HOME FEDERAL BANCORP, INC. OF LOUISIANA
Form 10QSB
February 13, 2006

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

FORM 10-QSB

(Mark One)

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 2005

OR

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from ________________ to __________________

Commission File Number: 000-51117

HOME FEDERAL BANCORP, INC. OF LOUISIANA
(Exact name of small business issuer as specified in its charter)

Federal	86-1127166
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

624 Market Street, Shreveport, Louisiana 71101
(Address of principal executive offices)

(318) 222-1145
(Issuer's telephone number)

(Former name, former address and former fiscal year, if changed since last report)

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

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

Shares of common stock, par value $.01 per share, outstanding as of February 10, 2006: The registrant had 3,558,958 shares of common stock outstanding, of which 2,135,375 shares were held by Home Federal Mutual Holding Company of Louisiana, the registrant's mutual holding company, and 1,423,583 shares were held by the public and directors, officers and employees of the registrant, and the registrant's employee benefit plans.

Transitional Small Business Disclosure Format: Yes [ ] No [X]

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HOME FEDERAL BANCORP, INC. OF LOUISIANA

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	December 31, 2005	June 30, 2005

	(Unaudited)	(Audited)
ASSETS		
Cash and Cash Equivalents	$ 11,988,336	$ 9,292,489
Securities Available-for-Sale	78,959,801	75,760,424
Securities Held-to-Maturity	1,507,222	1,612,657
Loans Held-for-Sale	--	70,000
Loans Receivable, Net	18,100,347	23,575,037
Accrued Interest Receivable	428,159	435,534
Premises and Equipment, Net	960,742	524,755
Deferred Tax Asset	758,286	--
Other Assets	67,430	59,936
Total Assets	$112,770,323	$111,330,832
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits	$ 72,330,200	$ 69,995,056
Advances from Borrowers for Taxes and Insurance	72,357	170,037
Advances from Federal Home Loan Bank of Dallas	9,881,751	8,224,459
Deferred Tax Liability	--	186,118
Other Accrued Expenses and Liabilities	265,834	323,688
Total Liabilities	$ 82,550,142	$ 78,899,358
COMMITMENTS		
STOCKHOLDERS' EQUITY		
Common stock - 8,000,000 shares of $.01 par value authorized; 3,558,958 shares issued and outstanding at December 31, 2005 and June 30, 2005, respectively	14,236	14,236
Additional paid-in capital	13,411,824	13,391,061
Retained Earnings - Partially Restricted	20,038,873	19,827,439
Unallocated Shares held by ESOP	(1,082,203)	(1,110,683)
Unearned RRP Trust Stock	(654,040)	--
Accumulated Other Comprehensive (Loss) Income	(1,508,509)	309,421
Total Stockholders' Equity	30,220,181	32,431,474
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$112,770,323	$111,330,832

See accompanying notes to consolidated financial statements.

HOME FEDERAL BANCORP, INC. OF LOUISIANA

CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

For the Three Months Ended   For the Six Months Ended

	December 31,		December 31,	
	2005	2004	2005	2004
INTEREST INCOME				
Loans, Including Fees	$ 339,562	$ 383,304	$ 724,086	$ 764,423
Investment Securities	80,230	26,647	141,052	47,095
Mortgage-Backed Securities	892,532	786,259	1,784,257	1,567,662
Other Interest-Earning Assets	57,350	20,359	100,059	30,728
Total Interest Income	1,369,674	1,216,569	2,749,454	2,409,908
INTEREST EXPENSE				
Deposits	517,483	444,729	1,007,224	884,488
Federal Home Loan Bank Borrowings	58,576	67,845	121,546	137,548
Total Interest Expense	576,059	512,574	1,128,770	1,022,036
Net Interest Income	793,615	703,995	1,620,684	1,387,872
PROVISION FOR LOAN LOSSES	--	--	--	--
Net Interest Income after Provision for Loan Losses	793,615	703,995	1,620,684	1,387,872
NON-INTEREST INCOME				
Gain on Sale of Loans	11,086	4,915	15,165	9,253
Gain on Sale of Investments	--	--	52,209	--
Other Income	17,629	6,942	25,290	13,386
Total Non-Interest Income	28,715	11,857	92,664	22,639
NON-INTEREST EXPENSE				
Compensation and Benefits	372,493	335,605	724,211	666,448
Occupancy and Equipment	44,317	45,752	88,266	88,603
Data Processing	18,162	16,709	38,346	33,200
Audit and Other Professional Fees	76,469	39,740	151,376	65,555
Advertising	13,800	22,837	27,600	35,467
Deposit Insurance Premiums	2,429	2,470	4,835	4,999
Other Expense	63,827	57,314	148,183	111,887
Total Non-Interest Expense	591,497	520,427	1,182,817	1,006,159
Income Before Income Taxes	230,833	195,425	530,531	404,352
PROVISION FOR INCOME TAX EXPENSE	74,864	66,251	176,739	137,056
Net Income	$ 155,969	$ 129,174	$ 353,792	$ 267,296
EARNINGS PER SHARE:				
Basic	$ 0.05	n/a	$ 0.10	n/a
Diluted	$ 0.05	n/a	$ 0.10	n/a
DIVIDENDS DECLARED	$ 0.05	n/a	$ 0.10	n/a

See accompanying notes to consolidated financial statements.

HOME FEDERAL BANCORP, INC. OF LOUISIANA

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
SIX MONTHS ENDED DECEMBER 31, 2005 AND 2004

	Common Stock	Additional Paid-in Capital	Unearned ESOP Stock	Unearned RRP Trust Stock	Retained Earnings
BALANCE - JUNE 30, 2004	$ --	$ --	$ --	$ --	$18,977,541
Net Income	--	--	--	--	267,296
Other Comprehensive Income: Changes in Unrealized Gain (Loss) on Securities Available-for-Sale, Net Tax Effects	--	--	--	--	--
Total Comprehensive Income	--	--	--	--	--
BALANCE - DECEMBER 31, 2004	$ --	$ --	$ --	$ --	$19,244,837
BALANCE - JUNE 30, 2005	$14,236	$13,391,061	$(1,110,683)	$ --	$19,827,439
Net Income	--	--	--	--	353,792
Other Comprehensive Loss: Changes in Unrealized Gain (Loss) on Securities Available-for-Sale, Net of Tax Effects	--	--	--	--	--
Purchase of Common Stock for RRP Trust	--	--	--	(654,040)	--
Stock Options Vested	--	23,220	--	--	--
ESOP Compensation Earned	--	(2,457)	28,480	--	--
Dividends Declared	--	--	--	--	(142,358)
BALANCE - DECEMBER 31, 2005	$14,236	$13,411,824	$(1,082,203)	$(654,040)	$20,038,873

See accompanying notes to consolidated financial statements.

HOME FEDERAL BANCORP, INC. OF LOUISIANA

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended December 31, 2005	Six Months Ended December 31, 2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$ 353,792	$ 267,296
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities		
Net Amortization and Accretion on Securities	(39,407)	36,658
Gain on Sale of Investments	(52,209)	--
Amortization of Deferred Loan Fees	(25,943)	(24,163)
Depreciation of Premises and Equipment	31,654	25,370
ESOP Expense	26,023	--
Stock Option Expense	23,220	--
Recognition and Retention Plan Expense	51,809	--
Deferred Income Tax (Benefit)	(7,895)	--
Changes in Assets and Liabilities		
Loans Held-for-Sale - Originations	70,000	107,500
Accrued Interest Receivable	7,375	14,768
Other Operating Assets	(7,494)	(9,162)
Other Operating Liabilities	(109,663)	(73,252)
Net Cash Provided by Operating Activities	321,262	345,015
CASH FLOWS FROM INVESTING ACTIVITIES		
Loan Originations and Purchases, Net of Principal Collections	5,487,437	498,755
Deferred Loan Fees Collected	13,196	4,950
Acquisition of Premises and Equipment	(467,641)	(49,709)
Activity in Available-for-Sale Securities:		
Proceeds from Sales of Securities	3,378,017	--
Principal Payments on Mortgage-backed Securities	6,109,741	904,743
Purchases of Securities	(15,349,958)	(1,877,000)
Activity in Held-to-Maturity Securities:		
Proceeds from Redemption or Maturity of Investments	--	541,600
Principal Payments on Mortgage-Backed Securities	105,435	429,560
Purchases	--	(220,403)
Net Cash (Used in) Provided by Investing Activities	(723,773)	232,496

See accompanying notes to consolidated financial statements.

HOME FEDERAL BANCORP, INC. OF LOUISIANA

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(Unaudited)

	Six Months Ended December 31, 2005	Six Months Ended December 31, 2004
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Increase in Deposits	$ 2,335,144	$ 937,548
Increase in Stock Purchase Deposit Escrow Account	--	12,947,055
Payments for Costs Associated with Stock Conversion	--	(322,940)
Proceeds from Federal Home Loan Bank Advances	3,025,000	--
Repayments of Advances from Federal Home Loan Bank	(1,367,708	(1,252,005)
Net Decrease in Mortgage-Escrow Funds	(97,680)	(206,715)
Dividends Paid	(142,358)	--
Acquisition of Stock for Recognition and Retention Plan	(654,040)	--
Net Cash Provided by Financing Activities	3,098,358	12,102,943
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,695,847	12,680,454
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	9,292,489	4,342,125
CASH AND CASH EQUIVALENTS - END OF PERIOD	$11,988,336	$17,022,579
SUPPLEMENTARY CASH FLOW INFORMATION		
Interest Paid on Deposits and Borrowed Funds	$ 1,124,617	$ 1,031,087
Income Taxes Paid	188,160	135,000
Market Value Adjustment for (Loss) Gain on Securities Available-for-Sale	(2,754,441)	2,367,263

See accompanying notes to consolidated financial statements.

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HOME FEDERAL BANCORP, INC. OF LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements include the accounts of Home Federal Bancorp, Inc. of Louisiana (the "Company") and its subsidiary, Home Federal Savings and Loan Association (the "Association"). These consolidated financial statements were prepared in accordance with instructions for Form 10-QSB and Regulation S-X and do not include information or footnotes necessary for a complete presentation of financial condition, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States of America. However, in the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the financial statements have been included. The results of operations for the six month period ended December 31, 2005, are not necessarily indicative of the results which may be expected for the fiscal year ending June 30, 2006.

Use of Estimates

In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the Consolidated Statements of Financial Condition and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the allowance for loan losses.

Nature of Operations

On January 18, 2005, Home Federal Savings and Loan Association, completed its reorganization to the mutual holding company form of organization and formed Home Federal Bancorp, Inc. of Louisiana to serve as the stock holding company for the Association. In connection with the reorganization, the Company sold 1,423,583 shares of its common stock in a subscription and community offering at a price of $10.00 per share. The Company also issued 60% of its outstanding common stock in the reorganization to Home Federal Mutual Holding Company of Louisiana, or 2,135,375 shares. The Association is a federally chartered, stock savings and loan association and is subject to federal regulation by the Federal Deposit Insurance Corporation and the Office of Thrift Supervision. Services are provided to its customers by three offices, all of which are located in the City of Shreveport, Louisiana. The area served by the Association is primarily the Shreveport-Bossier City metropolitan area; however, loan and deposit customers are found dispersed in a wider geographical area covering much of northwest Louisiana.

Cash and Cash Equivalents

For purposes of the Consolidated Statements of Cash Flows, cash and cash equivalents include cash on hand, balances due from banks, and federal funds sold, all of which mature within ninety days.

Securities

The Company classifies its debt and equity investment securities into one of three categories: held-to-maturity, available-for-sale, or trading. Investments in nonmarketable equity securities and debt securities, in which the Company has the positive intent and ability to hold to maturity, are classified as held-to-maturity and carried at amortized cost. Investments in debt securities that are not classified as held-to-maturity and marketable equity securities that have readily determinable fair values are classified as either trading or available-for-sale securities. Securities that are acquired and held principally for the purpose of selling in the near term are classified as trading securities. Investments in securities not classified as trading or held-to-maturity are classified as available-for-sale.

Trading account and available-for-sale securities are carried at fair value. Unrealized holding gains and losses on trading securities are included in earnings while net unrealized holding gains and losses on available-for-sale securities are excluded from earnings and reported in other comprehensive income. Purchase premiums and discounts are recognized in interest income using the interest method over the term of the securities. Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Association to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Loans Held For Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income.

Loans

Loans receivable are stated at unpaid principal balances, less allowances for loan losses and unamortized deferred loan fees. Net nonrefundable fees (loan origination fees, commitment fees, discount points) and costs associated with lending activities are being deferred and subsequently amortized into income as an adjustment of yield on the related interest earning assets using the interest method. Interest income on contractual loans receivable is recognized on the accrual method. Unearned discount on property improvement and automobile loans is deferred and amortized on the interest method over the life of the loan.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of the underlying collateral and prevailing economic conditions. The evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

A loan is considered impaired when, based on current information or events, it is probable that the Association will be unable to collect the scheduled payments of principal and interest when due according to the contractual terms of the loan agreement. When a loan is impaired, the measurement of such impairment is based upon the fair value of the collateral of the loan. If the fair value of the collateral is less than the recorded investment in the loan, the Association will recognize the impairment by creating a valuation allowance with a corresponding charge against earnings.

An allowance is also established for uncollectible interest on loans classified as substandard. Substandard loans are those, which are in excess of ninety days delinquent. The allowance is established by a charge to interest income equal to all interest previously accrued and income is subsequently recognized only to the extent that cash payments are received. When, in management's judgment, the borrower's ability to make periodic interest and principal payments is back to normal, the loan is returned to accrual status.

Off-Balance Sheet Credit Related Financial Instruments

In the ordinary course of business, the Association has entered into commitments to extend credit. Such financial instruments are recorded when they are funded.

Premises and Equipment

Land is carried at cost. Buildings and equipment are carried at cost less accumulated depreciation computed on the straight-line method over the estimated useful lives of the assets.

Income Taxes

Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various assets and liabilities and gives current recognition to changes in tax rates and laws.

Comprehensive Income

Accounting principles generally accepted in the United States of America require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the Consolidated Statements of Financial Condition, such items, along with net income, are components of comprehensive income.

2. EARNINGS PER SHARE

Basic earnings per common share is computed based on the weighted average number of shares outstanding. Diluted earnings per share is computed based on the weighted average number of shares outstanding and common share equivalents that would arise from the exercise of dilutive securities. Earnings per share were calculated as follows:

	Three Months Ended December 31, 2005	
	Basic	Diluted
Net Income	155,969	155,969
Weighted average shares outstanding	3,382,957	3,382,957
Effect of unvested common stock awards	--	--(1)
Adjusted weighted average shares used in Earnings per share computation	3,382,957	3,382,957
Earnings per share	$0.05	$0.05

	Six Months Ended December 31, 2005	
	Basic	Diluted
Net Income	353,792	353,792
Weighted average shares outstanding	3,407,154	3,407,154
Effect of unvested common stock awards	--	--(1)
Adjusted weighted average shares used in Earnings per share computation	3,407,154	3,407,154
Earnings per share	$0.10	$0.10

(1) Unvested common stock awards had no impact on diluted

earnings per share because the options exercise price was greater than the average market value price of the common shares.

No common shares of the Company were outstanding during the three or six months ended December 31, 2004.

3. RECOGNITION AND RETENTION PLAN

On August 10, 2005, the shareholders of the Company approved the establishment of the Home Federal Bancorp, Inc. of Louisiana 2005 Recognition Plan and Trust Agreement (the "Recognition Plan") as an incentive to retain personnel of experience and ability in key positions. The aggregate number of shares of the Company's common stock subject to award under the Recognition Plan totals 69,756 shares. As shares are acquired for the Recognition Plan, the purchase price of these shares will be recorded as a

contra equity account. As the shares are distributed, the contra equity account will be reduced. At December 31, 2005, the Company had purchased 66,400 shares at an aggregate cost of $654,000.

Recognition Plan shares are earned by recipients at a rate of 20% of the aggregate number of shares covered by the Recognition Plan award over five years. Generally, if the employment of an employee or service as a non-employee director is terminated prior to the fifth anniversary of the date of grant of Recognition Plan share award, the recipient shall forfeit the right to any shares subject to the award that have not been earned. In the case of death or disability of the recipient or a change in control of the Company, however, the Recognition Plan awards will be vested and shall be distributed as soon as practicable thereafter.

The present cost associated with the Recognition Plan is based on a share price of $9.85, which represents the market price of the Company's stock on August 18, 2005, the date on which the Recognition Plan shares were granted. The cost is being recognized over five years.

4. STOCK OPTION PLAN

On August 10, 2005, the shareholders of the Company approved the establishment of the Home Federal Bancorp, Inc. of Louisiana 2005 Stock Option Plan (the "Option Plan") for the benefit of directors, officers, and other key employees. The aggregate number of shares of common stock reserved for the issuance under the Option Plan totaled 174,389. Both incentive stock options and non-qualified stock options may be granted under the Option Plan.

On August 18, 2005, the Company granted 174,389 options to directors and key employees. Under the Option Plan, the exercise price of each option cannot be less than the fair market value of the underlying common stock as of the date of the option grant, which was $9.85, and the maximum term is ten years. Incentive stock options and non-qualified stock options granted under the Option Plan become vested and exercisable at a rate of 20% per year over five years, commencing one year from the date of the grant, with an additional 20% vesting on each successive anniversary of the date the option was granted. No vesting shall occur after an employee's employment or service as a director is terminated. In the event of the death or disability of an employee or director or change in control of the Company, the unvested options shall become vested and exercisable. The Company accounts for the Option Plan under the guidance of SFAS No. 123(R).

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

General

The Company was formed by the Association in connection with the Association's reorganization and commenced operations on January 18, 2005. The Company's results of operations are primarily dependent on the results of the Association, its wholly owned subsidiary. The Association's results of operations depend, to a large extent, on net interest income, which is the difference between the income earned on its loan and investment portfolios and the cost of funds, consisting of the interest paid on deposits and borrowings. Results of operations are also affected by provisions for loan losses and loan sale activities. Non-interest expense principally consists of compensation and employee benefits, office occupancy and equipment expense, data processing and other expense. Our results of operations are also significantly affected by general economic and competitive conditions, particularly changes in interest rates, government policies and actions of regulatory authorities. Future changes in applicable laws, regulations or government policies may materially impact our financial conditions and results of operations.

Critical Accounting Policies

The Company has identified the calculation of the allowance for loan losses as a critical accounting policy, due to the higher degree of judgment and complexity than its other significant accounting policies. Provisions for loan losses are based upon management's periodic valuation and assessment of the overall loan portfolio and the underlying collateral, trends in non-performing loans, current economic conditions and other relevant factors in order to maintain the allowance for loan losses at a level believed by management to represent all known and inherent losses in the portfolio that are both probable and reasonably estimable. Although management uses the best information available, the level of the allowance for loan losses remains an estimate which is subject to significant judgment and short-term change.

Discussion of Financial Condition Changes from June 30, 2005 to December 31, 2005

At December 31, 2005, total assets amounted to $112.8 million compared to $111.3 million at June 30, 2005, an increase of approximately $1.5 million, or 1.3%. The increase in assets was due primarily to the increase in cash and cash equivalents of $2.7 million, to $12.0 million, at December 31, 2005 compared to $9.3 million at June 30, 2005, as well as a $3.1 million, or 4.0%, increase in investment securities at December 31, 2005 compared to June 30, 2005. These increases were offset by a decrease in loans receivable, net of $5.5 million, or 23.5%, from $23.6 million at June 30, 2005 to $18.1 million at December 31, 2005. The decrease in loans receivable was primarily a result of loan prepayments during the six months ended December 31, 2005, as well as continuing reduction of loans originated in our primary market area.

Securities available-for-sale increased $3.4 million, or 4.5%, from a balance of $75.8 million at June 30, 2005, compared to $78.9 million at December 31, 2005. This increase was due primarily to the purchase of $15.3 million of available for sale securities, net of $6.1 million of principal payments, $3.3 million of available for sale securities sold, and a decrease in the fair value of $2.8 million. Securities held-to-maturity decreased $105,000, or 6.5% for the six months ended December 31, 2005 compared to securities held-to-maturity at June 30, 2005, primarily due to maturities and principal payments.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION (Continued)

The Company's total liabilities amounted to $82.6 million at December 31, 2005, an increase of approximately $3.7 million, or 4.6%, compared to total liabilities of $78.9 million at June 30, 2005. The primary reason for the increase in liabilities was due to the $2.3 million, or 3.3%, increase of customers' deposits due to normal deposits inflow. Deposits increased from $70.0 million at June 30, 2005 to $72.3 million at December 31, 2005. Advances from the Federal Home Loan Bank of Dallas increased $1.7 million, or 20.2%, from $8.2 million at June 30, 2005, to $9.9 million at December 31, 2005.

Shareholders' equity decreased $2.2 million to $30.2 million, or 26.8% of total assets, at December 31, 2005 compared to $32.4 million, or 29.1% of total assets, at June 30, 2005. The primary reasons for the decrease in shareholders' equity from June 30, 2005, were a decrease in the Company's accumulated other comprehensive income (loss) of $1.8 million, and the acquisition of 66,400 shares of the Company's stock at a cost of $654,000 for its Recognition and Retention Plan, and dividends of $142,000 paid during the six months ended December 31, 2005. These decreases in shareholders' equity were offset by the recognition of net income of $354,000 for the six months ended December 31, 2005.

The Association is required to meet minimum capital standards promulgated by the Office of Thrift Supervision ("OTS"). At December 31, 2005, Home Federal Savings and Loan's regulatory capital was well in excess of the minimum capital requirements.

Comparison of Operating Results for the Three and Six Month Periods Ended December 31, 2005 and 2004

General

Net income amounted to $156,000 for the three months ended December 31, 2005 compared to $129,000 for the same period in 2004, an increase of $27,000, or 20.7%. The increase was primarily due o increases in net interest income and non-interest income, partially offset by increases in non-interest expense and income taxes.

For the six months ended December 31, 2005, net income amounted to $354,000, an increase of $86,000, or 32.4%, as compared to the $267,000 in net income, reported for the six months ended December 31, 2004. The increase was primarily due to increases in net interest income of $233,000, or 16.8%, for the six months ended December 31, 2005, partially offset by a $177,000, or 17.6%, increase in non-interest expense.

Net Interest Income

Net interest income for the three months ended December 31, 2005, was $794,000, an increase of $90,000, or 12.7%, in comparison to the three months ended December 31, 2004. This increase was due primarily to the increase in interest income earned from investment securities and interest earning deposits maintained at the Federal Home Loan Bank of Dallas as a result of the investment of the proceeds received from the paydowns of loans receivable and the investment of the net proceeds associated with the Company's stock issuance. The increase in net interest income was partially offset by a $71,000, or 13.7% increase in non-interest expenses.

Net interest income for the six months ended December 31, 2005 was $1.6 million, an increase of $233,000, or 16.8%. The increase in net-interest income was attributable primarily to an increase in average interest-earning assets as a result of the investment of the net proceeds associated with the Company's stock issuance which occurred in January 2005.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION (Continued)

The Company's average interest rate spread was 2.17% and 2.21% for the three and six months ended December 31, 2005, respectively, compared to 2.34% and 2.41% for the three and six months ended December 31, 2004. The Company's net interest margin was 2.95% and 2.99% for the three and six months ended December 31, 2005, compared to 2.89% and 2.90% for the three and six months ended December 31, 2004.

Provision for Losses on Loans

Based on an analysis of historical experience, the volume and type of lending conducted by Home Federal, the status of past due principal and interest payments, general economic conditions, particularly as such conditions relate to Home Federal's market area, the decrease in the loan portfolio and other factors related to the collectibility of Home Federal's loan portfolio, no provisions for loan losses were made during the three and six months ended December 31, 2005 or 2004. The Association's allowance for loan losses was $235,000, or 1.28% of total loans, at December 31, 2005 compared to $235,000, or 1.04% of total loans at December 31, 2004. Home Federal did not have any non-performing loans at December 31, 2005 or 2004. There can be no assurance that the loan loss allowance will be sufficient to cover losses on nonperforming assets in the future.

Non-interest Income

Total non-interest income amounted to $29,000 for the three months ended December 31, 2005, compared to $12,000 for the same period in 2004. The increase was primarily due to an increase of $6,000 in gain on sale of loans and an increase of approximately $10,000 on fees generated from deposit accounts. Total non-interest income amounted to $93,000 for the six months ended December 31, 2005, compared to $23,000 for the same period in 2004. The increase was primarily due to the recognition of $52,000 in gains from investment securities sold during the six months ended December 31, 2005.

Non-interest Expense

Total non-interest expense increased $71,000, or 13.7%, for the three months ended December 31, 2005 compared to the prior year period. The increase in non-interest expense was primarily due to an increase in compensation and benefits expense of $37,000, or 11.0%, over the prior year period and an increase in audit and other professional fees of $37,000, or 92.4%.

Total non-interest expense increased $177,000, or 17.6% for the six months ended December 31, 2005, compared to the prior year period. The increase in non-interest expense was primarily due to an increase in compensation and benefits expense of $58,000, or 8.7%, over the prior year period and an increase in audit and other professional fees of $86,000, or 131.0%, over the prior year period.

The increase in compensation and benefits expenses was a result of the Company's recognition of expense associated with the stock options granted by the Company during the quarter ended September 30, 2005, as well as the expense associated with the Company's awards pursuant to the Recognition and Retention Plan also granted during the quarter ended September 30, 2005. Compensation expense recognized by the Company for its Stock Option and Recognition and Retention Plans amounted to $15,824 and $35,620, respectively, for the three months ended December 31, 2005 and $23,220 and $51,809, respe