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Home Federal Bancorp, Inc.  
Form 10-Q  
August 05, 2008  
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 June 30, 2008

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 000-52995

HOME FEDERAL BANCORP, INC.  
(Exact name of registrant as specified in its charter)

Maryland  
(State or other jurisdiction of incorporation  
or organization)

26-0886727  
(I.R.S. Employer  
I.D. 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  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 definition of "accelerated filer and large accelerated filer" 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

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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, 17,348,229 shares outstanding as of August 1, 2008.

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FORM 10-Q  
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## Item 1. Financial Statements

HOME FEDERAL BANCORP, INC. AND SUBSIDIARY CONSOLIDATED BALANCE SHEETS (In thousands, except share data) (Unaudited)	June 30, 2008	September 30, 2007
<b>ASSETS</b>		
Cash and amounts due from depository institutions	\$ 25,187	\$ 20,588
Certificate of deposit in correspondent bank	5,000	--
Mortgage-backed securities available for sale, at fair value	194,753	162,258
Federal Home Loan Bank of Seattle ("FHLB") stock, at cost	9,591	9,591
Loans receivable, net of allowance for loan losses of \$3,801 and \$2,988	468,343	480,118
Loans held for sale	3,971	4,904
Accrued interest receivable	2,799	2,804
Property and equipment, net	14,356	12,364
Mortgage servicing rights, net	1,840	2,047
Bank owned life insurance	11,482	11,168
Real estate and property owned	707	549
Deferred income tax asset, net	1,765	1,245
Other assets	2,154	2,318
<b>TOTAL ASSETS</b>	<b>\$741,948</b>	<b>\$709,954</b>

**LIABILITIES AND STOCKHOLDERS' EQUITY****LIABILITIES**

## Deposit accounts:

Noninterest-bearing demand deposits	\$ 35,258	\$ 38,643
Interest-bearing demand deposits	140,401	127,659
Savings deposits	26,409	23,116
Certificates of deposit	180,274	215,191
Total deposit accounts	382,342	404,609
Advances by borrowers for taxes and insurance	657	1,605
Interest payable	580	731
Deferred compensation	5,028	4,515
FHLB advances	145,582	180,730
Other liabilities	4,227	5,127
<b>Total liabilities</b>	<b>538,416</b>	<b>597,317</b>

**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:	173	152
June 30, 2008 – 17,386,517 issued, 17,348,229 outstanding		
Sept. 30, 2007 – 15,278,803 issued, 15,232,243 outstanding		
Additional paid-in capital	157,089	59,613
Retained earnings	59,707	58,795
Unearned shares issued to employee stock ownership plan ("ESOP")	(11,329)	(3,698)

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Accumulated other comprehensive loss	(2,108)	(2,225)
Total stockholders' equity	203,532	112,637
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$741,948</b>	<b>\$709,954</b>

See accompanying notes.

HOME FEDERAL  
BANCORP, INC. AND  
SUBSIDIARY  
CONSOLIDATED  
STATEMENTS OF INCOME

(In thousands, except share data) (Unaudited)	Three Months Ended		Nine Months Ended	
	2008	June 30, 2007	2008	June 30, 2007
Interest and dividend income:				
Loan interest	\$ 7,544	\$ 8,334	\$23,390	\$25,331
Investment interest	117	179	891	223
Mortgage-backed security interest	2,372	2,123	6,463	6,673
FHLB dividends	60	14	110	33
Total interest and dividend income	10,093	10,650	30,854	32,260
Interest expense:				
Deposits	2,429	3,131	8,515	9,146
FHLB advances	1,752	2,207	5,594	6,942
Total interest expense	4,181	5,338	14,109	16,088
Net interest income	5,912	5,312	16,745	16,172
Provision for loan losses	652	-	1,317	71
Net interest income after provision for loan losses	5,260	5,312	15,428	16,101
Noninterest income:				
Service charges and fees	2,396	2,318	6,731	6,979
Gain on sale of loans	213	491	560	1,168
Increase in cash surrender value of bank owned life insurance	106	102	314	301
Loan servicing fees	116	134	369	420
Mortgage servicing rights, net	(63)	(48)	(206)	(223)
Other	(33)	18	75	39
Total noninterest income	2,735	3,015	7,843	8,684
Noninterest expense:				
Compensation and benefits	3,840	3,498	11,592	11,363
Occupancy and equipment	771	716	2,242	2,145
Data processing	615	548	1,668	1,549
Advertising	241	362	786	940
Postage and supplies	147	167	468	487
Professional services	130	209	533	620
Insurance and taxes	158	114	383	323
Other	272	213	809	765

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Total noninterest expense	6,174	5,827	18,481	18,192
Income before income taxes	1,821	2,500	4,790	6,593
Income tax expense	702	934	1,779	2,517
NET INCOME	\$ 1,119	\$ 1,566	\$ 3,011	\$ 4,076
Earnings per share:				
Basic	\$ 0.07	\$ 0.09(1)	\$ 0.19(1)	\$ 0.25(1)
Diluted	0.07	0.09(1)	0.19(1)	0.24(1)
Weighted average number of shares outstanding:				
Basic	16,007,599	16,615,053(1)	16,237,911(1)	16,579,847(1)
Diluted	16,043,435	16,716,164(1)	16,255,548(1)	16,717,563(1)
Dividends declared per share:	\$0.055	\$0.048(1)	\$0.158(1)	\$0.145(1)

(1) Earnings per share, average shares outstanding, and dividends per share have been adjusted to reflect the impact of the second-step conversion and reorganization (“Conversion”) of Home Federal Bancorp, Inc. (“Company”), which occurred on December 19, 2007.

See accompanying notes.



HOME FEDERAL BANCORP, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY AND COMPREHENSIVE  
INCOME

(In thousands, except share data) (Unaudited)

	Common Stock			Additional Paid-In Capital	Retained Earnings	Unearned Shares Issued to Employee Stock Plan	Accumulated Other Comprehensive Loss	Total
	Shares	Amount						
Balance at Sept. 30, 2006	15,169,114	\$152	\$ 57,222	\$ 54,805	\$ (4,134)	\$ (176)	\$107,869	
Restricted stock issued, net of forfeitures	(6,924 )						--	
ESOP shares committed to be released			357	436			793	
Exercise of stock options	70,053		854				854	
Share-based compensation			1,036				1,036	
Excess tax benefits from equity compensation plans			144				144	
Dividends paid (\$0.190 per share) (1) (2)				(1,281)			(1,281)	
Comprehensive income:								
Net income				5,271			5,271	
Other comprehensive income:								
Change in unrealized holding loss on securities available for sale, net of taxes						(100)	(100)	
Change in unrealized holding loss resulting from transfer of securities from held to maturity to available for sale, net of taxes						(1,949)	(1,949)	
Comprehensive income:							3,222	
Balance at Sept. 30, 2007	15,232,243	3 152	59,613	58,795	(3,698)	(2,225)	112,637	
Second Step Conversion(3)	2,073,619	21	96,425		(8,160)		88,286	
Dissolution of Mutual Holding Company			50				50	
Restricted stock issued, net of forfeitures	13,502						-	
ESOP shares committed to be released			(106)	529			423	
Exercise of stock options	28,865		328				328	
Share-based compensation			779				779	
Dividends paid (\$0.158 per share) (1) (2)				(2,099)			(2,099)	
Comprehensive income:								

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Net income						3,011		3,011
Other comprehensive income:								
Change in unrealized holding loss on securities available for sale, net of taxes						117		117
Comprehensive income:								3,128
Balance at June 30, 2008	17,348,229	\$173	\$157,089	\$ 59,707	\$(11,329)	\$ (2,108)		\$203,532

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- (1) Home Federal MHC waived its receipt of dividends on the 8,979,246 shares that it owned.
- (2) Dividends per share have been adjusted to reflect the impact of the Conversion of the Company, which occurred on December 19, 2007.
- (3) The total effect on equity accounts from the Conversion has changed from the December 31, 2007 reported numbers due to adjustments such as true-up of total new shares issued in relation to conversion once total affect of fractional shares was known, payment of additional expenses related to conversion, etc.

See accompanying notes.

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

	Nine Months Ended June 30,	
	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 3,011	\$ 4,076
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	1,247	1,294
Net accretion of premiums and discounts on investments	(18)	(49)
Loss (Gain) on sale of fixed assets and repossessed assets	119	(3)
Gain on sale of mortgage-backed securities	-	(4)
ESOP shares committed to be released	423	618
Equity compensation expense	779	783
Provision for loan losses	1,317	71
Accrued deferred compensation expense, net	513	543
Net deferred loan fees	54	139
Deferred income tax benefit	(598)	(357)
Net gain on sale of loans	(560)	(1,168)
Proceeds from sale of loans held for sale	38,579	78,989
Originations of loans held for sale	(37,193)	(78,303)
Net decrease in value of mortgage servicing rights	207	223
Net increase in value of bank owned life insurance	(314)	(301)
Change in assets and liabilities:		
Interest receivable	5	145
Other assets	158	(837)
Interest payable	(151)	(198)
Other liabilities	(903)	(553)
Net cash provided by operating activities	6,675	5,108
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from maturity of mortgage-backed securities held to maturity	-	13,094
Proceeds from maturity of mortgage-backed securities available for sale	23,976	12,264
Purchases of mortgage-backed securities available for sale	(56,257)	(2,102)
Investment in certificate of deposit	(5,000)	
Purchases of property and equipment	(3,218)	(672)
Net decrease in loans	9,720	11,337
Proceeds from sale of fixed assets and repossessed assets	501	9
Net cash (used) provided by investing activities	(30,278)	33,930
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net decrease in deposits	(22,267)	(11,583)
Net decrease in advances by borrowers for taxes and insurance	(948)	(1,212)
Proceeds from FHLB advances	59,715	143,835

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Repayment of FHLB advances	(94,863)	(165,330)
Net proceeds from stock issuance and exchange pursuant to second step conversion	88,336	-
Proceeds from exercise of stock options	328	854
Excess tax benefit from equity compensation plans	-	58
Dividends paid	(2,099)	(959)
Net cash provided (used) by financing activities	28,202	(34,337)
NET INCREASE IN CASH AND CASH EQUIVALENTS	4,599	4,701
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	20,588	18,385
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 25,187	\$ 23,086

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HOME FEDERAL BANCORP, INC. AND  
SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Continued)

(In thousands) (Unaudited)

Nine Months Ended  
June 30,

2008 2007

SUPPLEMENTAL DISCLOSURE OF CASH FLOW  
INFORMATION:

Cash paid during the period for:

Interest	\$14,259	\$ 16,286
Income taxes		2,825
	2,610	

NONCASH INVESTING AND FINANCING  
ACTIVITIES:

Acquisition of real estate and other assets in settlement of loans	1,137	153
Fair value adjustment to securities available for sale, net of taxes	117	(3,301)
Transfer of securities from held to maturity to available for sale	-	171,688
Fair value adjustment to securities available for sale, net of taxes as a result of transferring securities from held to maturity to available for sale	-	(1,949)

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"). The financial statements of the Company have been prepared in conformity with accounting principles generally accepted in the United States of America 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 nine month periods ended June 30, 2008, are not necessarily indicative of the results that may be expected for the year ending September 30, 2008.

The Company was formed as the new stock holding company for the Bank in connection with the Bank's Conversion from the mutual holding company structure to the stock holding company structure, which was completed on December 19, 2007. Prior to the completion of the Conversion, the Bank was the subsidiary of Home Federal Bancorp, Inc., a federally-chartered stock mid-tier holding company ("Mid-Tier"), and the Mid-Tier was a subsidiary of Home Federal MHC, a federally-chartered mutual holding company. The Bank formed the mutual holding company structure in December 2004. As a result of the Conversion, Home Federal MHC and the Mid-Tier ceased to exist and were replaced by the Company as the successor to the Mid-Tier. See Note 3 below for additional information regarding the Conversion.

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 Mid-Tier's audited financial statements and notes included in the Annual Report on Form 10-K for the year ended September 30, 2007 ("2007 Form 10-K") filed with the Securities and Exchange Commission ("SEC") on December 14, 2007.

Note 2 - Critical Accounting Estimates and Related Accounting Policies

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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, mortgage servicing rights, and deferred income taxes to be critical accounting estimates.

**Allowance for loan losses.** The procedures for assessing the adequacy of the allowance for loan losses reflect evaluation of credit risk after careful consideration and interpretation of relevant information. In developing this assessment, management must rely on estimates and exercise judgment regarding matters where the ultimate outcome is unknown such as economic factors, developments affecting companies in specific industries and issues with respect to single borrowers. The allowance for loan losses is maintained at a level that management believes to be adequate to absorb probable, incurred losses inherent in the loan portfolio at the balance sheet dates presented. Depending on changes in circumstances, future assessments of credit risk may yield materially different results, which may require an increase or a decrease in the allowance for loan losses.

Mortgage servicing rights. The most critical accounting policy associated with mortgage servicing is the methodology used to determine the fair value of capitalized mortgage servicing rights, which requires the development of a number of estimates, the most critical of which is the mortgage loan prepayment speed assumptions. The Company performs a quarterly review of mortgage servicing rights to assess changes in value. This review may include an independent appraisal by an outside party of the fair value of the mortgage servicing rights.

Deferred income taxes. Deferred income taxes are computed using the asset and liability approach as prescribed in Statement of Financial Accounting Standards (“SFAS”) No. 109, Accounting for Income Taxes. Under this method, a deferred tax asset or liability is determined based on the currently enacted tax rates applicable to the period in



which the differences between the financial statement carrying amounts and tax basis of the existing assets and liabilities are expected to be reported in the Company's income tax returns.

#### Note 3 –Conversion and Reorganization

The Company is a Maryland corporation that was formed as the new stock holding company for Home Federal Bank in connection with the Conversion, which was completed on December 19, 2007.

As part of the Conversion, a total of 9,384,000 new shares of the Company were sold at \$10 per share in subscription, community and syndicated community offerings through which the Company received proceeds of approximately \$88.3 million, net of offering costs of approximately \$5.4 million. The Company contributed \$48.3 million or approximately 50% of the net proceeds to the Bank in the form of a capital contribution. The Company loaned \$8.2 million to the Bank's Employee Stock Ownership Plan (the "ESOP") and the ESOP used those funds to acquire 816,000 shares of the Company's common stock at \$10 per share. As part of the Conversion, shares of outstanding common stock of the Mid-Tier were exchanged for 1.136 shares of the Company's common stock. No fractional shares were issued. Instead, cash was paid to stockholders at \$10 per share for any fractional shares that would otherwise be issued. The exchange resulted in an additional 852,865 outstanding shares of the Company for a total of 17,325,901 outstanding shares as of the closing of the Conversion on December 19, 2007, after giving effect to the redemption of fractional shares.

The Conversion was accounted for as a reorganization in corporate form with no change in the historical basis of the Company's assets, liabilities and equity. All references to the number of shares outstanding, with the exception of those reported on the Balance Sheet, are restated to give retroactive recognition to the exchange ratio applied in the Conversion.

#### Note 4 – Income Taxes

At October 1, 2007, the Company adopted Financial Accounting Standards Board ("FASB") Interpretation No. 48, Accounting for Uncertainty in Income Taxes ("FIN 48"). FIN 48 requires recognition and measurement of uncertain tax positions using a "more-likely-than-not" approach. The Company's approach to adopting FIN 48 consisted of an examination of its financial statements, its income tax provision, and its federal and state income tax returns. The Company analyzed its tax positions including the permanent and temporary differences as well as the major components of income and expense.

As of October 1, 2007, and June 30, 2008, the Company did not believe that it had any uncertain tax positions that would rise to the level of having a material effect on its financial statements. In addition, the Company had no accrued interest or penalties as of October 1, 2007 or June 30, 2008. It is the Company's policy to record interest and penalties as a component of income tax expense. The adoption of this accounting standard did not have a material impact on the Company's financial position or results of operations.

#### Note 5 - Earnings Per Share

Earnings per share ("EPS") is computed using the basic and diluted weighted average number of common shares outstanding during the period. Basic EPS is computed by dividing the Company's net income by the weighted average number of common shares outstanding for the period. Diluted EPS is computed by dividing net income by the diluted weighted average shares outstanding, which include common stock equivalent shares outstanding using the treasury stock method, unless such shares are anti-dilutive. Common stock equivalents arise from assumed conversion of outstanding stock options awarded under the Company's Stock Option and Incentive Plan ("SOP") and from assumed

vesting of shares awarded but not released under the Company's Recognition and Retention Plan ("RRP") plan. ESOP shares are not considered outstanding for earnings per share purposes until they are committed to be released. The decrease in weighted-average common shares outstanding for EPS purposes for the three and nine month periods ended June 30, 2008 is primarily attributable to the 816,000 shares that were acquired for the ESOP in connection with the Conversion.

The following table presents the computation of basic and diluted EPS for the periods indicated:

	Three Months Ended		Nine Months Ended	
	2008	2007	2008	2007
	June 30,		June 30,	
	(in thousands, except share and per share data)			
<b>Basic EPS:</b>				
Net income	\$1,119	\$1,566	\$3,011	\$4,076
Weighted-average common shares outstanding	16,007,599	16,615,053	16,237,911	16,579,847
Basic EPS	\$ 0.07	\$ 0.09	\$ 0.19	\$ 0.25
<b>Diluted EPS:</b>				
Net income	\$1,119	\$1,566	\$3,011	\$4,076
Weighted-average common shares outstanding	16,007,599	16,615,053	16,237,911	16,579,847
Net effect of dilutive SOP awards	2,986	52,908	-	85,367
Net effect of dilutive RRP awards	32,850	48,203	17,637	52,349
Weighted-average common shares outstanding and common stock equivalents	16,043,435	16,716,164	16,255,548	16,717,563
Diluted EPS	\$ 0.07	\$ 0.09	\$ 0.19	\$ 0.24

Note 6 - Mortgage-Backed Securities

Mortgage-backed securities available for sale consisted of the following:

	June 30, 2008			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Issued by U.S. Government sponsored enterprises	\$194,861	\$588	\$(3,997)	\$191,452
Other	3,405	--	(104)	3,301
Total	\$198,266	\$588	\$(4,101)	\$194,753
	September 30, 2007			
Issued by U.S. Government sponsored enterprises	\$162,503	\$191	\$(3,823)	\$158,871
Other	3,464	--	(77)	3,387
Total	\$165,967	\$191	\$(3,900)	\$162,258

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The fair value of temporarily impaired securities, the amount of unrealized losses and the length of time these unrealized losses existed as of June 30, 2008 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)			
Mortgage-backed securities, available for sale	\$129,250	\$(3,199)	\$18,036	\$(902)	\$147,286	\$(4,101)

Management has evaluated these securities and has determined that the decline in the value is temporary and not related to the underlying credit quality of the issuers or an industry specific event. The declines in value are on securities that have contractual maturity dates and future principal payments will be sufficient to recover the current amortized cost of the securities. The Company has the ability and intent to hold the securities for a reasonable period of time for a forecasted recovery of the amortized cost.

As of June 30, 2008, the Bank had pledged mortgage-backed securities with an amortized cost of \$83.1 million and a fair value of \$80.8 million as collateral for FHLB advances. Mortgage-backed securities with an amortized cost of \$6.0 million and a fair value of \$5.8 million at June 30, 2008, were pledged to the Federal Reserve Bank as collateral for treasury tax and loan funds held by the Bank and for borrowings from the discount window. The Company has also pledged a mortgage-backed security with an amortized cost of \$2.0 million and a fair value of \$1.9 million as collateral for a \$1.5 million revolving line of credit from the Bank. As of June 30, 2008, there was no balance owed on the line of credit or through the Federal Reserve Bank discount window.

Note 7 - Loans Receivable

Loans receivable are summarized as follows:

	June 30, 2008		September 30, 2007	
	Balance	Percent of Total	Balance	Percent of Total
	(dollars in thousands)			
Real Estate:				
One- to four-family residential	\$217,517	45.98%	\$249,545	51.55%
Multi-family residential	8,514	1.80	6,864	1.42
Commercial	152,071	32.14	133,823	27.64
Total real estate	378,102	79.92	390,232	80.61
Real Estate Construction:				
One- to four-family residential	16,794	3.55	20,545	4.24
Multi-family residential	920	0.19	1,770	0.36
Commercial	4,958	1.05	13,691	2.83
Acquisition and land development	12,270	2.59	8,208	1.69
Total real estate construction	34,942	7.38	44,214	9.12
Consumer:				
Home equity	51,912	10.97	42,990	8.88
Automobile	2,063	0.44	2,173	0.45
Other consumer	1,396	0.30	1,405	0.29
Total consumer	55,371	11.71	46,568	9.62
Commercial business	4,705	0.99	3,122	0.65
	473,120	100.00%	484,136	100.00%
Less:				
Deferred loan fees	(976)		(1,030)	
Allowance for loan losses	(3,801)		(2,988)	

Loans receivable, net	\$468,343	\$480,118
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Note 8 – Mortgage Servicing Rights

Mortgage servicing rights represent the fair value of the future loan servicing fees from the right to service loans for others. The unpaid principal balances of loans serviced at June 30, 2008, and September 30, 2007, were \$173.0 million and \$191.6 million, respectively. Loans serviced for others are not included in the Consolidated Balance Sheets. In general, during periods of falling interest rates, the mortgage loans prepay faster and the value of the mortgage servicing asset declines. Conversely, during periods of rising rates, the value of mortgage servicing rights

generally increases as a result of slower rates of prepayments. The Company does not use derivatives to hedge fluctuations in the fair value of the servicing rights.

As of October 1, 2006, the Company adopted SFAS No. 156, Accounting for Servicing of Financial Assets, to measure mortgage servicing rights using the fair value method. As a result, the Company will measure each class of mortgage servicing rights at fair value at each reporting date, and report changes in fair value in earnings in the period in which the change occurs. Prior to the adoption of SFAS No. 156, the Company elected to account for its mortgage servicing rights using the amortization method previously required by SFAS No. 140.

The Company has identified two classes of mortgage servicing assets based upon the nature of the collateral, interest rate mechanism and nature of the loan. The Company uses an independent third party to periodically value the residential mortgage servicing rights using information such as anticipated prepayment speeds, discount rates and servicing fees associated with the type of loans sold.

Upon the change from the amortization method to fair value accounting under SFAS No. 156, the calculation of amortization and the assessment of impairment were discontinued. Those measurements have been replaced by adjustments to fair value that encompass market-driven valuation changes. Under the fair value method, the changes in fair value are reported in "Mortgage servicing rights, net" on the Consolidated Statements of Income.

The following table lists the classes of servicing rights and the activities in the balance of each class for the periods indicated:

Servicing Right Classes	Three Months Ended June 30,		Nine Months Ended June 30,	
	2008	2007	2008	2007
	(in thousands)			
One- to four-family residential loans:				
Beginning Balance	\$1,894	\$2,298	\$2,033	\$2,468
Additions for new mortgage servicing rights capitalized	--	42	--	45
Adjustments to fair value	(61)	(87)	(200)	(260)
Ending Balance	\$1,833	\$2,253	\$1,833	\$2,253
Commercial real estate loans:				
Beginning Balance	\$ 9	\$ 19	\$ 14	\$ 24
Adjustments to fair value	(2)	(3)	(7)	(8)
Ending Balance	\$ 7	\$ 16	\$ 7	\$ 16

The amount of contractually specified servicing fees for one- to four-family residential loans for the three and nine months ended June 30, 2008 were \$116,000 and \$369,000, respectively. The servicing fees for one- to four-family residential loans are recorded in "Loan Servicing Fees" on the Consolidated Statements of Income. The amount of contractually specified servicing fees for commercial real estate loans as well as late fees and other ancillary fees earned for the periods indicated were immaterial in amount.

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

### Forward-Looking Statements

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 plan, 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 as a result of, among others, the following factors:

- general economic conditions, including real estate values, either nationally or in the Company's market area, that are worse than expected;
- changes in the interest rate environment that reduce the Company's interest margins or reduce the fair value of financial instruments;
- the credit risk of lending activities, including risks related to construction and development lending and commercial and small business banking;
  - changes in the level and trend of loan delinquencies and write-offs;
    - results of examinations by banking regulators;
  - increased competitive pressures among financial services companies;
    - changes in consumer spending, borrowing and savings habits;
    - changes in the value of mortgage servicing rights;
  - legislative or regulatory changes that adversely affect the Company's business;
    - adverse changes in the securities markets; and
- changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, the Public Company Accounting Oversight Board or the Financial Accounting Standards Board.

These factors should be considered in evaluating the forward-looking statements, and undue reliance should not be placed 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.

#### Background and Overview

The Company is the successor to Home Federal MHC and the Mid-Tier in connection with the Conversion, which was completed on December 19, 2007.

On May 11, 2007, the Boards of Directors of the Company, Home Federal MHC and the Bank adopted a Plan of Conversion and Reorganization (the "Plan") pursuant to which the Bank reorganized from the mutual holding company structure to the stock holding company structure. Pursuant to the terms of the Plan, shares of outstanding common stock of the Mid-Tier were exchanged for 1.136 shares of the Company's common stock. Cash was paid in lieu of fractional shares. The exchange ratio was designed to preserve the aggregate percentage ownership interest of the existing public shareholders of Mid-Tier following the sale of up to 10,200,000 shares of the Company's common stock to the Bank's eligible account holders, to the Bank's tax-qualified employee benefit plans and to members of the general public. The Conversion was approved by the Bank's depositors, the Company's stockholders (including the approval of a majority of the shares held by persons other than Home Federal MHC) and regulatory agencies. The Company's common stock is traded on the NASDAQ Global Select Market under the symbol "HOME" and is included in the America's Community Bankers NASDAQ Index.

The Bank was founded in 1920 as a building and loan association and reorganized as a federal mutual savings and loan association in 1936. On December 6, 2004, the Bank reorganized into the two-tiered mutual holding company form of organization. In connection with that transaction, the Mid-Tier sold 40.00% of its outstanding shares of common stock (6,083,500 shares) to the public and issued 59.04% of its outstanding shares of common stock (8,979,246 shares) to Home Federal MHC, the mutual holding company parent of the Mid-Tier. In connection with that transaction, the Mid-Tier also established and capitalized the Home Federal Foundation ("Foundation") for the purpose of supporting charitable organizations and activities that enhance the quality of life for residents within the Bank's market area. The Foundation was capitalized with a \$1.8 million one-time contribution, which consisted of 146,004 shares of its common stock and \$365,010 in cash. Lastly, the Bank converted from a federally-chartered

mutual savings and loan association to a federally-chartered stock savings bank and became the wholly owned subsidiary of the Mid-Tier.

The Bank is a community-oriented financial institution dedicated to serving the financial service needs of consumers and businesses within its market area. 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. As a result of a comprehensive and continuing review of

its strategic business plan, the Company continues to expand its commercial and small business banking programs, including a variety of loan and deposit products.

The Bank serves the Treasure Valley region of southwestern Idaho, which includes Ada, Canyon, Elmore and Gem counties, through its 15 full-service banking offices and one loan center. Nearly 40% of the state's population lives and works in the four counties served by Home Federal Bank. Ada County has the largest population and includes the city of Boise, the state capital. Home Federal Bank maintains its largest branch presence in Ada County with eight locations, followed by Canyon County with five branches, including the Company's corporate headquarters in Nampa. The two remaining branches are located in Elmore and Gem Counties.

The local economy is primarily urban with the city of Boise being the most populous of the markets that the Bank serves, followed by Nampa, the state's second largest city. The area has experienced a slowdown in the residential housing market similar to the United States as a whole. Housing prices have declined recently, although not as significantly as the nation as a whole, and single-family housing permits have decreased from prior year levels. The regional economy is well diversified with government, healthcare, manufacturing, service, high technology, call centers and construction providing sources of employment. In addition, agriculture and related industries continue to be key components of the economy in southwestern Idaho. Generally, sources of employment are concentrated in Ada and Canyon counties and include the headquarters of Micron Technology and J.R. Simplot Company. Other major employers include Hewlett-Packard, Supervalu, two regional medical centers and Idaho state government agencies. The city of Boise is also home to Boise State University, the state's largest and fastest growing university. While Idaho's unemployment rate was significantly below the national unemployment rate at June 30, 2008, the state's unemployment rate has been steadily increasing in 2008 to 3.80% in June 2008 compared to 2.70% in December 2007. Additionally, Hewlett-Packard announced in June 2008 that it will consolidate its worldwide Imaging & Printing Group from five to three global business units. The Boise facility for Hewlett-Packard focuses on research, development and marketing of printers, ink and related printing and image-making goods and services and the impact of the reorganization on employees in Boise has not been determined.

The following items summarize the financial performance of the Company and the key strategic initiatives undertaken by management during the Company's fiscal third quarter of 2008:

- § Net income fell to \$1.1 million, or \$0.07 per diluted share, compared to \$1.6 million, or \$0.09 per diluted share, for the same period a year ago;
- § Revenues increased 5% compared to the third quarter of 2007 as the net interest margin increased 27 basis points to 3.29% from 3.02%;
  - § Nonperforming assets increased to 0.56% of assets at June 30, 2008, compared to 0.07% at June 30, 2007;
- § Net loans receivable declined \$8.8 million as the Bank's loan portfolios secured by one- to- four family residences continue to decline, falling \$11.5 million during the quarter;
- § Deposits decreased \$13.8 million during the third quarter as high interest rates offered by competitors drew certificates of deposit from the Bank;
- § The efficiency ratio increased compared to the third quarter of fiscal 2007 as increases in expenses outweighed higher revenues in 2008;
- § In order to improve credit risk management, the credit administration and workout teams were realigned to report directly to the President and Chief Executive Officer and a Chief Credit Officer was appointed;
- § Additional steps were taken to build strong commercial and small business lending programs by acquiring key management personnel to lead the development of those programs;
- § In order to become more efficient, lower costs and improve customer service in the bank's consumer line of business, the residential and consumer lending teams were reorganized;
- § Construction began on a new banking office in Boise, Idaho, which is expected to open in October 2008; and,
- § The Bank maintained its very strong capital position with a risk-based capital ratio of 32.3% at June 30, 2008.

Critical Accounting Estimates and Related Accounting Policies

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 on loans 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 collectibility 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 loss percentages to reflect current economic and internal environmental factors, such as changes in underwriting standards and management, 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 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.

The Company also estimates a reserve related to unfunded loan commitments. In assessing the adequacy of the reserve, the Company uses a similar approach used in the development of the allowance for loan losses. The reserve for unfunded loan commitments is included in other liabilities on the Consolidated Balance Sheets. The provision for unfunded commitments is charged to noninterest expense.

**Mortgage Servicing Rights.** Mortgage servicing rights represent the present value of the future loan servicing fees from the right to service loans for others. The most critical accounting policy associated with mortgage servicing is the methodology used to determine the fair value of capitalized mortgage servicing rights, which requires the development of a number of estimates, the most critical of which are the mortgage loan prepayment rate assumptions. The mortgage loan prepayment rate assumptions are significantly impacted by interest rates. In general, during periods of falling interest rates, the mortgage loans prepay faster and the value of mortgage servicing asset declines. Conversely, during periods of rising rates, the value of mortgage servicing rights generally increases due to slower rates of prepayments. The Company performs a quarterly review of mortgage servicing rights to assess changes in value. This review may include an independent appraisal by an outside party of the fair value of the mortgage servicing rights.

**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 SFAS No. 109, Accounting for 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 depreciation expense, mortgage servicing rights, loan loss reserves, deferred compensation, mark to market adjustments on our available for sale securities, and dividends received from the Federal Home Loan Bank of Seattle. 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.

Comparison of Financial Condition at June 30, 2008 and September 30, 2007

Total assets increased \$32.0 million, or 4.5%, to \$741.9 million at June 30, 2008 from \$710.0 million at September 30, 2007. The increase in total assets was attributable primarily to \$88.3 million in net proceeds raised from the Company's Conversion and stock offering completed on December 19, 2007, which was partially offset by a decrease in deposits and borrowings during the same period of \$22.3 million and \$35.2 million, respectively. Cash

and due from other banks increased \$4.6 million, or 22.3%, to \$25.2 million. Loans receivable, net, decreased \$11.8 million, or 2.5%, to \$468.3 million. Mortgage-backed securities increased \$32.5 million, or 20.0%, to \$194.8 million. Total deposits decreased \$22.3 million, or 5.5%, to \$382.3 million. FHLB advances decreased \$35.1 million, or 19.5%, to \$145.6 million.

Assets. For the nine months ended June 30, 2008, total assets increased \$32.0 million. The increases and decreases were primarily concentrated in the following asset categories:

	Balance at June 30, 2008	Balance at September 30, 2007 (dollars in thousands)	Increase (decrease)	
			Amount	Percent
Cash and amounts due from depository institutions	\$ 25,187	\$ 20,588	\$ 4,599	22.3%
Mortgage-backed securities, available for sale	194,753	162,258	32,495	20.0
Loans receivable, net of allowance for loan losses	468,343	480,118	(11,775)	(2.5)

Cash and amounts due from depository institutions increased \$4.6 million to \$25.2 million at June 30, 2008, from \$20.6 million at September 30, 2007. The higher cash balance at June 30, 2008 is due to a portion of the proceeds from the Company's Conversion and stock offering being invested in overnight funds and cash equivalents. In June 2008, the Company invested \$15.0 million of excess cash in certificates of deposit issued by the FHLB with \$10.0 million reported as cash equivalents at June 30, 2008. The remaining \$5.0 million certificate of deposit is scheduled to mature in December 2008. As discussed in greater detail below, competitive pricing for deposits has resulted in the runoff of some deposit balances, which was funded with some of the net proceeds received from the Conversion.

Mortgage-backed securities increased \$32.5 million to \$194.8 million at June 30, 2008, from \$162.3 million at September 30, 2007. The increase was primarily attributable to mortgage-backed securities purchased with proceeds from the Company's Conversion and stock offering. Management decided to invest in mortgage-backed securities in order to quickly invest Conversion funds and to provide liquidity in future periods to fund loan growth with proceeds from principal repayments.

Nearly all of the Company's mortgage-backed securities are issued by U.S. Government sponsored enterprises, primarily Fannie Mae and Freddie Mac. Non-agency mortgage-backed securities with a fair value of \$3.3 million at June 30, 2008, were purchased in fiscal 2005 and carried a rating of 'AAA' by Moody's and Standard & Poors at that date. The Company does not own preferred stock issued by Fannie Mae or Freddie Mac. While the U.S. Government has recently affirmed its support for government sponsored enterprises, significant deterioration in the financial strength of Fannie Mae, Freddie Mac or mortgage-backed security insurers may have a material effect on the valuation and performance of the Company's mortgage-backed securities portfolio in future periods.

Loans receivable, net, decreased \$11.8 million to \$468.3 million at June 30, 2008, from \$480.1 million at September 30, 2007. One- to four-family residential mortgage loans decreased \$32.4 million as the Company sold a majority of the one-to four-family loans that were originated. Commercial loans increased \$12.2 million to \$156.0 million at June 30, 2008 from \$143.8 million at September 30, 2007. Construction loans increased \$346,000 to \$44.2 million at June 30, 2008 from \$43.9 million at September 30, 2007. The Bank has made significant progress in building commercial

and small business banking programs, including the addition of an experienced commercial banking team to expand the commercial banking activities, including business banking, cash management and other products associated with a full-service commercial bank. As reported in Note 7 to the consolidated financial statements, nonresidential commercial loans increased \$11.1 million during the nine months ended June 30, 2008 and comprised approximately 34% of the loan portfolio at June 30, 2008, compared to 31% at September 30, 2007. This increase was offset by a decrease in loans secured by one- to four-family residential properties of \$26.9 million during the same period. Management anticipates further declines in the outstanding balance of one- to four family mortgage loans as the lending focus shifts toward commercial loan originations.

Home sales and residential construction projects in the Boise metropolitan statistical area have slowed significantly in fiscal 2008 compared to the strong growth in development projects experienced between 2005 and 2007. As a result, a number of financial institutions are experiencing increases in nonperforming acquisition and development loans. Loans to construct one- to four-family homes and to finance land development projects comprised



approximately 6% of the Bank's loan portfolio at June 30, 2008, and September 30, 2007. While management believe the quality of these credits was strong overall at June 30, 2008, further deterioration of the residential market in the Treasure Valley MSA may have direct and indirect effects on these portfolios as home inventories and foreclosures increase.

Deposits. Deposits decreased \$22.3 million, or 5.5%, to \$382.3 million at June 30, 2008, from \$404.6 million at September 30, 2007. The increase in interest-bearing demand deposits was primarily attributed to growth in money market accounts as the Bank continued its emphasis on deposit products associated with a full-service commercial bank. The decrease in certificates of deposit was primarily the result of choosing not to match rates offered by local competitors that in many cases exceeded the Bank's cost of alternative funding sources. The Bank had no brokered deposits at June 30, 2008, or September 30, 2007. The following table details the changes in deposit accounts:

	Balance at June 30, 2008	Balance at September 30, 2007	Increase (decrease)	
			Amount (dollars in thousands)	Percent
Noninterest-bearing demand deposits	\$ 35,258	\$ 38,643	\$ (3,385)	(8.8)%
Interest-bearing demand deposits	140,401	127,659	12,742	10.0
Savings deposits	26,409	23,116	3,293	14.3
Certificates of deposit	180,274	215,191	(34,917)	(16.2)
Total deposit accounts	\$382,342	\$404,609	\$(22,267)	(5.5)%

Borrowings. FHLB advances decreased \$35.1 million, or 19.5%, to \$145.6 million at June 30, 2008, from \$180.7 million at September 30, 2007. The decrease resulted from the repayment of maturing advances and overnight borrowings with excess liquidity that resulted from the Conversion. The Bank uses FHLB advances as an alternative funding source to deposits, manage funding costs, reduce interest rate risk, and to leverage the balance sheet.

Deferred Income Tax Asset/Liability. The deferred tax asset increased \$520,000 or 41.8% to \$1.8 million at June 30, 2008, from \$1.2 million at September 30, 2007. This increase was mainly due to both the loan loss provision as well as expenses related to the Company's deferred compensation plans.

Equity. Stockholders' equity increased \$90.9 million, or 80.7%, to \$203.5 million at June 30, 2008, from \$112.6 million at September 30, 2007. The increase was primarily attributable to the \$88.3 million in net proceeds received from the Conversion and stock offering. The Company sold approximately 9.4 million shares of stock in subscription, community and syndicated community offerings and issued approximately 7.1 million additional shares of its stock in exchange for the previously outstanding shares of Home Federal Bancorp, Inc., the Bank's former "mid-tier" holding company.

A portion of the offering proceeds were used to make a loan to the Company's employee stock ownership plan, which purchased 816,000 shares of the Company's common stock for an aggregate cost of \$8.2 million. In addition, other significant activity among equity accounts over the past nine months included \$3.0 million in net income, the allocation of earned employee stock ownership plan shares, equity compensation and the exercise of stock options totaling \$1.5 million, and a \$117,000 increase in the market value of mortgage-backed securities, offset by \$2.1 million in cash dividends paid to stockholders. On June 13, 2008, the Company paid \$0.055 per share in cash

dividends to stockholders of record as of May 30, 2008.

Comparison of Operating Results for the Three Months Ended June 30, 2008, and June 30, 2007

Net income for the three months ended June 30, 2008 was \$1.1 million, or \$0.07 per diluted share, compared to net income of \$1.6 million, or \$0.09 per diluted share, for the three months ended June 30, 2007. Earnings per share for the prior period have been adjusted to reflect the impact of the Conversion and reorganization of the Company.

Net Interest Income. Net interest income increased \$600,000, or 11.3%, to \$5.9 million for the three months ended June 30, 2008, from \$5.3 million for the three months ended June 30, 2007. The increase in net interest income was primarily attributable to a lower balance of certificates of deposit and FHLB advances. The decrease in FHLB

advances resulted from the repayment of maturing advances and overnight funds with excess liquidity generated from the Conversion and stock offering.

The Company's net interest margin increased 27 basis points to 3.29% for the quarter ended June 30, 2008, from 3.02% for the same quarter last year. The improvement in the net interest margin is primarily attributable to the increase in interest earning assets that resulted from the proceeds of the Conversion and stock offering completed on December 19, 2007. In addition, decreases in interest expense and a shift in the loan portfolio toward higher yielding commercial loans from residential mortgage loans also contributed to the increase in the margin in 2008.

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.

	Three Months Ended June 30, 2008 Compared to Three Months Ended June 30, 2007		
	Increase (Decrease) Due to		
	Rate	Volume (in thousands)	Total
Interest-earning assets:			
Loans receivable, net	\$(439)	\$(328)	\$ (767)
Loans held for sale	(3)	(20)	(23)
Investment securities, including interest-bearing deposits in other banks	(148)	86	(62)
Mortgage-backed securities	(71)	320	249
FHLB stock	46	-	46
Total net change in income on interest-earning assets	\$(615)	\$ 58	\$ (557)
Interest-bearing liabilities:			
Savings deposits	\$ 15	\$ 2	\$ 17
Interest-bearing demand deposits	(15)	(17)	(32)
Money market accounts	(159)	128	(31)
Certificates of deposit	(178)	(478)	(656)
Total deposits	(337)	(365)	(702)
FHLB advances	55	(510)	(455)
Total net change in expense on interest-bearing liabilities	\$(282)	\$(875)	\$(1,157)
Total increase in net interest income			\$ 600

Interest and Dividend Income. Total interest and dividend income for the three months ended June 30, 2008 decreased \$557,000, or 5.2%, to \$10.1 million, from \$10.7 million for the three months ended June 30, 2007. The decrease during the quarter was primarily attributable to a decrease on yields earned on interest earning assets. Market interest rates, including yields on U.S. Treasury notes, were significantly lower in 2008 compared to 2007. For example, the U.S. Prime rate, which is a key index rate for the Bank's commercial loans and home equity lines of

credit, was 325 basis points lower during the quarter ended June 30, 2008, compared to the quarter ended June 30, 2007.

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

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	2008		Three Months Ended June 30, 2007		Increase/ (Decrease) in Interest and Dividend Income from 2007
	Average Balance	Yield	Average Balance	Yield	
	(dollars in thousands)				
Loans receivable, net	\$478,806	6.26%	\$499,101	6.62%	\$(767)
Loans held for sale	3,208	6.06	4,546	6.33	(23)
Investment securities, available for sale, including interest-bearing deposits in other banks	23,698	1.97	13,757	5.20	(62)
Mortgage-backed securities	202,904	4.68	175,718	4.83	249
FHLB stock	9,591	2.50	9,591	0.58	46
Total interest-earning assets	\$718,207	5.62%	\$702,713	6.06%	\$(557)

Interest Expense. Interest expense decreased \$1.2 million, or 21.7%, to \$4.2 million for the three months ended June 30, 2008 from \$5.3 million for the three months ended June 30, 2007. The average balance of total interest-bearing liabilities decreased \$77.3 million, or 13.3%, to \$504.7 million for the three months ended June 30, 2008 from \$582.0 million for the three months ended June 30, 2007. The decrease in interest expense in 2008 was mainly due to reductions in the outstanding balances of FHLB advances and certificates of deposit, as well as a significantly lower interest rate environment in 2008 compared to 2007. The following table details average balances, cost of funds and the change in interest expense:

	2008		Three Months Ended June 30, 2007		Increase/ (Decrease) in Interest Expense from 2007
	Average Balance	Cost	Average Balance	Cost	
	(dollars in thousands)				
Savings deposits	\$ 25,337	0.74%	\$ 23,567	0.51%	\$ 17
Interest-bearing demand deposits	80,634	0.54	92,534	0.61	(32)
Money market deposits	61,902	1.90	41,063	3.17	(31)

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Certificates of deposit	183,791	4.31	227,237	4.64	(656)
FHLB advances	153,016	4.58	197,619	4.47	(455)
Total interest-bearing liabilities	\$504,680	3.31%	\$582,020	3.67%	\$(1,157)

Provision for Loan Losses. A provision for loan losses of \$652,000 was established in connection with an analysis of the loan portfolio for the quarter ended June 30, 2008, compared to no provision for loan losses for the same quarter of the prior year. The increase in the provision reflects the increase in nonperforming loans during the three months ended June 30, 2008 and the shift in the loan portfolio towards commercial loans.

While management believes the estimates and assumptions used in its determination of the adequacy of the allowance 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.

Standard provisions for loan losses are established based upon the type of loan and the risk factors associated with that loan type. As the Bank increases its commercial loan portfolio, the Bank anticipates it will increase its

allowance for loan losses based upon the higher risk characteristics associated with commercial loans compared with one- to four- family residential loans, which have historically comprised the majority of the Bank's loan portfolio.

The following table details selected activity associated with the allowance for loan losses:

	At or For the Three Months Ended June 30,	
	2008	2007
	(dollars in thousands)	
Provision for loan losses	\$ 652	\$ -
Net charge-offs	158	100
Allowance for loan losses	3,801	2,748
Allowance for loan losses as a percentage of gross loans receivable at the end of the period	0.81%	0.56%
Nonperforming loans	\$ 3,462	\$ 367
Allowance for loan losses as a percentage of nonperforming loans at the end of the period	109.79%	748.77%
Nonaccrual and 90 days or more past due loans as a percentage of loans receivable, net, at the end of the period	0.73	
	3	0.07
Loans receivable, net	\$468,343	\$491,768

At June 30, 2008, nonperforming loans consisted of \$2.1 million of loans secured by one- to four-family residences and \$1.2 million of acquisition and development and speculative construction loans. The increase in nonperforming loans secured by one- to four-family residences is primarily attributable to out-of-market loans acquired from a third party in fiscal 2006. Nonperforming acquisition and development loans consist of two properties: one was secured by undeveloped land and the other by a speculative construction loan on a single-family residence. At June 30, 2008, management was considering a short sale offer through the borrower, and we anticipate this \$458,000 loan to be paid off in the fourth fiscal quarter with no additional loss than the \$55,000 specific reserve. Total loans delinquent 30-89 days totaled \$2.0 million and \$1.3 million at June 30, 2008 and 2007, respectively.

Noninterest Income. Noninterest income decreased \$280,000, or 9.3%, to \$2.7 million for the three months ended June 30, 2008 from \$3.0 million for the three months ended June 30, 2007. The decrease was primarily attributable to a \$278,000 decrease in gain on sale of one-to four-family residential loans in the secondary market. The decrease in the gain on sale of loans was a result of lower volume of sold loans consistent with the slowdown in the local residential real estate market.

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

	Three Months Ended June 30,		Increase (decrease)	
	2008	2007	Amount	Percent
	(dollars in thousands)			
Service fees and charges	\$2,396	\$2,318	\$ 78	3.4%
Gain on sale of loans	213	491	(278) )	(56.6)
Increase in cash surrender value of bank owned life insurance	106	102	4	3.9
Loan servicing fees	116	134	(18)	(13.4)

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Mortgage servicing rights, net	(63)	(48)	(15)	31.3
Other	(33)	18	(51)	283.3
Total noninterest income	\$2,735	\$3,015	\$(280)	(9.3)%

Noninterest Expense. Noninterest expense increased \$347,000, or 6.0%, to \$6.2 million for the three months ended June 30, 2008 from \$5.8 million for the three months ended June 30, 2007. While total revenues increased 3.8% in the third fiscal quarter of 2008 from the same quarter in 2007, the increase in noninterest expenses caused the Company's efficiency ratio (the percentage of noninterest expense to net interest income plus noninterest income) to increase to 71.4% for the three months ended June 30, 2008, from 70.0% for the three months ended June 30, 2007.



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

	Three Months Ended		Increase (decrease)	
	2008	June 30, 2007	Amount	Percent
			(dollars in thousands)	
Compensation and benefits	\$3,840	\$3,498	\$ 342	9.8%
Occupancy and equipment	771	716	55	7.7
Data processing	615	548	67	12.2
Advertising	241	362	(121)	(33.4)
Other	707	703	4	0.1
Total noninterest expense	\$6,174	\$5,827	\$ 347	6.0%

Compensation and benefits increased \$342,000, or 9.8%, to \$3.8 million for the quarter ended June 30, 2008 from \$3.5 million for the same quarter a year ago. The majority of the increase is attributable to the reversal of incentive accruals in the prior year as well as the additional 816,000 shares added to the Company's ESOP in conjunction with the Conversion.

**Income Tax Expense.** Income tax expense decreased \$232,000, or 24.8%, to \$702,000 for the three months ended June 30, 2008 from \$934,000 for the same period a year ago. Income before income taxes was \$1.8 million for the three months ended June 30, 2008 compared to \$2.5 million for the three months ended June 30, 2007. The Company's combined federal and state effective income tax rate for the current quarter was 38.6% compared to 37.4% for the same quarter of the prior fiscal year.

#### Comparison of Operating Results for the Nine Months Ended June 30, 2008 and June 30, 2007

**Net income** for the nine months ended June 30, 2008 was \$3.0 million, or \$0.19 per diluted share, compared to net income of \$4.1 million, or \$0.24 per diluted share, for the nine months ended June 30, 2007. Earnings per share for the prior period have been adjusted to reflect the impact of the Conversion and reorganization of the Company, which occurred on December 19, 2007.

**Net Interest Income.** Net interest income increased \$573,000, or 3.5%, to \$16.7 million for the nine months ended June 30, 2008, from \$16.2 million for the nine months ended June 30, 2007. While both total interest income and expense were lower for the nine months ended June 30, 2007 than for the same period of the prior year, interest expense had the larger decrease due mainly to a decrease in the volume of Federal Home Loan Bank advances and certificates of deposit.

The Company's net interest margin increased 12 basis points to 3.14% for the nine months ended June 30, 2008, from 3.02% for the same period last year. This increase was primarily attributable to the interest earnings on the proceeds of the Conversion and reorganization of the Company. In addition, the deposit mix shift toward lower cost deposits as well as a shift in the loan portfolio toward higher yielding commercial loans from residential mortgage loans also contributed to the increase.

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.



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	Nine Months Ended June 30, 2008 Compared to Nine Months Ended June 30, 2007		
	Increase (Decrease) Due to		Total
	Rate	Volume	
	(in thousands)		
Interest-earning assets:			
Loans receivable, net	\$(509)	\$(1,379)	\$(1,888)
Loans held for sale	(8)	(45)	(53)
Investment securities, including interest-bearing deposits in other banks	(154)	822	668
Mortgage-backed securities	(81)	(129)	(210)
FHLB stock	77	-	77
Total net change in income on interest-earning assets	\$(675)	\$ (731)	\$(1,406)
Interest-bearing liabilities:			
Savings deposits	\$ 56	\$ -	\$ 56
Interest-bearing demand deposits	42	(81)	(39)
Money market accounts	(84)	436	352
Certificates of deposit	109	(1,109)	(1,000)
Total deposits	123	(754)	(631)
FHLB advances	317	(1,665)	(1,348)
Total net change in expense on interest-bearing liabilities	\$ 440	\$(2,419)	\$(1,979)
Total increase in net interest income			\$ 573

Interest and Dividend Income. Total interest and dividend income for the nine months ended June 30, 2008 decreased \$1.4 million, or 4.4%, to \$30.9 million, from \$32.3 million for the nine months ended June 30, 2007. The decrease during the period was attributable to both a decrease in the average balance of interest-earning assets of \$3.3 million as well as a drop in yields earned on interest-earning assets of 24 basis points.

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

		Nine Months Ended June 30,		Increase/ (Decrease) in Interest and Dividend Income from 2007
2008		2007		
Average Balance	Yield	Average Balance	Yield	
(dollars in thousands)				

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Loans receivable, net	\$480,477	6.46%	\$508,782	6.59%	\$(1,888)
Loans held for sale	2,716	6.22	3,675	6.54	(53)
Investment securities, available for sale, including interest-bearing deposits in other banks	35,301	3.37	5,713	5.20	668
Mortgage-backed securities	182,080	4.73	185,694	4.79	(210)
FHLB stock	9,591	1.53	9,591	0.46	77
Total interest-earning assets	\$710,165	5.79%	\$713,455	6.03%	\$(1,406)

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Interest Expense. Interest expense decreased \$2.0 million, or 12.3%, to \$14.1 million for the nine months ended June 30, 2008 from \$16.1 million for the nine months ended June 30, 2007. The average balance of total interest-bearing liabilities decreased \$70.3 million, or 11.9%, to \$522.1 million for the nine months ended June 30, 2008 from \$592.4 million for the nine months ended June 30, 2007. The primary contributing factors to the decrease in interest bearing liabilities were the decreases in average FHLB advances and certificates of deposit of \$45.0 million and \$31.1 million, respectively.

The following table details average balances, cost of funds and the change in interest expense:

	2008		Nine Months Ended June 30, 2007		Increase/ (Decrease) in Interest Expense
	Average Balance	Cost	Average Balance	Cost	
	(dollars in thousands)				
Savings deposits	\$ 23,570	0.70%	\$ 23,457	0.39%	\$ 56
Interest-bearing demand deposits	79,065	0.64	93,330	0.60	(39)
Money market deposits	57,793	2.69	37,852	2.87	352
Certificates of deposit	199,179	4.58	230,242	4.54	(1,000)
FHLB advances	162,471	4.59	207,517	4.46	(1,348)
Total interest-bearing liabilities	\$522,078	3.60%	\$592,398	3.62%	\$(1,979)

Provision for Loan Losses. A provision for loan losses of \$1.3 million was established in connection with an analysis of the loan portfolio for the nine months ended June 30, 2008, compared to a provision for loan losses of \$71,000 established for the same period of the prior year. The increase in the provision reflects the increase in nonperforming loans in fiscal 2008 compared to fiscal 2007 as well as a shift in the asset mix from residential loans toward commercial loans. Net charge-offs totaled \$505,000 and \$105,000 during the nine months ended June 30, 2008 and 2007, respectively.

Noninterest Income. Noninterest income decreased \$841,000, or 9.7%, to \$7.8 million for the nine months ended June 30, 2008 from \$8.7 million for the nine months ended June 30, 2007. The decrease was primarily attributable to a \$248,000, or 3.6%, decrease in service fees and charges and a \$608,000 decrease in gain on sale of one-to four-family residential loans in the secondary market. The decrease in the gain on sale of loans was a result of lower volume of loans sold consistent with the slowdown in the residential real estate market.

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

	Nine Months Ended June 30,		Increase (decrease)	
	2008	2007	Amount	Percent
	(dollars in thousands)			
Service fees and charges	\$6,731	\$6,979	\$(248)	(3.6)%
Gain on sale of loans	560	1,168	(608)	(52.1)

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Increase in cash surrender value				
of bank owned life insurance	314	301	13	4.3
Loan servicing fees	369	420	(51)	(12.1)
Mortgage servicing rights, net	(206)	(223)	17	7.6
Other	75	39	36	92.3
Total noninterest income	\$7,843	\$8,684	\$(841)	(9.7)%

Noninterest Expense. Noninterest expense increased \$289,000, or 1.6%, to \$18.5 million for the nine months ended June 30, 2008 from \$18.2 million for the nine months ended June 30, 2007. Compensation and benefits increased \$229,000 between the two periods, primarily due to the additional 816,000 shares added to the Company's ESOP in conjunction with the Conversion.

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

	Nine Months Ended		Increase (decrease)	
	2008	June 30, 2007	Amount	Percent
			(dollars in thousands)	
Compensation and benefits	\$11,592	\$11,363	\$ 229	2.0%
Occupancy and equipment	2,242	2,145	97	4.5
Data processing	1,668	1,549	119	7.7
Advertising	786	940	(154)	(16.4)
Other	2,193	2,195	(2)	(0.1)
Total noninterest expense	\$18,481	\$18,192	\$ 289	1.6%

The Company's efficiency ratio, which is the percentage of noninterest expense to net interest income plus noninterest income, was 75.2% for the nine months ended June 30, 2008 compared to 73.2% for the nine months ended June 30, 2007. The increase in efficiency ratio was primarily attributable to a decrease in revenues.

**Income Tax Expense.** Income tax expense decreased \$738,000, or 29.3%, to \$1.8 million for the nine months ended June 30, 2008 from \$2.5 million for the same period a year ago. Income before income taxes was \$4.8 million for the nine months ended June 30, 2008 compared to \$6.6 million for the nine months ended June 30, 2007. The Company's combined federal and state effective income tax rate for the nine months ended June 30, 2008 was 37.1% compared to 38.2% for the same period of the prior fiscal year. The decrease in the effective income tax rate was primarily attributable to a decrease in expenses not deductible for tax purposes.

#### Liquidity, Commitments and Capital Resources

**Liquidity.** The Company actively analyzes and manages the Bank's 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. Management believes that the Company's current liquidity position and forecasted operating results are sufficient to fund all of the Bank's existing commitments.

At June 30, 2008, the Bank maintained a line of credit with the FHLB equal to 40% of total assets to the extent the Bank provides qualifying collateral and holds sufficient FHLB stock. At June 30, 2008, the Bank was in compliance with the collateral requirements and \$124.0 million of the line of credit was available. In addition, the Company holds readily saleable loans and mortgage-backed securities available for sale for liquidity purposes.

At June 30, 2008, certificates of deposit amounted to \$180.3 million, or 47.1% of total deposits, including \$139.0 million that are scheduled to mature by June 30, 2009. Historically, the Bank has been able to retain a significant amount of deposits as they mature. However, recent disruptions in the credit markets have resulted in a highly price-competitive market for certificates of deposit. These rates currently exceed alternative costs of borrowings and are high compared to historical spreads to U.S. Treasury note rates. Additionally, since loan demand has slowed in

2008, Management has been reluctant to offer rates in excess of wholesale borrowing costs. This has resulted in some deposit runoff as customers are moving their maturing balances to competitors at a higher pace than the Bank has historically experienced. Nonetheless, management believes the Company has adequate resources to fund all loan commitments through FHLB advances, loan repayments, maturing investment securities, and the sale of mortgage loans in the secondary markets.

Commitments and contingencies. The following table sets forth information regarding the Bank's obligations and commitments to make future payments under contract as of June 30, 2008.



	Payments due by period				Total
	Less than one year	1 – 3 years	3 – 5 years	More than 5 years	
	(dollars in thousands)				
Certificates of deposit	\$139,030	\$31,546	\$ 9,523	\$ 175	\$ 180,274
FHLB advances	76,192	45,690	18,000	5,700	145,582

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 the amount recognized in the balance sheet. 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.

The following is a summary of commitments and contingent liabilities with off-balance sheet risks as of June 30, 2008:

	Contract or Notional Amount (in thousands)
Commitments to originate loans:	
Fixed rate	\$ 9,206
Adjustable rate	5,457
Undisbursed balance of loans closed	6,270
Unused lines of credit	43,975
Commercial letters of credit	500
Total	\$65,543

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. The Bank's total regulatory capital was \$144.1 million at June 30, 2008, or 20.9%, of total assets on that date. As of June 30, 2008, the Bank exceeded all regulatory capital requirements. The Bank's regulatory capital ratios at June 30, 2008 were as follows: Tier 1 capital 21.1%; Tier 1 (core) risk-based capital 31.6%; and total risk-based capital 32.3%. The applicable regulatory capital requirements to be considered well capitalized are 5%, 6% and 10%, respectively.

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 the 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.

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 June 30, 2008, 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 2007 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 June 30, 2008 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 SEC'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 June 30, 2008, that have materially affected, or is 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. 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

From time to time, the Company is engaged in legal proceedings in the ordinary course of business, none of which are currently considered to have a material impact on the Company's financial position or results of operations.

### Item 1A. Risk Factors

Our business is subject to general economic risks that could adversely impact our results of operations and financial condition.

- Changes in economic conditions, particularly a further economic slowdown in The Treasure Valley, could hurt our business.

Our business is directly affected by market conditions, trends in industry and finance, legislative and regulatory changes, and changes in governmental monetary and fiscal policies and inflation, all of which are beyond our control. In 2007, the housing and real estate sectors experienced an economic slowdown that has continued into 2008. Further deterioration in economic conditions, and the real estate market, in particular within the Treasure Valley, could result in the following consequences, among others, any of which could hurt our business materially:

- o loan delinquencies may increase;
  - o problem assets and foreclosures may increase;
  - o demand for our products and services may decline; and
  - o collateral for loans made by us, especially real estate, may decline in value, in turn reducing a customer's borrowing power and reducing the value of assets and collateral securing our loans.
- Downturns in the real estate markets in our primary market area could hurt our business.

Our business activities and credit exposure are primarily concentrated in the Treasure Valley. Our construction and land loan portfolios, our commercial and multifamily loan portfolios and certain of our other loans have been affected by the downturn in the residential real estate market. We anticipate that further declines in the real estate markets in our primary market area will hurt our business. As of June 30, 2008, substantially all of our loan portfolio consisted of loans secured by real estate located in the Treasure Valley. If real estate values continue to decline the collateral for our loans will provide less security. As a result, our ability to recover on defaulted loans by selling the underlying real estate will be diminished, and we would be more likely to suffer losses on defaulted loans. The events and conditions described in this risk factor could therefore have a material adverse effect on our business, results of operations and financial condition.

- We may suffer losses in our loan portfolio despite our underwriting practices.

We seek to mitigate the risks inherent in our loan portfolio by adhering to specific underwriting practices. Although we believe that our underwriting criteria are appropriate for the various kinds of loans we make, we may incur losses on loans that meet our underwriting criteria, and these losses may exceed the amounts set aside as reserves in our allowance for loan losses.

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

Not applicable.

Stock Repurchases. The Company did not repurchase any shares of its outstanding common stock during the nine months ended June 30, 2008. In addition, the Company has no publicly announced plans to repurchase any shares of its common stock.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Submission of Matters to a Vote of Security Holders

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

- 2.1 Plan of Conversion and Reorganization (1)
- 3.1 Articles of Incorporation of the Registrant (2)
- 3.2 Bylaws of the Registrant (2)
- 10.1 Amended Employment Agreement entered into by Home Federal Bank with Len E. Williams (9)
- 10.2 Employment Agreement entered into by Home Federal Bancorp, Inc. with Len E. Williams (9)
- 10.3 Amended Employment Agreement entered into by Home Federal Bank with Daniel L. Stevens (9)
- 10.4 Amended Employment Agreement entered into by Home Federal Bancorp, Inc. with Daniel L. Stevens (9)
- 10.5 Form of Amended Severance Agreement for Executive Officers (7)
- 10.6 Form of Amended Severance Agreement for new Executive Officers (7)
- 10.7 Form of Home Federal Savings and Loan Association of Nampa Employee Severance Compensation Plan (2)
- 10.8 Form of Director Indexed Retirement Agreement entered into by Home Federal Savings and Loan Association of Nampa with each of its Directors (2)
- 10.9 Form of Director Deferred Incentive Agreement entered into by Home Federal Savings and Loan Association of Nampa with each of its Directors (2)
- 10.10 Form of Split Dollar Agreement entered into by Home Federal Savings and Loan Association of Nampa with Daniel L. Stevens, N. Charles Hedemark, Fred H. Helpenstell, M.D., Richard J. Schrandt, James R. Stamey and Robert A. Tinstman (2)
- 10.11 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 (2)
- 10.12 Form of Amended and Restated Salary Continuation Agreement entered into by Home Federal Savings and Loan Association of Nampa with Daniel L. Stevens, Len E. Williams, Steven E. Emerson, Robert A. Schoelkoph, and Lynn A. Sander (2)
- 10.13 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 (3)
- 10.14 2005 Recognition and Retention Plan approved by stockholders on June 23, 2005 and Form of Award Agreement (3)
- 10.15 Form of new Director Retirement Plan entered into by Home Federal Bank with each of its Directors (4)
- 10.16 Transition Agreement with Daniel L. Stevens (5)
- 10.17 Agreement Regarding Terms of Employment Offer with Steven K. Eyre (6)
- 10.18 Agreement Regarding Terms of Employment Offer with Eric S. Nadeau (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

- 
- (1) Filed as an exhibit to the Registrant's Current Report on Form 8-K dated May 11, 2007.
  - (2) Filed as an exhibit to the Registrant's Registration Statement on Form S-1 (333-35817).
  - (3) Filed as an exhibit to the Registrant's Registration Statement on Form S-8 (333-127858).
  - (4) Filed as an exhibit to the Registrant's Current Report on Form 8-K dated October 21, 2005.
  - (5) Filed as an exhibit to the Registrant's Current Report on Form 8-K dated August 21, 2006.
  - (6) Filed as an exhibit to the Registrant's Current Report on Form 8-K dated November 15, 2007.
  - (7) Filed as an exhibit to the Registrant's Quarterly Report on Form 10-Q for the quarter ended December 31, 2007.
  - (8) Filed as an exhibit to the Registrant's Current Report on Form 8-K dated May 15, 2008.
  - (9) Filed as an exhibit to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2008





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: August 5, 2008

/s/ Len E. Williams

Len E. Williams

President and  
Chief Executive Officer  
(Principal Executive Officer)

Date: August 5, 2008

/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
- 32 Certification Pursuant to Section 906 of the Sarbanes-Oxley Act

EXHIBIT 31.1

Certification of Chief Executive Officer Pursuant to  
Section 302 of the Sarbanes-Oxley Act of 2002

I, Len E. Williams, President and Chief Executive Officer of Home Federal Bancorp, Inc., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Home Federal Bancorp, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fiscal fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weakness in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and

report financial data information; and

- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2008  
Len E. Williams  
President and  
Chief Executive Officer

/s/ Len E. Williams

EXHIBIT 31.2

Certification of Chief Financial Officer Pursuant to  
Section 302 of the Sarbanes-Oxley Act of 2002

I, Eric S. Nadeau, Chief Financial Officer of Home Federal Bancorp, Inc., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Home Federal Bancorp, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fiscal fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weakness in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial data information; and

- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2008

Eric S. Nadeau

Executive Vice President and

Chief Financial Officer

/s/ Eric S. Nadeau

EXHIBIT 32

Certification of Chief Executive Officer and Chief Financial Officer of Home Federal Bancorp, Inc.  
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

The undersigned hereby certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and in connection with this Quarterly Report on Form 10-Q, that:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods presented in the financial statements included in the Report.

/s/ Len E. Williams  
Len E. Williams  
President and  
Chief Executive Officer

/s/ Eric S. Nadeau  
Eric S. Nadeau  
Executive Vice President and  
Chief Financial Officer

Dated: August 5, 2008