

Oconee Federal Financial Corp.
Form 10-Q
November 14, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly Period ended September 30, 2014

Or

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

For transition period from to

Commission File Number 001-35033

Oconee Federal Financial Corp.

(Exact Name of Registrant as Specified in Charter)

Federal
(State of Other Jurisdiction
of Incorporation)

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

**201 East North Second Street, Seneca, South
Carolina**

29678

(Address of Principal Executive Officers)

(Zip Code)

(864) 882-2765

Registrant's telephone number, including area code

Not Applicable

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90

days. Yes No .

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

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

There were 5,834,395 shares of Common Stock, par value \$.01 per share, outstanding as of November 7, 2014.

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OCONEE FEDERAL FINANCIAL CORP.

Form 10-Q Quarterly Report

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OCONEE FEDERAL FINANCIAL CORP.

CONSOLIDATED BALANCE SHEETS

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

(Unaudited)

PART I

ITEM 1. FINANCIAL STATEMENTS

	September 30, 2014	June 30, 2014 (*)
	(Unaudited)	
ASSETS		
Cash and due from banks	\$ 923	\$ 1,365
Interest-bearing deposits	7,366	10,525
Total cash and cash equivalents	8,289	11,890
Securities available-for-sale	100,830	103,806
Loans, net of allowance for loan losses of \$855 and \$855	232,914	229,931
Premises and equipment, net	3,019	2,993
Real estate owned, net	596	744
Accrued interest receivable		
Loans	846	811
Investments	344	251
Restricted equity securities	325	325
Bank owned life insurance	8,825	8,758
Other assets	1,108	992
Total assets	\$ 357,096	\$ 360,501
LIABILITIES		
Deposits		
Non-interest bearing	\$ 8,360	\$ 7,075
Interest bearing	269,588	273,940
Total deposits	277,948	281,015
Accrued interest payable and other liabilities	1,717	2,505
Total liabilities	279,665	283,520
SHAREHOLDERS' EQUITY		

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Common stock, \$0.01 par value, 100,000,000 shares authorized; 5,834,395 shares outstanding	64	64
Treasury stock, at par 600,699 shares	(6)	(6)
Additional paid in capital	12,281	12,186
Retained earnings	67,166	66,705
Accumulated other comprehensive loss	(301)	(147)
Unearned ESOP shares	(1,773)	(1,821)
Total shareholders' equity	77,431	76,981
Total liabilities and shareholders' equity	\$ 357,096	\$ 360,501

* Derived from audited consolidated financial statements

See accompanying notes to the consolidated financial statements

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OCONEE FEDERAL FINANCIAL CORP.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

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

(Unaudited)

	Three Months Ended	
	September 30, 2014	September 30, 2013
Interest and dividend income:		
Loans, including fees	\$ 2,886	\$ 2,852
Securities, taxable	381	371
Securities, tax-exempt	36	—
Interest-bearing deposits and other	7	15
Total interest income	3,310	3,238
Interest expense:		
Deposits	308	429
Total interest expense	308	429
Net interest income	3,002	2,809
Provision for loan losses	—	81
Net interest income after provision for loan losses	3,002	2,728
Noninterest income:		
Service charges on deposit accounts	18	18
Income on bank owned life insurance	67	76
Gain on sales of securities	5	—
Total noninterest income	90	94
Noninterest expense:		
Salaries and employee benefits	910	861
Occupancy and equipment	167	155
Data processing	67	63
Professional and supervisory fees	113	112
Office expense	43	29
Advertising	23	21
FDIC deposit insurance	38	40
Charitable contributions	—	—

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Provision for real estate owned and related expenses		19		32
Other		103		77
Total noninterest expense		1,483		1,390
Income before income taxes		1,609		1,432
Income tax expense		565		513
Net income	\$	1,044	\$	919
Other comprehensive income (loss)				
Unrealized loss on securities available-for-sale	\$ (243)	\$ (9)
Tax effect		92		3
Reclassification adjustment for gains realized in net income		(5)		—
Tax effect		2		—
Total other comprehensive loss		(154)		(6)
Comprehensive income	\$	890	\$	913
Basic net income per share: (Note 2)	\$	0.18	\$	0.16
Diluted net income per share: (Note 2)	\$	0.18	\$	0.16
Dividends declared per share:	\$	0.10	\$	0.10
See accompanying notes to the consolidated financial statements				

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OCONEE FEDERAL FINANCIAL CORP.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited)

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

	Common Stock	Treasury Stock	Additional Paid-In Capital	Retained Earnings
Balance at July 1, 2013	\$ 64	\$ (5)	\$ 13,413	\$ 65,315
Net income	—	—	—	919
Other comprehensive income	—	—	—	
Purchase of 89,900 shares of treasury stock	—	(1)	(1,423)	
Stock-based compensation expense	—	—	57	
Dividends	—	—	—	(584)
ESOP shares earned	—	—	21	
Balance at September 30, 2013	\$ 64	\$ (6)	\$ 12,068	\$ 65,650
Balance at July 1, 2014	\$ 64	\$ (6)	\$ 12,186	\$ 66,705
Net income	—	—	—	1,044
Other comprehensive loss	—	—	—	
Stock-based compensation expense	—	—	66	
Dividends (1)	—	—	—	(583)
ESOP shares earned	—	—	29	
Balance at September 30, 2014	\$ 64	\$ (6)	\$ 12,281	\$ 67,166

(1) Cash dividends declared on July 24, 2014 were paid on August 21, 2014.

See accompanying notes to the consolidated financial statements

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OCONEE FEDERAL FINANCIAL CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

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

	Three Months Ended	
	September 30, 2014	September 30, 2013
Cash Flows From Operating Activities		
Net income	\$ 1,044	\$ 919
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	—	81
Depreciation and amortization, net	221	252
Deferred loan fees, net	17	6
Deferred income tax expense	22	—
Loss on sales of real estate owned	8	14
Gain on sales of securities	(5)	—
Increase in cash surrender value of bank owned life insurance	(67)	(76)
ESOP compensation expense	77	67
Stock based compensation expense	66	57
Net change in operating assets and liabilities:		
Accrued interest receivable	(128)	(77)
Accrued interest payable	(309)	(1)
Other	622	387
Net cash provided by operating activities	1,568	1,629
Cash Flows From Investing Activities		
Purchases of premises and equipment	(84)	(19)
Purchases of securities held-to-maturity	—	(1,494)
Purchases of securities available-for-sale	(3,399)	(5,324)
Proceeds from maturities, paydowns and calls of securities available-for-sale	3,323	2,218
Proceeds from maturities, paydowns and calls of securities held-to-maturity	—	797
Proceeds from sales of securities available-for-sale	1,501	—
Proceeds from sale of real estate owned	199	176
Loan originations and repayments, net	(3,059)	(782)
Net cash used in investing activities	(1,519)	(4,428)

Cash Flows from Financing Activities

Net change in deposits	(3,067)	(3,638)
Dividends paid	(583)	(584)
Purchase of treasury stock	—	(1,431)
Net cash used in financing activities	(3,650)	(5,653)
Change in cash and cash equivalents	(3,601)	(8,452)
Cash and cash equivalents, beginning of year	11,890	37,942
Cash and cash equivalents, end of period	\$ 8,289	\$ 29,490

See accompanying notes to the consolidated financial statements

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OCONEE FEDERAL FINANCIAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

(1) BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements of Oconee Federal Financial Corp., which include the accounts of its wholly owned subsidiary Oconee Federal Savings and Loan Association (the “Association”) (referred to herein as “the Company,” “we,” “us,” or “our”) have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. Intercompany accounts and transactions are eliminated during consolidation. The Company is majority owned (70.74%) by Oconee Federal, MHC. These financial statements do not include the transactions and balances of Oconee Federal, MHC.

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting only of normal recurring accruals) necessary to present fairly the Company’s financial position as of September 30, 2014 and June 30, 2014 and the results of operations and cash flows for the interim periods ended September 30, 2014 and 2013. All interim amounts have not been audited, and the results of operations for the interim periods herein are not necessarily indicative of the results of operations to be expected for the year. These consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements and notes thereto included in the Form 10-K Annual Report of Oconee Federal Financial Corp. for the year ended June 30, 2014.

(2) EARNINGS PER SHARE (“EPS”)

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

	Three Months Ended	
	September 30, 2014	September 30, 2013
Earnings per share		
Net income	\$ 1,044	\$ 919
Less: distributed earnings allocated to participating securities	(7)	(7)
Less: (undistributed income) dividends in excess of earnings allocated to participating securities	(5)	(4)
Net earnings available to common shareholders	\$ 1,032	\$ 908

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Weighted average common shares outstanding including participating securities	5,834,395	5,850,522
Less: participating securities	(67,699)	(71,095)
Less: average unearned ESOP shares	(179,111)	(204,302)
Weighted average common shares outstanding	5,587,585	5,575,125
Basic earnings per share	\$ 0.18	\$ 0.16
Weighted average common shares outstanding	5,587,585	5,575,125
Add: dilutive effects of assumed exercises of stock options	54,644	47,856
Average shares and dilutive potential common shares	5,642,229	5,622,981
Diluted earnings per share	\$ 0.18	\$ 0.16

During the three months ended September 30, 2014, 7,700 shares were considered anti-dilutive. During the three months ended September 30, 2013, no shares were considered anti-dilutive.

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OCONEE FEDERAL FINANCIAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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

Debt, mortgage-backed and equity securities have been classified in the consolidated balance sheets according to management's intent. U.S. Government agency mortgage-backed securities consist of securities issued by U.S. Government agencies and U.S. Government sponsored enterprises. Investment securities at September 30, 2014 and June 30, 2014 are as follows: