MSB FINANCIAL CORP.
Form 10-Q
February 12, 2009
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 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 001-33246

MSB FINANCIAL CORP.
(Exact name of registrant as specified in its charter)

UNITED STATES	34-1981437
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
1902 Long Hill Road, Millington, New Jersey	07946-0417
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including
area code (908) 647-4000

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

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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer o
Non-accelerated filer o	Smaller reporting company x

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

The number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date: February 9, 2009:

$0.10 par value common stock - 5,374,021 shares outstanding

MSB FINANCIAL CORP. AND SUBSIDIARIES

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MSB FINANCIAL CORP AND SUBSIDARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Unaudited)

	December 31, 2008	June 30, 2008
	(Dollars in thousands, except per share amounts)	
Assets		
Cash and due from banks	$ 2,166	$ 1,480
Interest-bearing demand deposits with banks	2,075	3,215
Total Cash and Cash Equivalents	4,241	4,695
Trading securities	44	82
Securities held to maturity (fair value $27,945 and $28,195, respectively)	27,688	28,743
Loans receivable, net of allowance for loan losses of $1,157 and $1,025, respectively	265,658	254,290
Premises and equipment	11,261	10,759
Federal Home Loan Bank of New York stock, at cost	2,195	2,112
Bank owned life insurance	4,169	4,088
Accrued interest receivable	1,644	1,680
Deferred income taxes	1,324	1,111
Other assets	539	498
Total Assets	$ 318,763	$ 308,058
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Non-interest bearing	$ 12,064	$ 10,027
Interest bearing	223,683	215,344
Total Deposits	235,747	225,371
Short-term advances from Federal Home Loan Bank of NY	2,250	—
Long-term advances from Federal Home Loan Bank of NY	36,647	37,068
Advance payments by borrowers for taxes and insurance	399	480
Other liabilities	2,071	1,743
Total liabilities	277,114	264,662
Commitments and Contingencies	—	—
Stockholders' Equity		
Common Stock, par value $.10; 10,000,000 shares authorized: 5,620,625 issued; 5,374,021and 5,564,633 shares outstanding, respectively	562	562
Paid-in capital	24,271	24,188
Retained earnings	21,080	21,026

Unearned ESOP shares	(1,686)	(1,770)
Treasury stock, at cost (246,604 and 55,992 shares, respectively)	(2,576)	(609)
Accumulated other comprehensive loss	(2)	(1)
Total Stockholders' Equity	41,649	43,396
Total Liabilities and Stockholders' Equity	$ 318,763	$ 308,058

MSB FINANCIAL CORP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended December 31, 2008	2007	Six Months Ended December 31, 2008	2007
	(In thousands, except share amounts)			
Interest Income:				
Loans receivable, including fees	$ 3,778	$ 3,802	$ 7,519	$ 7,505
Securities held to maturity	373	345	749	691
Other	26	52	70	106
Total Interest Income	4,177	4,199	8,338	8,302
Interest Expense				
Deposits	1,627	1,974	3,305	3,953
Borrowings	374	354	789	655
	2,001	2,328	4,094	4,608
Less: Capitalized Interest	--	--	(31)	--
Total Interest Expense	2001	2,328	4,063	4,608
Net Interest Income	2,176	1,871	4,275	3,694
Provision for Loan Losses	67	40	132	55
Net Interest Income after Provision for Loan Losses	2,109	1,831	4,143	3,639
Non-Interest Income				
Fees and service charges	84	91	168	176
Income from bank owned life insurance	39	39	81	78
Unrealized gain (loss) trading securities	(41)	11	(38)	21
Other	26	24	63	49
Total Non-Interest Income	108	165	274	324
Non-Interest Expenses				
Salaries and employee benefits	911	759	1,806	1,660
Directors compensation	84	64	168	127
Occupancy and equipment	407	308	771	627
Service bureau fees	92	121	193	260
Advertising	79	56	148	96
Other	430	327	840	648
Total Non-Interest Expenses	2,003	1,635	3,926	3,418
Income before Income Taxes	214	361	491	545
Income Taxes	81	127	187	185
Net Income	133	234	304	360
Amortization component of net periodic pension cost,				

net of tax	--	1	(1)	2
Total Comprehensive Income	$ 133	$ 235	$ 303	$ 362
Weighted average number of shares of common stock				
Outstanding - basic and diluted	5,131	5,432	5,199	5,430
Earnings per share - basic and diluted	$ 0.03	$ 0.04	$ 0.06	$ 0.07
Dividends Declared per share	$ 0.03	$ 0.03	$ 0.06	$ 0.03

See notes to consolidated financial statements.

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MSB Financial Corp and Subsidiaries

Consolidated Statements of Cash Flows

Unaudited

	Six Months Ended December 31, 2008	2007
	(In Thousands)	
Cash Flows from operating activities:		
Net Income	$ 304	$ 360
Adjustments to reconcile net income to net cash provided by operating activities:		
Net accretion of securities discount and deferred loan fees and costs	(38)	(109)
Depreciation and amortization of premises and equipment	351	274
Amortization component of net periodic pension cost, net of tax	(1)	2
ESOP compensation	84	85
Stock based compensation	82	--
Provision for loan losses	132	55
Earnings on bank owned life insurance	(81)	(78)
Unrealized loss (gain) on trading securities	38	(21)
Decrease in accrued interest receivable	36	39
Deferred income taxes	(213)	(101)
(Increase) decrease in other assets	(41)	70
Increase in other liabilities	111	28
Increase in accrued interest payable	103	60
Net Cash Provided by Operating Activities	867	664
Cash Flows from Investing Activities:		
Activity in held to maturity securities:		
Proceeds from maturities, calls and principal repayments	1,057	226
Net increase in loans receivable	(11,464)	(7,698)
Purchase of premises and equipment	(853)	(667)
Purchase of Federal Home Loan Bank of New York stock	(2,355)	(2,359)
Redemption of Federal Home Loan Bank of New York stock	2,272	2,039
Net Cash Used in Investing Activities	(11,343)	(8,459)
Cash Flows from Financing Activities:		
Net increase in deposits	10,376	736
Increase (decrease) in short-term borrowings	2,250	(8,500)
Proceeds of long-term borrowings	—	16,000
Repayments of long-term borrowings	(421)	(407)
(Decrease) in advance payments by borrowers for taxes and insurance	(81)	(42)
Dividends paid to minority stockholders	(135)	—
Purchase of treasury stock	(1,967)	—

Net Cash Provided by Financing Activities		10,022		7,787
Net (Decrease) in Cash and Cash Equivalents		(454)		(8)
Cash and Cash Equivalents – Beginning		4,695		4,269
Cash and Cash Equivalents – Ending	$	4,241	$	4,261
Supplementary Cash Flows Information				
Interest paid	$	3,960	$	4,548
Income taxes paid	$	563	$	376

See notes to consolidated financial statements.

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MSB FINANCIAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 1 – Organization and Business

MSB Financial Corp. (the “Company”) is a federally-chartered corporation organized in 2004 for the purpose of acquiring all of the capital stock that Millington Savings Bank (the “Bank”) issued in its mutual holding company reorganization. The Company’s principal executive offices are located at 1902 Long Hill Road, Millington, New Jersey 07946-0417 and its telephone number at that address is (908) 647-4000.

MSB Financial, MHC (the “MHC”) is a federally-chartered mutual holding company that was formed in 2004 in connection with the mutual holding company reorganization. MSB Financial, MHC has not engaged in any significant business since its formation. So long as MSB Financial, MHC is in existence, it will at all times own a majority of the outstanding stock of the Company.

The Bank is a New Jersey-chartered stock savings bank and its deposits are insured by the Federal Deposit Insurance Corporation. The Bank is regulated by the New Jersey Department of Banking and Insurance and the Federal Deposit Insurance Corporation. The Office of Thrift Supervision regulates the MHC and the Company as savings and loan holding companies.

A Registration Statement on Form S-1 (File No. 333-137294), as amended, was filed by the Company with the Securities and Exchange Commission pursuant to the Securities Act of 1933, as amended, relating to the offer for sale of up to 2,199,375 shares (subject to increase to 2,529,281 shares) of its common stock at $10.00 per share. The offering closed on January 4, 2007 and 2,529,281 shares were sold for gross proceeds of $25,292,810, including 202,342 shares sold to the Bank’s newly established Employee Stock Ownership Plan (“ESOP”). Net proceeds of the offering totaled approximately $24.5 million. Concurrent with closing of the offering, the MHC received 3,091,344 shares of Company stock in exchange for the 10,000 shares previously owned. The MHC is the majority stockholder of the Company owning 55% of the outstanding common stock.

Note 2 – Basis of Consolidated Financial Statement Presentation

The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiary, the Bank, and the Bank’s wholly-owned subsidiary, Millington Savings Service Corp. All significant inter-company accounts and transactions have been eliminated in consolidation. These statements were prepared in accordance with instructions for Form 10-Q and, therefore, do not include information or footnotes necessary for a complete presentation of financial condition, results of operations, and cash flows in conformity with generally accepted accounting principles in the United States of America (“GAAP”).

In the opinion of management, all adjustments, consisting of only normal recurring adjustments or accruals, which are necessary for a fair presentation of the consolidated financial statements have been made at and for the three and six month periods ended December 31, 2008 and 2007. The results of operations for the three and six months ended December 31, 2008 and 2007 are not necessarily indicative of the results which may be expected for an entire fiscal year or other interim periods.

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The data in the consolidated statements of financial position for June 30, 2008 was derived from the Company’s audited consolidated financial statements for that date. That data, along with the interim financial information presented in the consolidated statements of financial position, income and comprehensive income, and cash flows should be read in conjunction with the 2008 audited consolidated financial statements for the year ended June 30, 2008, including the notes thereto included in the Company’s Annual Report on Form 10-K.

The consolidated financial statements have been prepared in conformity with GAAP. In preparing the consolidated financial statements, 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 position and revenues and expenses for the periods then ended. Actual results could differ significantly from those estimates.

A material estimate that is particularly susceptible to significant change relates to the determination of the allowance for loan losses. The allowance for loan losses represents management’s best estimate of losses known and inherent in the portfolio that are both probable and reasonable to estimate. While management uses the most current information available to estimate losses on loans, actual losses are dependent on future events and, as such, increases in the allowance for loan losses may be necessary.

In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Bank’s allowance for loan losses. Such agencies may require the Bank to recognize additions to the allowance based on their judgments about information available to them at the time of their examinations.

Note 3 – Earnings Per Share

Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding, exclusive of the Employee Stock Ownership Plan (“ESOP”) shares not yet committed to be released. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock, such as outstanding stock options, were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company. Diluted earning per share is calculated by adjusting the weighted average number of shares of common stock outstanding to include the effect of contracts or securities exercisable (such as stock options) or which could be converted into common stock, if dilutive, using the treasury stock method. Diluted earnings per share did not differ from basic earnings per share for the three and six months ended December 31, 2008, as the 275,410 weighted average number of outstanding stock options were all anti-dilutive. Diluted earnings per share did not differ from basic earnings per share for the three and six months ended December 31, 2007, as there were no contracts or securities exercisable or which could be converted into common stock during the period.

Note 4 – Stock Based Compensation

On March 10, 2008 the Company’s stockholders approved the 2008 Stock Compensation and Incentive Plan. This plan permits the granting of up to 275,410 options to purchase Company common stock. Pursuant to this plan, on May 9, 2008, the Board of Directors granted 275,410 options having an exercise price of $10.75 per share, the fair market value of the shares on the grant date. The fair value of these options was estimated to be $ 2.99 per share based on the Black-Scholes model. At December 31, 2008, the total future expense to be recorded for the stock option grants is $714,000 over a weighted average period of 4.4 years. Options are exercisable for 10 years from date of grant.

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Note 5 - Fair Value Measurements

Effective July 1, 2008, the Company adopted the provisions of Statement of Financial Accounting Standards (“SFAS”) No. 157, “Fair Value Measurements” for financial assets and financial liabilities. In accordance with Financial Accounting Standards Board (“FASB”) Staff Position (FSP) No. 157-2, “Effective Date of FASB Statement No. 157,” the Company will delay application of SFAS No. 157 for non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value on a recurring basis (at least annually) to fiscal years beginning after November 15, 2008.

In October 2008, the FASB issued FASB Staff Position (FSP) SFAS No. 157-3, “Determining the Fair Value of a Financial Asset When The Market for That Asset Is Not Active” (FSP 157-3), to clarify the application of the provisions of SFAS 157 in an inactive market and how an entity would determine fair value in an inactive market. FSP 157-3 is effective immediately and applies to our December 31, 2008 financial statements. The application of the provisions of FSP 157-3 did not materially affect our results of operations or financial condition as of and for the periods ended December 31, 2008.

SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact and (iv) willing to transact.

SFAS No. 157 requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement cost). Valuation techniques should be consistently applied. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity’s own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, SFAS No. 157 establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

- Level 1 Inputs – Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- Level 2 Inputs – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, prepayment speeds, credit risks, etc). or inputs that are derived principally from or corroborated by market data by correlation or other means.

- Level 3 Inputs – Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. These valuation methodologies were applied to all of the Company's financial assets and financial liabilities carried at fair value effective July 1, 2008.

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. The Company's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future values. While management believes the Company's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Trading Securities. Securities classified as trading securities are reported at fair value utilizing Level 1 inputs. For these securities, the Company arrives at the fair value based upon the quoted market price at the close of business on the last business day on or prior to the statement of financial position date.

The following table summarizes financial assets measured at fair value on a recurring basis as of December 31, 2008, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	Level 1 Inputs	**Level 2 Inputs**	**Level 3 Inputs**	**Total Fair Value**
Trading securities	$ 44	$ -	$ -	$ 44

Certain financial assets and financial liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment).

The following table summaries those assets measured at fair value on a non-recurring basis:

	Level 1 Inputs	**Level 2 Inputs**	**Level 3 Inputs**	**Total Fair Value**
Impaired loans	$ -	$ -	$ 1,206	$ 1,206

An impaired loan is evaluated and valued at the time the loan is identified as impaired at the lower of its historical cost basis or fair value. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Fair value is measured in accordance with SFAS No. 114, "Accounting by Creditors for Impairment of a Loan" using one of several methods, including collateral value, market value of similar debt, enterprise value, liquidation value and discounted cash flows. Impaired loans not requiring a specific allowance represent loans for which fair value equals or exceeds amortized cost basis. Such loans are not included in the above table. Impaired loans requiring specific allowances, and valued using Level 3 inputs, had principal balances totaling $936,000 and $1,352,000 at June 30 and December 31, 2008, respectively, with valuation allowances of $114,000 and $146,000 at June 30 and December 31, 2008, respectively. During the quarter ended December 31, 2008, two additional impaired loans totaling $419,000 were added,

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no principal payments were received, and additional loss reserves of $34,000 were recorded. During the six months ended December 31, 2008, two additional impaired loans totaling $419,000 were added, $2,000 in loan principal payments were received and additional loss reserves of $34,000 were recorded.

Note 6 – Retirement Plans

Periodic expenses for the Company's retirement plans, which include the Directors' Retirement Plan and the Executive Incentive Retirement Plan, were as follows:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2008	2007	2008	2007
	(In Thousands)		(In Thousands)	
Service Cost	$ 26	$ 28	$ 51	$ 56
Interest Cost	18	15	35	30
Amortization of Unrecognized (Gain)	(3)	(1)	(6)	(2)
Amortization of Past Service Liability	2	3	5	6
	$ 43	$ 45	$ 85	$ 90

Effective July 1, 2008, the Company implemented the measurement date provisions of SFAS No. 158, "Employers Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R)". As a result of the implementation of this standard, the Company recorded, net of tax, a $25,000 reduction in retained earnings.

Note 7 – Stock Repurchase Plan

On January 29, 2008, the Board of Directors authorized a stock repurchase program pursuant to which the Company intended to repurchase up to 5% of its outstanding shares (excluding shares held by the MHC), representing up to 126,464 shares. The timing of the repurchases depended on certain factors, including but not limited to, market conditions and prices, the Company's liquidity requirements and alternative uses of capital. Repurchased shares are held as treasury stock and are available for general corporate purposes. During the year ended June 30, 2008, the Company purchased 55,992 shares at a cost of $609,000 or approximately $10.88 per share. The remaining 70,472 shares were repurchased during the period July 1, 2008 through August 11, 2008, inclusive.

On August 21, 2008, the Company announced the Board of Directors had authorized a second stock repurchase program pursuant to which the Company intended to repurchase up to an additional 5%, or 120,140 shares. The timing of the repurchases depended on certain factors, including but not limited to, market conditions and prices, the Company's liquidity requirements and alternative uses of capital. Repurchased shares are held as treasury stock and are available for general corporate purposes. During the three and six months ended December 31, 2008, the Company, pursuant to this plan, purchased 93,796 and 120,140 shares, respectively.

During the six months ended December 31, 2008, an aggregate of 190,612 shares were purchased under the aforementioned plans at a cost of $1,967,000 or $10.32 per share.

On February 9, 2009, the Board of Directors authorized a third stock repurchase program pursuant which the Company intends to repurchase up to 114,134 shares or approximately 5% of its outstanding shares.

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Note 8 – Dividends on Common Stock

The MHC has waived its right, upon the non-objection of the Office of Thrift Supervision, to receive cash dividends declared on the 3,091,344 shares of Company common stock that it owns. Such dividends amounted to approximately $93,000 during both quarters ended December 31, 2008 and 2007, and approximately $185,000 and $93,000, respectively, during the six months ended December 31, 2008 and 2007. As of December 31, 2008, the aggregate amount of dividends waived by the MHC was approximately $464,000.

Note 9 – Recent Accounting Pronouncements

In June 2008, the FASB issued FSP EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities." This FSP clarifies that all outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends participate in undistributed earnings with common shareholders. Awards of this nature are considered participating securities and the two-class method of computing basic and diluted earnings per share must be applied. This FSP is effective for fiscal years beginning after December 15, 2008. The Company is currently evaluating the potential impact the new pronouncement will have on its consolidated financial statements.

Staff Accounting Bulletin No. 110 (SAB 110) amends and replaces Question 6 of Section D.2 of Topic 14, "Share-Based Payment," of the Staff Accounting Bulletin series. Question 6 of Section D.2 of Topic 14 expresses the views of the staff regarding the use of the "simplified" method in developing an estimate of expected term of "plain vanilla" share options and allows usage of the "simplified" method for share option grants prior to December 31, 2007. SAB 110 allows public companies which do not have historically sufficient experience to provide a reasonable estimate to continue use of the "simplified" method for estimating the expected term of "plain vanilla" share option grants after December 31, 2007. SAB 110 is effective January 1, 2008. The Company has adopted the simplified method for estimating the expected term of share option grants.

In September 2006, the FASB's Emerging Issues Task Force ("EITF") issued EITF Issue No. 06-4, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split Dollar Life Insurance Arrangements" ("EITF 06-4"). EITF 06-4 requires the recognition of a liability related to the postretirement benefits covered by an endorsement split-dollar life insurance arrangement. The consensus highlights that the employer (who is also the policyholder) has a liability for the benefit it is providing to its employee. As such, if the policyholder has agreed to maintain the insurance policy in force for the employee's benefit during his or her retirement, then the liability recognized during the employee's active service period should be based on the future cost of insurance to be incurred during the employee's retirement. Alternatively, if the policy holder has agreed to provide the employee with a death benefit, then the liability for the future death benefit should be recognized by following the guidance in SFAS No. 106 or Accounting Principals Board (APB) Opinion No. 12, as appropriate. For transition, an entity can choose to apply the guidance using either of the following approaches: (a) a change in accounting principle through retrospective application to all periods presented or (b) a change in accounting principle through a cumulative-effect adjustment to the balance in retained earnings at the beginning of the year of adoption. The adoption is required in fiscal years beginning after December 15, 2007, with early adoption permitted. Upon the implementation of EITF 06-04 on July 1, 2008, the Company recorded a cumulative effect adjustment of $96,000 as a reduction of retained earnings. The future annual expense is not expected to be material.

In June 2007, the EITF reached a consensus on Issue No. 06-11, "Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards" ("EITF 06-11"). EITF 06-11 states that an entity should recognize a realized tax benefit associated with dividends on non-vested equity shares, non-vested equity share units and outstanding equity share options charged to retained earnings as an increase in additional paid in capital. The amount recognized in additional paid in capital should be included in the

pool of excess tax benefits available to absorb potential future tax deficiencies on share-based payment awards. EITF 06-11 should be applied prospectively to income tax benefits of dividends on equity-classified share-based payment awards that are declared in fiscal years beginning after December 15, 2007. The adoption of EITF 06-11, effective July 1, 2008, did not have any impact on the Company's consolidated financial statements.

In January 2009, the FASB issued FSP EITF 99-20-1, "Amendments to the Impairment of Guidance of EITF Issue No. 99-20" (FSP EITF 99-20-1). FSP EITF 99-20-1 amends the impairment guidance in EITF Issue No. 99-20, "Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets", to achieve more consistent determination of whether an other-than-temporary impairment has occurred. FSP EITF 99-20-1 also retains and emphasizes the objective of an other-than-temporary impairment assessment and the related disclosure requirements in SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities", and other related guidance. FSP EITF 99-20-1 is effective for interim and annual reporting periods ending after December 15, 2008, and shall be applied prospectively. Retrospective application to a prior interim or annual reporting period is not permitted. This new pronouncement did not have any effect on the Company's consolidated financial statements.

ITEM 2 – MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Form 10-Q contains forward-looking statements, which can be identified by the use of words such as "believes," "expects," "anticipates," "estimates" or similar expressions. Forward – looking statements include:

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

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

- General economic conditions, either nationally or in our market area, that are worse than expected;
- The volatility of the financial and securities markets, including changes with respect to the market value of our financial assets;
- Changes in government regulation affecting financial institutions and the potential expenses associated therewith;
- Changes in the interest rate environment that reduce our interest margins or reduce the fair value of financial instruments;
- Our ability to enter into new markets and/or expand product offerings successfully and take advantage of growth opportunities;
- Increased competitive pressures among financial services companies;
- Changes in consumer spending, borrowing and savings habits;
- Legislative or regulatory changes that adversely affect our business;
- Adverse changes in the securities markets;
- Our ability to successfully manage our growth; and

- Changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, the Financial Accounting Standards Board or the Public Company Accounting Oversight Board.

No forward-looking statement can be guaranteed and we specifically disclaim any obligation to update any forward-looking statement.

Critical Accounting Policies

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the dates of the consolidated statements of financial position and revenues and expenses for the periods then ended. Actual results could differ significantly from those estimates. A material estimate that is particularly susceptible to significant change relates to the determination of the allowance for loan losses.

The allowance for loan losses represents our best estimate of losses known and inherent in our loan portfolio that are both probable and reasonable to estimate. In determining the amount of the allowance for loan losses, we consider the losses inherent in our loan portfolio and changes in the nature and volume of our loan activities, along with general economic and real estate market conditions. We utilize a two tier approach: (1) identification of impaired loans for which specific reserves are established; and (2) establishment of general valuation allowances on the remainder of the loan portfolio. We maintain a loan review system which provides for a systematic review of the loan portfolio and the early identification of potential impaired loans. Such system takes into consideration, among other things, delinquency status, size of loan, type of collateral and the financial condition of the borrower. Specific loan loss allowances are established for identified loans based on a review of such information and/or appraisals of the underlying collateral. General loan loss allowances are based upon a combination of factors including, but not limited to, actual loan loss experience, composition of the loan portfolio, current economic conditions and management’s judgment.

Although specific and general loan loss allowances are established in accordance with management’s best estimate, actual losses are dependent upon future events and, as such, further provisions for loan losses may be necessary in order to increase the level of the allowance for loan losses. For example, our evaluation of the allowance includes consideration of current economic conditions, and a change in economic conditions could reduce the ability of our borrowers to make timely repayments of their loans. This could result in increased delinquencies and increased non-performing loans, and thus a need to make increased provisions to the allowance for loan losses, which would be a charge to income during the period the provision is made, resulting in a reduction to our earnings. A change in economic conditions could also adversely affect the value of the properties collateralizing our real estate loans, resulting in increased charge-offs against the allowance and reduced recoveries, and thus a need to make increased provisions to the allowance for loan losses. Furthermore, a change in the composition of our loan portfolio or growth of our loan portfolio could result in the need for additional provisions.

Comparison of Financial Condition at December 31, 2008 and June 30, 2008

General. Total assets reached $318.8 million at December 31, 2008, compared to $308.1 million at June 30, 2008. The increase was fueled by loan originations, the funding for which was provided primarily by a $10.3 million or 4.6% increase in deposits, to $235.7 million at December 31, 2008, compared to $225.4 million at June 30, 2008.

Loans. Loans receivable, net, rose to $265.7 at December 31, 2008 from $254.3 million at June 30, 2008, an increase of $11.4 million, or 4.5%. As a percentage of assets, loans increased from 82.5% to 83.3%. The Bank experienced strong demand for its one-to-four family residential loans in its market area. The one-to-four family portfolio grew by $7.8 million or 5.4% between June 30, 2008 and

December 31, 2008. Home equity loans grew by $5.4 million, a 9.9% increase, while the construction loan portfolio decreased by $822,000 or 4.6%, and multi-family and commercial loans decreased by $812,000 or 2.7%, respectively, between June 30, 2008 and December 31, 2008.

Securities. Our portfolio of securities held to maturity was at $27.7 million at December 31, 2008 as compared to $28.7 million at June 30, 2008. During the six months ended December 31, 2008, no securities were purchased and maturities, calls and principal repayments totaled $1.1 million.

Premises and equipment, net. Total premises and equipment, net at December 31, 2008 were $11.3 million, compared to $10.8 million at June 30, 2008, an increase of $502,000 or 4.7%. The increase was primarily attributed to the construction of the Bank's new Bernardsville branch location which opened in August 2008.

Deposits. Total deposits at December 31, 2008 were $235.7 million, compared to $225.4 million at June 30, 2008. Savings and club accounts and non-interest bearing demand accounts increased by $23.5 million and $2.0 million, respectively, as did super NOW accounts by $52,000. Certificates of deposit decreased by $13.9 million, as did NOW, and money market demand accounts by $1.2 million, and $142,000, respectively. The shift in time deposits balances to savings account balances was the result of the Bank offering higher rates on its tiered savings account product.

Borrowings. Total borrowings at December 31, 2008 amounted to $38.9 million, compared to $37.1 million at June 30, 2008. The Bank did not commit to any additional long term borrowings during the six months ended December 31, 2008. The Bank did not have any short-term borrowings as of June 30, 2008, compared to $2.3 million at December 31, 2008. The increase in short-term borrowings was used to fund increased loan demand.

Our investment in Federal Home Loan Bank of New York ("FHLB") stock was $2.2 million at December 31, 2008 compared to $2.1 million at June 30, 2008. The increased ownership of Federal Home Loan Bank stock resulted from the increase in FHLB borrowings.

Equity. Stockholders' equity was $41.6 million at December 31, 2008 as compared to $43.4 million at June 30, 2008, reflecting a decrease of $1.8 million for the six months ended December 31, 2008. The decrease in equity was primarily attributed to the repurchase of $2.0 million in treasury stock. Other changes in equity were due to the declaration of $129,000 in cash dividends on our common stock, a $121,000 reduction as a result of the implementation of two accounting pronouncements related to employee benefits, and a $2,000 reduction in accumulated other comprehensive loss, offset by $304,000 in net income, $84,000 in ESOP shares earned and $82,000 in stock-based compensation.

Comparison of Operating Results for the Three and Six Months Ended December 31, 2008 and 2007

General. Our net income for the three months ended December 31, 2008 was $133,000, compared to net income of $234,000, for the three months ended December 31, 2007, a decrease of $101,000 or 43.2%. This was primarily the result of an increase in net interest income, offset by increases in the provision for loan losses and non-interest expense and a decrease in non-interest income. Net interest income for the three months ended December 31, 2008 increased $305,000 to $2.2 million from $1.9 million for the comparable prior year quarter. The provision for loan losses reflected an increase of $27,000 to $67,000 for the three month period ended December 31, 2008, compared to $40,000 for the three month period ended December 31, 2007. Non-interest income reflected a decrease of $57,000 or 34.6%, to $108,000 for the three months ended

December 31, 2008, compared to $165,000 for the three months ended December 31, 2007. Non-interest expense was $2.0 million for the three months ended December 31, 2008 compared to $1.6 million for the three months ended December 31, 2007, an increase of $368,000 or 22.5%.

Our net income for the six months ended December 31, 2008 was $304,000, compared to net income of $360,000 for the six months ended December 31, 2007, a decrease of $56,000 or 15.6%. This was primarily the result of increases in the provision for loan losses and non-interest expenses and a reduction in noninterest income. Net interest income for the six months ended December 31, 2008, increased $581,000 to $4.3 million from $3.7 million for the six months ended December 31, 2007. The provision for loan losses increased $77,000 to $132,000 for the six months ended December 31, 2008 compared to $55,000 for the six months ended December 31, 2007. Non-interest income decreased by $50,000 to $274,000 for the six months ended December 31, 2008 compared to $324,000 for the six months ended December 31, 2007. Non-interest expense increased by $508,000 to $3.9 million, compared to $3.4 million for the same six month period ended December 31, 2007.

Net Interest Income. Net interest income increased $305,000 or 16.3% to $2.2 million for the three month period ended December 31, 2008, compared to $1.9 million for the three months ended December 31, 2007. Interest income decreased by $22,000 or .5%, and interest expense decreased by $327,000 or 14.1%, for the same three month comparative periods.

The decrease of $22,000 or .5% in total interest income for the three months ended December 31, 2008, resulted from a 51 basis point decrease in yield, offset by an 8.6% increase in average balance of interest-earning assets. Average earning assets increased $23.6 million, to $298.4 million for the three months ended December 31, 2008, compared to $274.8 million for the three months ended December 31, 2007. Interest income on loans decreased by $24,000 or .6% for the three months ended December 31, 2008, compared to the same period ended December 31, 2007 primarily due to a 61 basis point reduction in average yield partially offset by an increase of $24.4 million or 10.1% in average loan balances. Interest on securities held to maturity increased by $28,000 or 8.1% for the three months ended December 31, 2008, compared to the three months ended December 31, 2007, as a result of a $1.4 million or 4.9% decrease in the average balance being more than offset by a 65 basis point increase in yield thereon. Other interest income reflected a reduction of $26,000 or 50.0% in interest income primarily due to a decrease of 244 basis points in yield partially offset by a $591,000 or 12.5% increase in average other interest-earning assets for the three months ended December 31, 2008, compared to the same three month period ended December 31, 2007.

Total interest expense decreased by $327,000 or 14.1% for the three months ended December 31, 2008, compared to the three months ended December 31, 2007. Average interest-bearing liabilities increased $26.8 million or 11.4%, from $236.7 for the three months ended December 31, 2007, to $263.5 for the three months ended December 31, 2008, the effect of which was more than offset by an 89 basis point decrease in the average rate from 3.93% to 3.04%, for the respective periods. Interest expense on deposits decreased by $347,000 or 17.6% for the three months ended December 31, 2008, compared to the three months ended December 31, 2007, as the increase of $14.4 million or 7.0% in average interest-bearing deposits more than offset by an 89 basis point decrease in the average rates on interest-bearing deposits. The Bank experienced a shift in its deposit base for the three months ended December 31, 2008, compared to the three months ended December 31, 2007, as time deposit average balances decreased $20.8 million or 16.0%, while average balances on savings deposit balances increased by $35.3 million or 73.8%. Savings account balances increased as a result of the Bank offering higher rates on its tiered savings account product. Time deposit account average rates decreased by 119 basis points, while the average rate on savings deposit accounts increased by 13 basis points for the three months ended December 31, 2008, compared to the three months ended December 31, 2007. Total interest expense on borrowings increased by $20,000 for the three months ended December 31, 2008, compared to the three months ended December 31, 2007. Federal Home Loan Bank advance average balances increased $12.5 million or 38.7%, tempered by an average rate decrease of 105 basis points, from 4.39% to 3.34% for the three months ended December 31, 2008, compared to the same three month period ended December 31, 2007.

Net interest income increased $581,000 or 15.7% to $4.3 million for the six months ended December 31, 2008, from $3.7 million for the six months ended December 31, 2007. Interest income increased by $36,000 or .4%, while interest expense decreased by $545,000 or 11.8% for the six month period ended December 31, 2008, compared to the six month period ended December 31, 2007.

The increase of $36,000 or .4% in interest income for the six months ended December 31, 2008 resulted from a $25.0 million increase in average earning assets, largely offset by a 49 basis point decrease in yield to 5.63%, compared to the six months ended December 31, 2007. Interest income on loans increased by $14,000 or .2% for the six months ended December 31, 2008, compared to the six months ended December 31, 2007. Average loan receivable balances increased $25.0 million or 10.5% to $262.4 million for the six months ended December 31, 2008, compared to $237.4 million for the six months ended December 31, 2007, while the yield declined to 5.73% from 6.32%. Interest income on securities held to maturity increased $58,000 or 8.4% for the six months ended December 31, 2008, compared to the six months ended December 31, 2007, due to a 64 basis point increase in yield to 5.37%. Average securities held to maturity balances decreased $1.3 million or 4.6% for the six months ended December 31, 2008, compared to the six months ended December 31, 2007. Interest income on other interest-earning assets decreased by $36,000 or 34.0% for the six month period ended December 31, 2008, compared to the same six month period ended December 31, 2007 as the yield declined by 220 basis points to 2.33% and average other interest earning-asset balances increased $1.3 million or 28.8%.

The $545,000 or 11.8% decrease in interest expense for the six months ended December 31, 2008, compared to the six months ended December 31, 2007, was primarily due to an average rate decrease of 81 basis points to 3.14% on interest-bearing liabilities, partially offset by an increase of $25.5 million in average interest-bearing liabilities. Interest expense on deposits decreased by $648,000 for the six months ended December 31, 2008, compared to the six months ended December 31, 2007. The average rate on deposits decreased 78 basis points to 3.08%, while average deposit balances increased $10.1 million or 4.9%, from $204.6 million for the six months ended December 31, 2007, to $214.7 million for the six months ended December 31, 2008. Certificates of deposit average balances decreased $19.4 million or 14.9%, as did the average rate by 102 basis points for the six months ended December 31, 2008, compared to the same six month period ended December 31, 2007. NOW accounts average balances decreased by $21,000 or .1% and the average rate by 29 basis points for the same comparative period. Savings deposit average balances increased by $29.5 million or 61.5%, as did the average rate by 14 basis points, for the six months ended December 31, 2008, compared to the six months ended December 31, 2007. Interest expense on borrowings, net of capitalized interest, increased by $103,000 for the six months ended December 31, 2008, compared to the six months ended December 31, 2007. Average Federal Home Loan Bank advance balances increased by $17.1 million or 59.5%, while the average rate decreased by 112 basis points for the six month period ended December 31, 2008, compared to the six month period ended December 31, 2007. Federal Home Loan Bank average balances increased during the six months ended December 31, 2008 to fund continued loan demand.

Provision for Loan Losses. For the three month period ended December 31, 2008, a $67,000 provision was made, whereas a $40,000 provision was made for the same period in 2007. There were no charge-offs or recoveries of previously charged-off loans for the three month periods ended December 31, 2008 and December 31, 2007, respectively. For the six month period ended December 31, 2008, a $132,000 provision was made as compared to a $55,000 provision for the same period in 2007. There were no charge-offs for the six month periods ended December 31, 2008 and December 31, 2007 respectively, and a $2,000 recovery for the six month period ended December 31, 2007. There were no recoveries of previously charged-off loans for the six months ended December 31, 2008. The allowance for loan losses totaled $1.2 and $1.0 million, respectively, at December 31, 2008 and June 30, 2008, representing 0.42% and 0.40%, respectively, of total loans. The ratio of non-performing loans to total loans was 2.31% at December 31, 2008, as compared to 2.00% at June 30, 2008. The allowance for loan losses reflects our estimation of the losses inherent in our loan portfolio to the extent they are both probable and reasonable to estimate. The increase in the provision was primarily due to the increase in non-performing loans and the current economic environment.

Non-Interest Income. This category includes fees derived from checking accounts, ATM transactions and debit card use and mortgage related fees. It also includes increases in the cash-surrender value of the bank owned life insurance and unrealized gain or loss on trading securities.

Non-interest income decreased by $57,000 to $108,000 for the three months ended December 31, 2008 from $165,000 for the three months ended December 31, 2007, primarily due to a $41,000 unrealized loss to the Bank's trading security portfolio for the three months ended December 31, 2008, as compared to an $11,000 gain in the prior year period. Total non-interest income decreased from $324,000 for the six months ended December 31, 2007 to $274,000 for the six months ended December 31, 2008, primarily due to a $38,000 unrealized loss to the Bank's trading security portfolio in the current period as compared to a $21,000 gain in the prior year period.

Non-Interest Expenses. Total non-interest expenses grew by $368,000 or 22.5% to $2.0 million for the three months ended December 31, 2008, compared to $1.6 million the three months ended December 31, 2007.

Salaries and employee benefits expense increased $152,000 or 20.0% for the three months ended December 31, 2008, compared to the three months ended December 31 2007. Salaries and benefits expense increased due to the addition of personnel staff at our new Bernardsville location, normal salary increases and the adoption of a stock option plan in May 2008, partially offset by a reduction in 401(k) expense due to an amendment to the plan to reduce the Bank's contribution in December 2007. Directors' compensation increased $20,000 or 31.3% for the three month period ended December 31, 2008 compared to the three months ended December 31, 2007, as result of the implementation of a stock option plan in May 2008. Occupancy and equipment expense increased by $99,000 or 32.1%, for the three month period ended December 31, 2008 compared the three months ended December 31, 2007, as did advertising expense by $23,000 or 41.1% for the same comparative period. The increase in both occupancy and equipment and advertising expense was primarily associated with the opening of the Bank's new Bernardsville location in late summer 2008. Service bureau fees decreased by $29,000 or 24.0% for the three month period ended December 31, 2008 compared to the three months ended December 31, 2007, due to a new contract placed in service in June 2008. Other non-interest expense increased by $103,000 or 31.5% for the three months ended December 31, 2008 compared to the three months ended December 31, 2007, primarily due to increases in FDIC insurance, stationary and supply, legal, and miscellaneous operating expense.

Our non-interest expense for the six months ended December 31, 2008, increased $508,000 or 14.9% to $3.9 million from $3.4 million for the six months ended December 31, 2007. Salaries and employee benefits expense increased $146,000 or 8.8% for the six months ended December 31, 2008, compared to the six months ended December 31 2007 due to the addition of personnel staff at our new Bernardsville location, normal salary increases and the adoption of a stock option plan in May 2008, partially offset by a reduction in 401(k) expense due to an amendment to the plan to reduce the Bank's contribution in December 2007. Directors' compensation rose by $41,000 or 32.3% for the six months ended December 31, 2008 to $168,000, compared to $127,000 for the three months ended December 31, 2007, primarily due to the implementation of a stock option plan in May 2008. Occupancy and equipment expense increased by $144,000 or 23.0%, as did advertising expense by $52,000 or 54.2% or the six month period ended December 31, 2008 compared the six months ended December 31, 2007. The increase in both occupancy and equipment and advertising expense was primarily associated with the opening of the Bank's new Bernardsville location in late summer 2008. Service bureau fees decreased by $67,000 or 25.8% for the six months ended December 31, 2008 compared to the six months ended December 31, 2007, due to a new contract placed in service in June 2008. Other expense increased by $192,000 or 29.6% to $840,000 for the six month period ended December 31, 2008, compared to

$648,000 for the same period ended December 31, 2007, primarily due to increases in FDIC insurance, stationary and supply, legal, and miscellaneous operating expense.

Income Taxes. Income tax expense for the three months ended December 31, 2008 was $81,000 or 37.9% of income before income taxes as compared to $127,000 or 35.2% of income before income taxes for the three months ended December 31, 2007.

For the six months ended December 31, 2008, income tax expense was $187 or 38.1% of income before taxes as compared to $185,000 or 33.9% of income before income taxes for the six months ended December 31, 2007.

Liquidity, Commitments and Capital Resources

The Bank must be capable of meeting its customer obligations at all times. Potential liquidity demands include funding loan commitments, cash withdrawals from deposit accounts and other funding needs as they present themselves. Accordingly, liquidity is measured by our ability to have sufficient cash reserves on hand, at a reasonable cost and/or with minimum losses.

Senior management is responsible for managing our overall liquidity position and risk and is responsible for ensuring that our liquidity needs are being met on both a daily and long term basis. The Financial Review Committee, comprised of senior management and chaired by President and Chief Executive Officer Gary Jolliffe, is responsible for establishing and reviewing our liquidity procedures, guidelines, and strategy on a periodic basis.

Our approach to managing day-to-day liquidity is measured through our daily calculation of investable funds and/or borrowing needs to ensure adequate liquidity. In addition, senior management constantly evaluates our short-term and long-term liquidity risk and strategy based on current market conditions, outside investment and/or borrowing opportunities, short and long-term economic trends, and anticipated short and long-term liquidity requirements. The Bank’s loan and deposit rates may be adjusted as another means of managing short and long-term liquidity needs. We do not at present participate in derivatives or other types of hedging instruments to meet liquidity demands, as we take a conservative approach in managing liquidity.

At December 31, 2008, the Bank had outstanding commitments to originate loans of $1.6 million, construction loans in process of $6.0 million, unused lines of credit of $28.0 million (including $23.3 million for home equity lines of credit), and standby letters of credit of $268,000. Certificates of deposit scheduled to mature in one year or less at December 31, 2008, totaled $72.3 million.

As of December 31, 2008, the Bank had contractual obligations related to the long-term operating leases for the three branch locations that it leases (Dewy Meadow, RiverWalk and Martinsville).

The Bank generates cash through borrowings from the Federal Home Loan Bank to meet its day-to-day funding obligations. At December 31, 2008, its total loans to deposits ratio was 112.7%. At December 31, 2008, the Bank’s collateralized borrowing limit with the Federal Home Loan Bank was $95.1 million, of which $36.6 million was outstanding. As of December 31, 2008, the Bank also had a $20.0 million line of credit with a financial institution for reverse repurchase agreements (which is a form of borrowing) that it could access if necessary.

Consistent with its goals to operate a sound and profitable financial organization, the Bank actively seeks to maintain its status as a well-capitalized institution in accordance with regulatory standards. As of December 31, 2008, the Bank exceeded all applicable regulatory capital requirements.

Off-Balance Sheet Arrangements

We are a party to financial instruments with off-balance-sheet risk in the normal course of our business of investing in loans and securities as well as in the normal course of maintaining and improving Millington Savings Bank's facilities. These financial instruments include significant purchase commitments, such as commitments related to capital expenditure plans and commitments to purchase investment securities or mortgage-backed securities, and commitments to extend credit to meet the financing needs of our customers. At December 31, 2008, our significant off-balance sheet commitments consisted of commitments to originate loans of $1.6 million, construction loans in process of $6.0 million, unused lines of credit of $28.0 million (including $23.3 million for home equity lines of credit), and standby letters of credit of $268,000.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Our exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of those instruments. We use the same credit policies in making commitments and conditional obligations as we do for on-balance-sheet instruments. Since a number of commitments typically expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

Recent Legislation and Other Regulatory Initiatives

On October 3, 2008, the President of the United States signed the Emergency Economic Stabilization Act of 2008 ("EESA") into law. This legislation, among other things, authorized the Secretary of Treasury ("Treasury") to establish a Troubled Asset Relief Program ("TARP") to purchase up to $700 billion in troubled assets from qualified financial institutions ("QFI"). EESA is also being interpreted by the Treasury to allow it to make direct equity investments in QFIs. Subsequent to the enactment of EESA, the Treasury announced the TARP Capital Purchase Program ("CPP") under which the Treasury will purchase up to $250 billion in senior perpetual preferred stock of QFIs that elect to participate in the CPP. The Treasury's investment in an individual QFI may not exceed the lesser of 3% of the QFI's risk-weighted assets or $25 billion and may not be less than 1% of risk-weighted assets. QFIs had until November 14, 2008, to elect to participate in the CPP. The CPP also requires the issuance of warrants exercisable for a number of shares of common stock with an aggregate value equal to 15% of the amount of the preferred stock investment.

EESA increases the maximum deposit insurance amount up to $250,000 until December 31, 2009 and removes the statutory limits on the FDIC's ability to borrow from the Treasury during this period. The FDIC may not take the temporary increase in deposit insurance coverage into account when setting assessments. EESA allows financial institutions to treat any loss on the preferred stock of the Federal National Mortgage Association or Federal Home Loan Mortgage Corporation as an ordinary loss for tax purposes.

As a condition to selling troubled assets to the TARP and/or participating in the CPP, the QFI must agree to the Treasury's standards for executive compensation and corporate governance. These standards generally apply to the Chief Executive Officer, Chief Financial Officer, and next three highest compensated officers of the QFI. In general, these standards require the QFI to: (1) ensure that incentive compensation for senior executives does not encourage unnecessary and excessive risk taking; (2) recoup any bonus or incentive compensation paid to a senior executive based on financial statements that later prove to be erroneous; (3) prohibit the QFI from making "golden parachute" payments in connection with certain terminations of employment; and (4) not deduct, for tax purposes, executive compensation in excess of $500,000 for each senior executive. Participation in the CPP also results in certain restrictions

on the QFI's dividend and stock repurchase activities. These restrictions remain in place until the Treasury no longer holds any equity or debt securities of the QFI.

As noted above, above, the Bank exceeds the minimum regulatory capital standards by substantial margins. Furthermore, management does not currently believe that the Company has a significant exposure to troubled assets that would warrant sale of such assets under the TARP. The Company will continue to evaluate the TARP to determine if participation in it would provide a material benefit to the Company although it has determined it will not apply to participate in the CPP portion.

Concurrent with the announcement of the CPP, the FDIC also established the Temporary Liquidity Guarantee Program. This program contains two elements: (i) a debt guarantee program and (ii) an increase in deposit insurance coverage for certain types of non-interest bearing accounts. Pursuant to the debt guarantee program, newly issued senior unsecured debt of banks, thrifts or their holding companies issued on or before June 30, 2009 would be protected in the event the issuing institution subsequently fails or its holding company files for bankruptcy. Financial institutions opting to participate in this program would be charged an annualized fee equal to 75 basis points multiplied by the amount of debt being guaranteed. The amount of debt that may be guaranteed cannot exceed 125% of the institution's outstanding debt at December 31, 2008 and due to mature before June 30, 2009. The guarantee would expire by June 30, 2012 even if the debt itself has not matured. Pursuant to the temporary unlimited deposit insurance coverage, a qualifying institution may elect to provide unlimited coverage for non-interest bearing transaction deposit accounts in excess of the $250,000 limit by paying a 10 basis point surcharge on the covered amounts in excess of $250,000. All institutions will have this coverage without charge for until December 5, 2008. Institutions may choose whether to continue the coverage and be charged the surcharge. To opt out of the program, institutions must notify the FDIC by December 5, 2008. This coverage would expire on December 31, 2009. The Bank elected to opt out of the debt guarantee program, but is participating in the increase in deposit insurance program.

ITEM 3 – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

This item is not applicable to the Company as it is a smaller reporting company.

ITEM 4T – CONTROLS AND PROCEDURES

An evaluation was performed under the supervision, and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule l3a-l5(e) promulgated under the Securities Exchange Act of 1934, as amended) as of December 31, 2008. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective as of December 31, 2008.

No change in the Company's internal controls over financial reporting (as defined in Rule l3a-l5(f) promulgated under the Securities Exchange Act of 1934, as amended) occurred during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1 – LEGAL PROCEEDINGS

There were no material pending legal proceedings at December 31, 2008 to which the Company or its subsidiaries is a party other than ordinary routine litigation incidental to their respective businesses.

ITEM 1A – RISK FACTORS

This item is not applicable to the Company as it is a smaller reporting company.

ITEM 2 – UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table sets forth information regarding the Company's repurchases of its common stock during the quarter ended December 31, 2008.

Period	(a) Total Number Of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part Of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
October 1 through 31, 2008	12,620	$ 9.68	165,428	81,176
November 1 through 30, 2008	56,700	10.16	222,128	24,476
December 1 through 31, 2008	24,476	10.04	246,604	0
Total	93,796	$ 10.06	246,604	

ITEM 3 – DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4 – SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On November 10, 2008, the Company held its annual meeting of stockholders. Thomas G. McCain and Ferdinand J. Rossi were elected to serve as directors with terms expiring in 2011. The Company's stockholders also ratified the appointment of Beard Miller Company LLP as the Company's independent public accountants for the fiscal year ended June 30, 2009.

The following are the results of the annual meeting:

Nominees for Three Year Terms:	FOR Number of Votes	Percentage of Votes Cast	VOTES WITHHELD Number of Votes	Percentage of Votes Cast
Thomas G. McCain	4,974,486	94.9%	268,333	5.1%
Ferdinand J. Rossi	4,994,314	95.3%	248,505	4.7%

RATIFICATION OF INDEPENDENT AUDITORS:

	Number of Votes	Percentage of Votes Cast
FOR	5,120,213	98.3%
AGAINST	88,349	1.7%
ABSTAIN	34,257	N/A

ITEM 5 – OTHER INFORMATION

None

ITEM 6 – EXHIBITS

31 Certifications of the Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a-14(a)

32 Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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.

MSB FINANCIAL CORP.
(Registrant)

Date February 12, 2009	/s/ Gary T. Jolliffe Gary T. Jolliffe President and Chief Executive Officer
Date February 12, 2009	/s/ Jeffrey E. Smith Jeffrey E. Smith Vice President and Chief Financial Officer