a Walmart branch in our Idaho Region. Only one Walmart branch remains in our branch network.

The primary focus in our second quarter of fiscal year 2011 was on the integration of LibertyBank. We centralized our special assets team and loan and deposit operations in Eugene, Oregon. Our executive staff and corporate headquarters as well as our credit administration and finance and information technology teams will remain in Nampa, Idaho. We also completed the conversion and core system integration of the operations of LibertyBank and implemented a new corporate network platform. The result of this inward focus is evident in noninterest expense for the quarter ended March 31, 2011, as we utilized consultants to assist with the design and implementation of these major technology efforts.

A significant portion of the cash received in the LibertyBank Acquisition has been invested in medium-term securities. Our long-term goal is to redeploy excess liquidity into loans either through direct origination, portfolio purchases, bank and branch acquisitions, or a combination thereof. However, the economies in our primary markets remain weak, with high unemployment and an uncertain economic outlook, which will continue to limit our ability to obtain meaningful loan growth. We will maintain a higher than optimal level of liquidity in the near term to provide flexibility in facilitating additional acquisitions and to prepare for the possibility for higher interest rates. During the most recent quarter, we reduced certificates of deposits acquired in the LibertyBank transaction and experienced growth in core deposit funding throughout our branch network. We anticipate continued declines in certificates of deposit as scheduled maturities of certificates of deposit assumed in the LibertyBank Acquisition will increase in the next six months and will utilize excess cash to fund those withdrawals.

Nonperforming assets, in total, declined during the quarter and delinquent loan balances remained flat at March 31, 2011, compared to December 31, 2010. Noncovered nonperforming assets declined $4.4 million as we were able to sell several foreclosed properties in our Idaho Region during the quarter.

We filed applications to convert Home Federal Bank to a commercial bank because we believe this corporate structure most accurately reflects our current and future operating strategy more closely than a savings bank charter. Since our conversion to a mutual holding company structure in 2004 and stock holding company structure in 2007, we have stated our strategy to transform the Bank's balance sheet and operations to that of a commercial community bank. We have executed this strategy through organic growth in commercial loans and core deposits and through our FDIC-assisted acquisitions involving Community First Bank in 2009 and LibertyBank in 2010 and we believe now is the appropriate time for our organizational charter to reflect that execution and continuing strategy. The Bank charter conversion application is subject to the approval of the Idaho Department of Finance, the Office of Thrift Supervision and the Federal Deposit Insurance Corporation. The Company’s application to become a bank holding company is subject to the approval of the Board of Governors of the Federal Reserve System.

Critical Accounting Estimates and Related Accounting Policies

Note 2 to the Consolidated Financial Statements in this Quarterly Report on Form 10-Q provides a description of critical accounting policies and significant estimates in the financial statements that should be considered in conjunction with the reading of this discussion and analysis.

Comparison of Financial Condition at March 31, 2011, and September 30, 2010

For the six months ended March 31, 2011, total assets decreased $147.3 million, or 9.94%. The changes in total assets were primarily concentrated in the following asset categories:

	Balances at		Increase/(Decrease)	
	March 31, 2011	September 30, 2010	Amount	Percent
	(dollars in thousands)			
Cash and amounts due from depository institutions	$195,720	$416,426	$(220,706)	(53.00)%
Investments available for sale, at fair value	439,692	275,180	164,512	59.78
Loans receivable, net of allowance for loan losses	531,130	620,493	(89,363)	(14.40)

Cash and amounts due from depository institutions. The decrease in the second quarter of fiscal year 2011 from September 30, 2010 was due to the purchase of investment securities and payments on maturing certificates of deposit and borrowings which were not renewed. Funds obtained from the LibertyBank Acquisition in the fourth quarter of fiscal year 2010 were invested in securities during the first half of fiscal year 2011. We will continue to invest excess cash in medium-term securities in fiscal 2011, but will also conserve some liquidity in order to meet the demand of maturing certificates of deposit assumed in the LibertyBank Acquisition, prepare for the potential of rising interest rates, and to provide flexibility for potential acquisitions or for repurchases of common stock.

Investments. Investments increased $13.5 million to $439.7 million at March 31, 2011 when compared to December 31, 2010, and increased $164.5 million since September 30, 2010. Securities purchases during the second quarter of fiscal year 2011 had an average yield of 2.47% and an effective duration of 1.70 years. Securities purchases during the first six months of fiscal year 2011 have totaled $232.9 million. We are targeting medium-term securities in order to reduce price sensitivity and provide liquidity if needed in response to an acquisition in the near future.

Nearly all of our investment securities are issued by U.S. Government sponsored enterprises, primarily Fannie Mae and Freddie Mac. While the U.S. Government has affirmed its support for government sponsored enterprises and the obligations and mortgage-backed securities they issued, significant deterioration in the financial strength of Fannie

Mae, Freddie Mac or mortgage-backed security insurers or actions by the U.S. Government to modify the structure of these government enterprises could have a material effect on the valuation and performance of our mortgage-backed securities portfolio in future periods.

Our exposure to obligations of state and local political subdivisions was $13.1 million, comprising 2.99% of our securities portfolio at March 31, 2011. The following table summarizes the ratings of these securities at March 31, 2011:

	Standard and Poors				Moody's	
	A+	AA	AA+	AAA	Aa2	Total
	(in thousands)					
Fair Value	$1,011	$4,404	$2,406	$4,422	$896	$13,139

Loans. Net loans and leases receivable decreased $42.3 million to $531.1 million at March 31, 2011, from $573.4 million at December 31, 2010. For the six months ended March 31, 2010, net loans and leases declined $89.4 million. Noncovered loans declined $8.8 million during the quarter while covered loans purchased in the CFB Acquisition and the LibertyBank Acquisition declined $8.0 million and $26.7 million, respectively. The carrying amount of covered loans purchased in the CFB Acquisition and the LibertyBank Acquisition totaled $70.5 million and $131.5 million, respectively, at March 31, 2011.

One-to-four family residential mortgage loans decreased $16.1 million during the first half of fiscal year 2011 as we currently originate conventional one-to-four family residential loans primarily for sale in the secondary market. As a result, the residential loan portfolio will likely continue to decline as new loans are not added to the portfolio. We are currently assessing the impact of new regulatory requirements and other rules that may be promulgated under the Dodd-Frank Act which could adversely impact the profitability of our mortgage loan activities. We may need to change the business model or exit this line of business if these regulatory and legislative changes materially alter the risk profile or profitability of our mortgage loan and secondary market loan origination programs.

Approximately $13.1 million of the decline in commercial business loans during the first half of fiscal year 2011 is from our wholly owned subsidiary, Commercial Equipment Lease Corporation ("CELC"), which was purchased in connection with the LibertyBank Acquisition. We are not currently originating new loans or leases in this subsidiary and therefore expect balances in this portfolio to continue to decline rapidly as most of these instruments were originated with terms of five years or less. Approximately $34.1 million in net loans and leases receivable were outstanding in the CELC portfolio as of March 31, 2011.

We plan to continue our emphasis on commercial and small business banking products, although the volume of production will be dependent on economic conditions. We have hired a new commercial banking team in Western Oregon and expect to see increased production in the latter half of fiscal year 2011 as the new team is established. As noted earlier, we are also directing attention toward loans retained by the FDIC in the LibertyBank Acquisition and may see loan originations through those efforts, particularly loans secured by multifamily residential real estate. However, a weak economic outlook and continued stress in our Idaho and Central Oregon economies may limit our ability to organically generate meaningful loan growth over the next 12 to 18 months.

Asset Quality. Loans in the Company's organic portfolio have general and specific loss reserves allocated when management has determined it is probable a loss has been incurred. Loans in the Community First Bank portfolio were recorded and are currently accounted for under the business combination rules of Statement of Financial Accounting Standards No. 141 and Accounting Standards Codification Topic ("ASC") 310-30. Loans in the Community First Bank portfolio that were not credit impaired on the date of purchase are allocated a general loss reserve. Loans that were credit impaired in the Community First Bank loan portfolio on the date of acquisition are reported at the present value of expected cash flows. No allowance for loan losses is reported on these loans as impairments in excess of the acquisition-date fair value discount result in a partial charge-off of the loan's remaining unpaid principal balance. The loans purchased in the LibertyBank Acquisition are accounted for under the business combination rules of ASC 805 and ASC 310-30, which require all loans acquired in the LibertyBank portfolio to be reported initially at estimated fair value. Loans purchased in the LibertyBank Acquisition have been aggregated into pools and the portion of the fair value discount not related to credit impairment is accreted over the life of the loan into interest income; therefore, loans purchased in the LibertyBank Acquisition are not individually identified as nonaccrual loans. Loans purchased in the Community First Bank acquisition were not pooled; therefore, loans that are on nonaccrual status, or are 90 days past due and still accruing interest are reported as nonperforming loans. An allowance for loan losses has not been recorded on any loans acquired in the LibertyBank Acquisition. The indemnified portion of partial charge-offs and provisions for general loan loss reserves in the acquired portfolios is recorded in noninterest income and results in an increase in the FDIC indemnification asset. If we determine a portion of a covered loan is uncollectable, we charge down the balance of that loan; therefore, we do not record a specific valuation allowance on covered loans. However, if we determine a portion of a noncovered loan is uncollectable, we record a specific valuation allowance on noncovered loans. Therefore, reductions in nonperforming covered loans may be attributable to a combination of partial balance charge-downs or a reduction in the gross unpaid principal balances outstanding on those loans.

Loans delinquent 30 to 89 days totaled $4.5 million at March 31, 2011, compared to $8.9 million at September 30, 2010, including $712,000 and $435,000, respectively, of covered loans in the Community First Bank loan portfolio. Nonperforming assets, which include loans delinquent 90 days or more, nonaccrual loans and real estate owned, totaled $62.9 million at March 31, 2011, compared to $65.5 million at September 30, 2010. Real estate owned and other repossessed assets decreased $5.9 million or 19.4% to $24.6 million at March 31, 2011, compared to $30.5 million as of September 30, 2010, as the Bank was able to liquidate and sell foreclosed assets purchased in the LibertyBank and Community First Bank acquisitions.

At March 31, 2011, and September 30, 2010, nonperforming assets totaled $62.9 million and $65.5 million, respectively, with noncovered nonperforming assets increasing $3.8 million and covered nonperforming assets decreasing $6.4 million. However, we were able to sell some noncovered real estate owned in our Idaho Region during the three months ended March 31, 2011, as nonperforming noncovered assets declined $4.4 million during our second quarter of fiscal year 2011. While the total recorded investment in noncovered loans classified as Substandard increased $1.4 million during the quarter ended March 31, 2011, noncovered loans classified as Watch and Special Mention declined $3.6 million.

The allowance for loan losses was $14.3 million at March 31, 2011, and $15.4 million at September 30, 2010. The general allowance for loan losses allocated to loans covered under the loss share agreement with the FDIC totaled $3.3 million at March 31, 2011, and the allowance for loan losses allocated to the noncovered organic loan portfolio was $11.0 million, or 3.18% of noncovered loans. The estimated fair value adjustment on loans and leases purchased in the LibertyBank Acquisition was $43.0 million, or 23.9% of the unpaid principal balance of those loans and leases at March 31, 2011. The balance of the allowance for noncovered loan losses that has been specifically allocated to individual noncovered loans totaled $2.9 million at March 31, 2011.

Certain loan modifications or restructurings are accounted for as "troubled debt restructurings." In general, the modification or restructuring of a debt is considered a troubled debt restructuring if we, for economic or legal reasons related to a borrower's financial difficulties, grant a concession to the borrower that we would not otherwise consider. Troubled debt restructurings totaled $11.4 million and $10.1 million at March 31, 2011, and September 30, 2010, respectively. All troubled debt restructurings are considered to be impaired loans, but may not necessarily be placed on nonaccrual status.

Appraisals on loans secured by consumer real estate are updated when the loan becomes 120 days past due, or earlier if circumstances indicate the borrower will be unable to repay the loan under the terms of the note. Additionally, appraisals are updated if the borrower requests a modification to their loan. On commercial real estate loans, appraisals are updated upon a determination that the borrower will be unable to repay the loan according to the terms of the note or upon a notice of default, whichever is earlier. Appraisals are updated on all loan types immediately prior to a foreclosure sale and quarterly thereafter once the collateral title has been transferred to the Bank. Additionally, impaired loans are reviewed based on updated appraisal values or net present value of cash flows on a quarterly basis.

Real estate and other repossessed assets decreased $5.9 million or 19.4% to $24.6 million compared to $30.5 million as of September 30, 2010, and decreased $570,000 during the quarter ended March 31, 2011. At March 31, 2011, real estate owned and other repossessed assets was comprised primarily of $13.2 million of land development and speculative one-to-four family construction projects, $7.1 million of commercial real estate, and $3.9 million of one-to-four family residential properties. The balance of real estate and other repossessed assets covered under loss sharing agreements with the FDIC totaled $19.1 million at March 31, 2011.

FDIC indemnification receivable. As part of the purchase and assumption agreements for the CFB and LibertyBank acquisitions, we entered into loss sharing agreements with the FDIC. These agreements cover realized losses on covered assets purchased from the FDIC in the CFB Acquisition and LibertyBank Acquisition. The indemnification receivable from the CFB Acquisition increased $6.5 million during the first six months of fiscal 2011 to $13.6 million, primarily due to an increase in estimated losses. The indemnification receivable from the

LibertyBank Acquisition increased $3.5 million during the first six months of fiscal 2011 to $60.9 million primarily due to purchase discount accretion and reimbursable expenses. Claims for losses on covered assets have been submitted for quarters ended September 30, 2010, and December 31, 2010, in the amount of $23.6 million to the FDIC for which the Company is awaiting reimbursement.

Deposits. Deposits decreased $115.8 million, or 9.7%, to $1.1 billion at March 31, 2011, compared to $1.2 billion at September 30, 2010. Core deposits (defined as checking, savings and money market accounts) have increased $15.6 million, or 2.54%, during the six month period ended March 31, 2011.

The following table details the composition of the deposit portfolio and changes in deposit balances:

	Balances at		Increase/(Decrease)	
	March 31, 2011	September 30, 2010	Amount	Percent
	(dollars in thousands)			
Noninterest-bearing demand	$135,572	$138,300	$(2,728)	(1.97)%
Interest-bearing demand	235,428	225,794	9,634	4.27
Money market	177,790	180,454	(2,664)	(1.48)
Savings	80,421	69,079	11,342	16.42
Certificates of deposit	444,648	576,035	(131,387)	(22.81)
Total deposit accounts	$1,073,859	$1,189,662	$(115,803)	(9.73)%

We anticipate the rate of decline in our certificates of deposit in the next quarter to accelerate due to a higher volume of certificates of deposit maturities relative to the most recent quarter and our relatively low offering rate for new certificates. We have directed our retail team to attempt to retain those deposit relationships that include a core deposit account. However, we are reluctant to compete for high-rate single account certificate of deposit customers due to our strong liquidity position at March 31, 2011, and consequently expect a managed reduction in these accounts.

Borrowings. FHLB advances and other borrowings decreased $14.3 million, or 21.2%, to $53.3 million compared to $67.6 million at September 30, 2010. The decrease resulted from maturing FHLB advances being repaid with excess liquidity. While our cash balances are in excess of optimal levels due to deposit growth and cash received in the LibertyBank Acquisition, we have currently decided to preserve capital and not prepay the outstanding borrowings while we continue to seek acquisitive growth.

Equity. Stockholders' equity decreased $6.9 million, or 3.4%, to $198.2 million at March 31, 2011, compared to $205.1 million at September 30, 2010. The decrease during the six month period was due to a net loss of $2.5 million, stock repurchases of $2.1 million and $1.7 million in dividends paid. In addition, the change in market value of available for sale securities, net of taxes reduced stockholders'equity by $2.0 million. These declines were partially offset by an increase to additional paid in capital due to equity compensation, ESOP transfers and exercised stock options.

Comparison of Operating Results for the Three Months Ended March 31, 2011, and March 31, 2010

Net loss for the three months ended March 31, 2011, was ($1.2 million), or ($0.08) per diluted share, compared to a net loss after extraordinary gain of ($1.6 million), or ($0.10) per diluted share, for the same period last year. Net interest margin decreased to 2.82% in the current quarter compared to 3.29% for the same period last year. Total revenue for the quarter ended March 31, 2011, which consists of net interest income and noninterest income, excluding indemnification recoveries and acquisition gains, increased $3.0 million, or 34.3%, to $11.8 million compared to $8.8 million for the same period of 2010. Total noninterest expense increased $4.2 million, or 43.5%, to $13.7 million compared to $9.6 million for the same quarter last year.

Net Interest Income. Net interest income before the provision for loan losses increased $2.2 million, or 35%, to $8.5 million for the quarter ended March 31, 2011, compared to $6.3 million for the same quarter of the prior year. The increase was attributable to the increase in earning assets in fiscal year 2011 due to the LibertyBank Acquisition.

The Company's net interest margin decreased 47 basis points to 2.82% for the quarter ended March 31, 2011, compared to the quarter ended March 31, 2010, but increased 24 basis points from the quarter ended December 31, 2010. Our cost of interest-bearing liabilities declined to 0.89% in the quarter ended March 31, 2011, compared to 1.81% in the year-ago period, as a result of rate reductions in all deposit product categories and accretion of fair value adjustments on certificates of deposit assumed in the LibertyBank Acquisition.

The year over year decline in net interest margin was due principally to excess cash obtained from the LibertyBank Acquisition which altered the mix of our interest-earning assets. A significant portion of the $373 million of cash obtained in this transaction has been invested in securities and used to pay out maturing certificates of deposit, which has helped to increase the net interest margin in the second quarter of fiscal year 2011 compared to the first quarter. The average yield on earning assets increased to 3.57% in the quarter ended March 31, 2011, from 3.49% in the linked quarter. The average balance in the securities portfolio increased $102.8 million when compared to the linked quarter, and increased by $271.4 million when compared to the quarter ended March 31, 2010. Average loan balances declined by $45.7 million when compared to the linked quarter, and increased by $68.4 million when compared to the same quarter in the previous year. We expect our net interest margin will remain below optimal levels until cash can be invested into loans. However, the weak economies in our market area may limit our ability to significantly increase loans in the near term.

The following table sets forth the impact to the Company's net interest income from changes in balances of interest earning assets and interest bearing liabilities as well as changes in interest rates. The rate column shows the effect attributable to changes in rate (changes in rate multiplied by prior volume). The volume column shows the effect attributable to changes in volume (changes in volume multiplied by prior rate). Changes attributable to both rate and volume, which cannot be segregated, are allocated proportionately to the changes in rate and volume.

	Three Months Ended March 31, 2011 Compared to Three Months Ended March 31, 2010		
	Increase (Decrease) Due to		
	Rate	Volume	Total
		(in thousands)	
Interest-earning assets:			
Loans receivable, net	$626	$738	$1,364
Loans held for sale	(1)	(1)	(2)
Interest-bearing deposits in other banks	(40)	87	47
Investment securities	(1,075)	1,713	638
Total net change in income on interest-earning assets	$(490)	$2,537	$2,047
Interest-bearing liabilities:			
Savings deposits	$(67)	$33	$(34)
Interest-bearing demand deposits	(97)	136	39
Money market accounts	(166)	143	(23)
Certificates of deposit	(810)	846	36
Total deposits	(1,140)	1,158	18
FHLB advances	(29)	(175)	(204)
Total net change in expense on interest-bearing liabilities	$(1,169)	$983	$(186)
Total increase in net interest income			$2,232

Interest and Dividend Income. Total interest and dividend income for the three months ended March 31, 2011, increased $2.0 million, to $10.8 million, from $8.7 million for the three months ended March 31, 2010. The increase during the quarter was attributable to higher levels of interest-earning assets from the LibertyBank Acquisition, which was offset somewhat by a decrease in the yield earned on interest earning assets.

The following table compares detailed average earning asset balances, associated yields, and resulting changes in interest and dividend income:

	For the Three Months Ended March 31, 2011		2010		
	Average Balance	Yield	Average Balance	Yield	Increase (Decrease) in Interest and Dividend Income
	(dollars in thousands)				
Loans receivable, net of deferred fees	$ 567,716	5.91 %	$ 515,835	5.44 %	$ 1,364
Loans held for sale	982	4.54	1,044	4.91	(2)
Interest bearing deposits in other banks	191,470	0.28	80,042	0.20	47
Investment securities, available for sale	431,513	2.09	160,117	4.16	638
FHLB stock	17,717	--	10,326	--	--
Total interest-earning assets	$ 1,209,398	3.57 %	$ 767,364	4.55 %	$ 2,046

The average yield on interest-earning assets declined in the second quarter of fiscal year 2011 compared to the comparable period of 2010 due to the mix of assets shifting to cash and securities from loans. The average yield on loans improved to 5.91% in the second quarter of fiscal year 2011 due to the LibertyBank Acquisition. The average yield on investment securities and mortgage-backed securities were lower in 2011 as lower yielding securities purchased over the last 12 months have diluted the average yield of the securities portfolio.

Interest Expense. Interest expense decreased $186,000 to $2.3 million for the three months ended March 31, 2011, from $2.4 million for the three months ended March 31, 2010. Increased interest expense resulting from higher average balances was offset by a decrease in average deposit rates. The following table details average balances, cost of funds and the change in interest expense:

	For the Three Months Ended March 31, 2011		2010		
	Average Balance	Rate	Average Balance	Rate	Increase (Decrease) In Interest Expense
	(dollars in thousands)				
Savings deposits	$ 77,381	0.20 %	$ 45,542	0.63 %	$ (34)
Interest-bearing demand deposits	235,325	0.36	109,365	0.63	39
Money market deposits	173,152	0.43	82,277	1.01	(23)
Certificates of deposit	464,778	1.08	227,284	2.15	36
FHLB advance and other borrowings	57,278	3.90	75,135	4.06	(204)
	$ 1,007,914	0.89 %	$ 539,603	1.81 %	$ (186)

Total interest-bearing liabilities

Provision for Loan Losses. A provision for loan losses of $3.0 million was recorded for the quarter ended March 31, 2011, compared to $2.4 million for the same period of the prior year. A provision of $3.0 million was recorded during the second quarter of fiscal year 2011 related to covered loans and no provision was recorded against noncovered loans. We recorded an indemnification recovery of $2.9 million during the second quarter of fiscal year 2011 in noninterest income related to that provision on covered loans.

While we believe the estimates and assumptions used in our determination of the adequacy of the allowance for loan losses are reasonable, there can be no assurance that such estimates and assumptions will not be proven incorrect in the future, or that the actual amount of future provisions will not exceed the amount of past provisions or that any increased provision that may be required will not adversely impact the Company’s financial condition and results of operations. In addition, the determination of the amount of the allowance for loan losses is subject to review by bank regulators, as part of the routine examination process, which may result in the establishment of additional reserves based upon their judgment of information available to them at the time of their examination.

Noninterest Income. Noninterest income increased $3.6 million to $6.1 million for the quarter ended March 31, 2011, compared to $2.5 million for the same quarter a year ago. Other noninterest income for the second quarter of fiscal year 2011 includes $2.9 million in FDIC indemnification recovery income.

The following table provides a detailed analysis of the changes in components of noninterest income:

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010	Increase/(Decrease) Amount	Increase/(Decrease) Percent
	(dollars in thousands)			
Service charges and fees	$2,232	$2,146	$86	4.01 %
Gain on sale of loans	187	125	62	49.60
Increase in cash surrender value of life insurance	101	104	(3)	(2.89)
FDIC indemnification recovery	2,850	-	2,850	n/a
Other	724	94	630	670.21
Total noninterest income	$6,094	$2,469	$3,625	146.82 %

Service charges and fees increased $86,000, or 4.0% during the most recent quarter, compared to the same quarter of last year primarily due to the increase in accounts assumed in the LibertyBank Acquisition. Due to recently enacted regulations, fees from overdrafts (excluding the impact of the LibertyBank Acquisition) declined $442,000, or 35.3%, in the second quarter of fiscal 2011, compared to the second quarter of fiscal 2010. Other noninterest income for the second quarter of fiscal year 2011 includes $649,000 of accretable income related to the FDIC indemnification asset, which declined $273,000 from the quarter ended December 31, 2010, and a loss on the sale of real estate owned and repossessed assets of $103,000, a decline of $231,000 when compared to the $128,000 gain recorded in the linked quarter. The increase in other non interest income of $629,000 is primarily attributable to yield accretion related to the FDIC indemnification asset. This accretion totaled $649,442 during the quarter ended March 31, 2011, which is an increase of $563,000 over the same quarter in fiscal year 2010.

Noninterest Expense. Noninterest expense for the quarter ended March 31, 2011, increased $4.2 million, or 43.5%, to $13.7 million from $9.6 million for the comparable period a year earlier.

The following table provides a detailed analysis of the changes in components of noninterest expense:

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010	Increase/(Decrease) Amount	Increase/(Decrease) Percent
	(dollars in thousands)			
Compensation and benefits	$7,181	$4,689	$2,492	53.15 %
Occupancy and equipment	1,877	980	897	91.53
Data processing	950	797	153	19.19
Advertising	262	282	(20)	(7.09)
Postage and supplies	349	177	172	97.17
Professional services	1,036	505	531	105.15
Insurance and taxes	1,026	480	546	113.75
Amortization of intangibles	186	--	186	n/a
Provision for real estate owned	357	1,290	(933)	(72.33)
Other	499	360	139	38.61
Total noninterest expense	$13,723	$9,560	$4,163	43.55 %

Noninterest expense was higher during fiscal year 2011 compared to fiscal year 2010 primarily as a result of the LibertyBank Acquisition. Expenses remained elevated in the quarter ended March 31, 2011, due to professional services costs associated with the conversion of the processing systems needed to integrate the operations of the LibertyBank Acquisition. Compensation expense during the quarter ended March 31, 2011, included severances

payments of $139,000. Provision for loss on other real estate owned and repossessed assets fell $318,000 to $357,000 during the quarter ended March 31, 2011 when compared to the linked quarter. The provision for other real estate owned was $1.3 million in the quarter ended March 31, 2010 compared to $357,000 in the second quarter of fiscal year 2011. The decline in the provision for real estate owned is due to lower balances of noncovered other real estate owned in fiscal year 2011. The provision for declines in values of covered other real estate owned is reduced by the amount receivable from the FDIC (either 80% or 95% as applicable).

Comparison of Operating Results for the Six Months Ended March 31, 2011, and March 31, 2010

Net loss for the six months ended March 31, 2011, was ($2.5 million), or ($0.16) per diluted share, compared to a net loss of ($1.9 million), or ($0.12) per diluted share, for the same period last year. Net interest margin declined to 2.70% for the six months ended March 31, 2011 compared to 3.33% for the same period last year. Total revenue for the six months ended March 31, 2011, which consists of net interest income and noninterest income, excluding indemnification recoveries and acquisition gains, increased $6.4 million, or 35.3%, to $24.4 million compared to $18.0 million for the same period of 2010. Total noninterest expense increased $8.9 million, or 47.7%, to $27.5 million compared to $18.6 million for the same quarter last year.

Net Interest Income. Net interest income before the provision for loan losses increased $4.2 million, or 33%, to $16.8 million for the six months ended March 31, 2011, compared to $12.7 million for the same quarter of the prior year. The increase was attributable to the increase in earning assets in fiscal year 2011 due to the LibertyBank Acquisition.

The Company's net interest margin decreased 63 basis points to 2.70% for the six months ended March 31, 2011, compared to the six months ended March 31, 2010. This decline was due principally to excess cash obtained from the LibertyBank Acquisition. A significant portion of the $373 million of cash obtained in this transaction has been invested in securities and used to pay out maturing certificates of deposit. Our average cost of interest-bearing liabilities declined to 0.99% in the six months ended March 31, 2011, compared to 1.85% in the year-ago period, primarily as a result of market rate reductions and accretion of fair value adjustments on certificates of deposit assumed in the LibertyBank Acquisition.

The following table sets forth the impacts to the Company's net interest income from changes in balances of interest earning assets and interest bearing liabilities as well as changes in interest rates. The rate column shows the effects attributable to changes in rate (changes in rate multiplied by prior volume). The volume column shows the effects attributable to changes in volume (changes in volume multiplied by prior rate). Changes attributable to both rate and volume, which cannot be segregated, are allocated proportionately to the changes in rate and volume.

	Six Months Ended March 31, 2011 Compared to Six Months Ended March 31, 2010 Increase (Decrease) Due to		
	Rate	Volume	Total
		(in thousands)	
Interest-earning assets:			
Loans receivable, net	$1,632	$1,940	$3,572
Loans held for sale	(1)	34	33
Interest-bearing deposits in other banks	(25)	234	209
Investment securities	(1,042)	1,632	590
Total net change in income on interest-earning assets	$564	$3,840	$4,404
Interest-bearing liabilities:			
Savings deposits	$(61)	$24	$(37)
Interest-bearing demand deposits	(45)	216	171
Money market accounts	(131)	176	45
Certificates of deposit	(705)	1,136	431
Total deposits	(942)	1,552	610
FHLB advances	(73)	(298)	(371)
Total net change in expense on interest-bearing liabilities	$(1,015)	$1,254	$239
Total increase in net interest income			$4,165

Interest and Dividend Income. Total interest and dividend income for the six months ended March 31, 2011, increased $4.4 million, to $22.0 million, from $17.6 million for the six months ended March 31, 2010. The increase during the quarter was attributable to higher levels of interest-earning assets from the LibertyBank Acquisition, which was offset somewhat by a decrease in the average yield earned on interest earning assets.

The following table compares detailed average earning asset balances, associated yields, and resulting changes in interest and dividend income:

	For the Six Months Ended March 31,				
	2011		2010		Increase (Decrease) in Interest and Dividend Income
	Average Balance	Yield	Average Balance	Yield	
			(dollars in thousands)		
Loans receivable, net of deferred fees	$ 592,702	5.96 %	$ 524,589	5.38 %	$ 3,573
Loans held for sale	2,891	4.56	1,329	5.02	33
Interest bearing deposits in other banks	257,324	0.27	61,769	0.22	277
Investment securities, available for sale	379,619	2.08	163,736	4.18	522

FHLB stock		17,717	--			10,326	--		--
Total interest-earning assets	$	1,250,253	3.52	%	$	761,749	4.63	%	$ 4,405

The yield on interest-earning assets declined in the first six months of fiscal year 2011 compared to 2010 due to the mix of assets shifting to cash and securities from loans. The average yield on loans improved to 5.96% in the first six months of fiscal year 2011 due to the LibertyBank Acquisition. The yield on investment securities and mortgage-backed securities were lower in 2011 as lower yielding securities purchased over the last 12 months have diluted the average yield of the securities portfolio.

Interest Expense. Interest expense increased $239,000, to $5.2 million for the six months ended March 31, 2011, from $4.9 million for the six months ended March 31, 2010, primarily due to certificate of deposits assumed in the

LibertyBank Acquisition, which were partially offset by the reduction in FHLB advances discussed above. The following table details average balances, cost of funds and the change in interest expense:

	For the Six Months Ended March 31,				Increase (Decrease) In Interest And Dividend Income
	2011		2010		
	Average Balance	Rate	Average Balance	Rate	
	(dollars in thousands)				
Savings deposits	$ 74,602	0.28 %	$ 43,974	0.65 %	$ (37)
Interest-bearing demand deposits	233,087	0.43	106,538	0.62	171
Money market deposits	174,506	0.53	79,723	1.04	45
Certificates of deposit	498,142	1.16	226,386	2.18	431
FHLB advance and other borrowings	61,900	3.95	76,834	4.15	(371)
Total interest-bearing liabilities	$ 1,042,237	0.99 %	$ 533,455	1.85 %	$ 239

Provision for Loan Losses. A provision for loan losses of $6.0 million was recorded for the six months ended March 31, 2011, compared to $3.1 million for the same period of the prior year. The amount of the provision for loan losses attributable to covered loans totaled $4.9 million during the first six months of fiscal year 2011. We recorded an indemnification recovery of $4.8 million during the first six months of fiscal year 2011 in noninterest income related to that provision on covered loans. No provision for loan losses was recorded on the LibertyBank loan portfolio during the first six months of fiscal year 2011.

Noninterest Income. Noninterest income increased $7.1 million to $12.4 million for the six months ended March 31, 2011, compared to $5.3 million for the same period a year ago. FDIC Indemnification recovery income, resulting from expected recoveries related to additional loan and REO loss provisions, comprised $4.9 million of the increase.

The following table provides a detailed analysis of the changes in components of noninterest income:

	Six Months Ended March 31,		Increase/(Decrease)	
	2011	2010	Amount	Percent
	(dollars in thousands)			
Service charges and fees	$4,692	$4,410	$282	6.39 %
Gain on sale of loans	536	308	228	74.03
Increase in cash surrender value of life insurance	206	211	(5)	(2.37)
FDIC indemnification recovery	4,846	-	4,846	n/a
Other	2,117	415	1,702	410.12
Total noninterest income	$12,397	$5,344	$7,053	131.97 %

Other noninterest income for the first six months of fiscal year 2011 includes $1.6 million of accretable income related to the FDIC indemnification asset compared to $247,000 for the same period in the prior year. Service charges and fees increased $282,000, or 6.4% during the most recent six month period, compared to the same period last year primarily due to the increase in accounts assumed in the LibertyBank Acquisition. Due to recently enacted regulations, fees from overdrafts (excluding the impact of the LibertyBank Acquisition) declined $1.1 million, or 37%, in the first six months of fiscal 2011, compared to the first six months of fiscal 2010.

Noninterest Expense. Noninterest expense for the six months ended March 31, 2011, increased $8.9 million, or 47.73%, to $27.5 million from $18.6 million for the comparable period a year earlier.

The following table provides a detailed analysis of the changes in components of noninterest expense:

	Six Months Ended March 31, 2011	Six Months Ended March 31, 2010	Increase/(Decrease) Amount	Increase/(Decrease) Percent
	(dollars in thousands)			
Compensation and benefits	$14,274	$9,306	$4,968	53.38 %
Data processing	3,723	2,044	1,679	82.14
Occupancy and equipment	2,127	1,597	530	33.19
Advertising	475	542	(67)	(12.36)
Postage and supplies	603	343	260	75.80
Professional services	1,754	984	770	78.25
Insurance and taxes	2,076	1,038	1,038	100.00
Amortization of intangibles	381	-	381	n/a
Provision for real estate owned	1,032	2,091	(1,059)	(50.65)
Other	1,097	698	399	57.06
Total noninterest expense	$27,542	$18,643	$8,899	47.73 %

Noninterest expense was higher during the most recent six month period compared to the same period in fiscal year 2010 primarily as a result of the LibertyBank Acquisition, which accounts for an increase of approximately $8.6 million in noninterest expense. The provision for real estate owned was lower in fiscal year 2011 compared to fiscal year 2010 due to the composition of other real estate owned and due to stabilization in commercial real estate values in 2011, albeit at distressed levels.

Liquidity, Commitments and Capital Resources

Liquidity. We actively analyze and manage liquidity with the objectives of maintaining an adequate level of liquidity and to ensure the availability of sufficient cash flows to support loan growth, fund deposit withdrawals, fund operations and satisfy other financial commitments. See the "Consolidated Statements of Cash Flows" contained in Item 1 - Financial Statements, included herein.

The primary sources of funds are customer deposits, loan repayments, loan sales, maturing investment securities, and FHLB advances. These sources of funds are used to make loans, acquire investment securities and other assets, and fund continuing operations. While maturities and the scheduled amortization of loans are a predictable source of funds, deposit flows and mortgage prepayments are greatly influenced by the level of interest rates, economic conditions and competition. At March 31, 2011, certificates of deposit totaled $444.6 million, or 41.4% of total deposits, including $275.5 million that are scheduled to mature by December 31, 2011. We believe our current liquidity position and anticipated operating results are sufficient to fund known, existing commitments and activity levels.

At March 31, 2011, the Bank maintained a line of credit with the FHLB of Seattle equal to 40% of total assets to the extent the Bank provides qualifying collateral and holds sufficient FHLB stock. At March 31, 2011, the Bank was in compliance with the collateral requirements and $110.0 million of the line of credit was available. The Bank is highly dependent on the FHLB of Seattle to provide the primary source of wholesale funding for immediate liquidity and borrowing needs. The failure of the FHLB of Seattle or the FHLB system in general, may materially impair the Company's ability to meet our growth plans or to meet short and long-term liquidity demands.

The increase in liquidity over the last twelve months was primarily attributable to the LibertyBank Acquisition, as the Company received $313.9 million from the FDIC in connection with this acquisition and assumed $59.2 million of cash held by LibertyBank on the acquisition date. Funds obtained from the acquisition of LibertyBank in the fourth quarter of fiscal year 2010 were invested in securities during the second quarter of fiscal year 2011. We plan to continue investing excess cash in medium-term securities in fiscal 2011, but will also conserve some liquidity in order to meet the demand of maturing certificates of deposit assumed in the LibertyBank Acquisition and to provide flexibility should we acquire additional banks. We also may utilize cash to repurchase shares of our stock.

Off-Balance Sheet Arrangements. The Bank is party to financial instruments with off-balance sheet risk in the normal course of business in order to meet the financing needs of the Bank's customers. These financial instruments generally include commitments to originate mortgage, commercial and consumer loans, and involve to varying degrees, elements of credit and interest rate risk in excess of amounts recognized in the Consolidated Balance Sheets. The Bank's maximum exposure to credit loss in the event of nonperformance by the borrower is represented by the contractual amount of those instruments. Because some commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The same credit policies are used in making commitments as are used for on-balance sheet instruments. Collateral is required in instances where deemed necessary.

Undisbursed balances of loans closed include funds not disbursed but committed for construction projects. Unused lines of credit include funds not disbursed, but committed for, home equity, commercial and consumer lines of credit.

Commercial letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. Those guarantees are primarily used to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

In connection with certain asset sales, the Bank typically makes representations and warranties about the underlying assets conforming to specified guidelines. If the underlying assets do not conform to the specifications, the Bank may have an obligation to repurchase the assets or indemnify the purchaser against loss. These representations and warranties are most applicable to the residential mortgages sold in the secondary market. The Bank believes that the potential for significant loss under these arrangements is remote. However, past performance may not be representative of future performance on sold loans and the Bank may experience material losses in the future.

The following is a summary of commitments and contingent liabilities with off-balance sheet risks as of March 31, 2011:

	Contract or Notional Amount (in thousands)	
Commitments to originate loans:		
Fixed rate	$	10,916
Adjustable rate		4,473
Undisbursed balance of loans closed		4,954
Unused lines of credit		72,955
Commercial letters of credit		940
Total	$	94,238

Capital. Consistent with the Bank's goal to operate a sound and profitable financial organization, efforts are ongoing to actively seek to maintain a "well capitalized" institution in accordance with regulatory standards. As of March 31, 2011, the Bank exceeded all regulatory capital requirements. The Bank's regulatory capital ratios at March 31, 2011, were as follows: Tier 1 capital 10.85%; Tier 1 (core) risk-based capital 27.45%; and total risk-based capital 28.71%. The applicable regulatory capital requirements to be considered well capitalized are 5%, 6% and 10%, respectively. The Company's consolidated tangible capital ratio was 14.61% at March 31, 2011.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company's Board of Directors has established an asset and liability management policy to guide management in maximizing net interest spread by managing the differences in terms between interest-earning assets and interest-bearing liabilities while maintaining acceptable levels of liquidity, capital adequacy, interest rate sensitivity, credit risk and profitability. The Asset/Liability Management Committee, consisting of certain members of senior management, communicate, coordinate and manage asset/liability positions consistent with the business plan and Board-approved policies, as well as to price savings and lending products, and to develop new products.

One of the Bank's primary financial objectives is to generate ongoing profitability. The Bank's profitability depends primarily on its net interest income, which is the difference between the income it receives on its loan and investment portfolio and its cost of funds, which consists of interest paid on deposits and borrowings. The rates the Company earns on assets and pays on liabilities generally are established contractually for a period of time. Market interest rates change over time. The Bank's loans generally have longer maturities than its deposits. Accordingly, the Company's results of operations, like those of other financial institutions, are affected by changes in interest rates and the interest rate sensitivity of assets and liabilities. The Bank measures its interest rate sensitivity on a quarterly basis using an internal model.

In recent years, the Company has primarily utilized the following strategies in its efforts to manage interest rate risk:

§ Reduced our reliance on long-term, fixed-rate one-to-four family residential loans by originating nearly all of these loans for sale in the secondary market;
§ Increased originations of adjustable-rate commercial and commercial real estate loans;
§ Reduced our reliance on higher-rate certificates of deposit and FHLB borrowings by focusing on core deposit growth, including checking and savings accounts that are less-sensitive to interest rate changes and have longer average lives than certificates of deposit.

Management employs various strategies to manage the Company's interest rate sensitivity including: (1) selling long-term fixed-rate mortgage loans in the secondary market; (2) borrowing intermediate to long-term funds at fixed rates from the FHLB; (3) originating commercial and consumer loans at shorter maturities or at variable rates; (4) originating adjustable rate mortgage loans; (5) appropriately modifying loan and deposit pricing to capitalize on the then current market opportunities; and (6) increasing lower cost core deposits, such as savings and checking accounts. At March 31, 2011, the Company had no off-balance sheet derivative financial instruments, and the Bank did not maintain a trading account for any class of financial instruments or engage in hedging activities or purchase high risk derivative instruments. Furthermore, the Company is not subject to foreign currency exchange rate risk or commodity price risk.

There has not been any material change in the market risk disclosures contained in the Company's 2010 Form 10-K.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures.

An evaluation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934 (the "Exchange Act")) was carried out under the supervision and with the participation of the Company's Chief Executive Officer, Chief Financial Officer, and other members of the Company's management team as of the end of the period covered by this quarterly report. The Company's Chief Executive Officer and Chief Financial Officer concluded that as of March 31, 2011, the Company's disclosure controls and procedures were effective in ensuring that the information required to be disclosed by the Company in the reports it files or submits under the Act is (i) accumulated and communicated to the Company's management (including the Chief Executive Officer and Chief Financial Officer) in a timely manner, and (ii) recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

(b) Changes in Internal Controls.

There have been no changes in the Company’s internal control over financial reporting (as defined in 13a-15(f) of the Exchange Act) that occurred during the quarter ended March 31, 2011, that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting. A number of internal control procedures were, however, modified during the quarter in conjunction with the Bank's internal control testing. These controls primarily relate to the accounting and reporting for acquired loans, which is highly subjective and requires significant estimation of future events. The Company also continued to implement suggestions from its internal auditor and independent auditors to strengthen existing controls.

The Company intends to continually review and evaluate the design and effectiveness of its disclosure controls and procedures and to improve its controls and procedures over time and to correct any deficiencies that it may discover in the future. The goal is to ensure that senior management has timely access to all material financial and non-financial information concerning the Company's business. While the Company believes the present design of its disclosure controls and procedures is effective to achieve its goal, future events affecting its business may cause the Company to modify its disclosure controls and procedures. The Company does not expect that its disclosure controls and procedures and internal control over financial reporting will prevent every error or instance of fraud. A control procedure, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control procedure are met. Because of the inherent limitations in all control procedures, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns in controls or procedures can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any control procedure 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; over time, controls become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control procedure, misstatements due to error or fraud may occur and not be detected.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

There have been no material changes in the Risk Factors previously disclosed in Item 1A of the Company’s 2010 Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) Not applicable.

(b) Not applicable.

(c) The following table provides information about repurchases of common stock made by the Company during the quarter ended March 31, 2011:

Issuer Purchases of Equity Securities

Period of Repurchase	Total Number of Shares Purchased	Average Price	Total Number of Shares Purchased as Part of Publicly	Maximum Number of Shares that May Yet Be Purchased Under

		Paid Per Share	Announced Plans or Programs	the Program
Jan 1 – Mar 31, 2011	202,700	$10.56	202,700	632,200

Item 3. Defaults Upon Senior Securities

Not applicable.

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Item 4. Removed and Reserved

Item 5. Other Information

Not applicable.

Item 6. Exhibits

2.1	Purchase and Assumption Agreement for Community First Bank Transaction(1)
2.2	Purchase and Assumption Agreement for LibertyBank Transaction(2)
3.1	Articles of Incorporation of the Registrant (3)
3.2	Bylaws of the Registrant (3)
10.1	Amended Employment Agreement entered into by Home Federal Bancorp, Inc. with Len E. Williams(9)
10.2	Amended Severance Agreement with Eric S. Nadeau(9)
10.3	Amended Severance Agreement with Steven D. Emerson(9)
10.5	Form of Home Federal Bank Employee Severance Compensation Plan (4)
10.6	Form of Director Indexed Retirement Agreement entered into by Home Federal Savings and Loan Association of Nampa with each of its Directors (3)
10.7	Form of Director Deferred Incentive Agreement entered into by Home Federal Savings and Loan Association of Nampa with each of its Directors (3)
10.8	Form of Executive Deferred Incentive Agreement, and amendment thereto, entered into by Home Federal Savings and Loan Association of Nampa with Daniel L. Stevens, Robert A. Schoelkoph, and Lynn A. Sander (3)
10.9	Form of Amended and Restated Salary Continuation Agreement entered into by Home Federal Savings and Loan Association of Nampa with Daniel L. Stevens (3)
10.10	Amended and Restated Salary Continuation Agreement entered into by Home Federal Savings and Loan Association of Nampa with Len E. Williams(9)
10.11	Amended and Restated Salary Continuation Agreement entered into by Home Federal Bank with Eric S. Nadeau(9)
10.12	Amended and Restated Salary Continuation Agreement entered into by Home Federal Savings and Loan Association of Nampa with Steven D. Emerson(9)
10.14	2005 Stock Option and Incentive Plan approved by stockholders on June 23, 2005 and Form of Incentive Stock Option Agreement and Non-Qualified Stock Option Agreement (5)
10.15	2005 Recognition and Retention Plan approved by stockholders on June 23, 2005 and Form of Award Agreement (5)
10.15	Form of new Director Retirement Plan entered into by Home Federal Bank with each of its Directors (6)
10.16	Transition Agreement with Daniel L. Stevens (7)
10.17	2008 Equity Incentive Plan (8)
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act *

31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act *
32 Certification Pursuant to Section 906 of the Sarbanes-Oxley Act *

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(1) Filed as an exhibit to the Registrant’s Current Report on Form 8-K dated August 7, 2009
(2) Filed as an exhibit to the Registrant’s Current Report on Form 8-K dated July 30, 2009
(3) Filed as an exhibit to the Registrant's Registration Statement on Form S-1 (333-146289)
(4) Filed as an exhibit to the Registrant’s Quarterly Report on Form 10-Q for the quarter ended December 31, 2008
(5) Filed as an exhibit to the Registrant’s Registration Statement on Form S-8 (333-127858)
(6) Filed as an exhibit to the Registrant’s Current Report on Form 8-K dated October 21, 2005
(7) Filed as an exhibit to the Registrant’s Current Report on Form 8-K dated August 21, 2006
(8) Filed as an exhibit to the Registrant’s Registration Statement on Form S-8 (333-157540)
(9) Filed as an exhibit to the Registrant’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2009
* Filed herewith

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.

	Home Federal Bancorp, Inc.
Date: May 9, 2011	/s/ Len E. Williams Len E. Williams President and Chief Executive Officer (Principal Executive Officer)
Date: May 9, 2011	/s/ Eric S. Nadeau Eric S. Nadeau Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

EXHIBIT INDEX

31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act
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