

Kaiser Federal Financial Group, Inc.

Form 10-Q

February 11, 2011

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended: December 31, 2010

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: 001-34979

KAISER FEDERAL FINANCIAL GROUP, INC.
(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of
incorporation)

26-1500698
(I.R.S. Employer Identification No.)

1359 N. Grand Avenue, Covina, CA
(Address of principal executive offices)

91724
(Zip Code)

(800) 524-2274
(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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

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Exchange Act. (Check one):

Large accelerated filer

Accelerated filer Non-accelerated filer

Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Common Stock, \$.01 par value – 9,558,960 shares outstanding as of February 11, 2011.

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Part I — FINANCIAL INFORMATION

Item 1. Financial Statements

KAISER FEDERAL FINANCIAL GROUP, INC. AND SUBSIDIARY

Consolidated Statements of Financial Condition

(Unaudited)

(Dollars in thousands, except per share data)

	December 31, 2010	June 30, 2010
ASSETS		
Cash and due from banks	\$ 9,778	\$ 7,785
Federal funds sold	78,835	31,775
Total cash and cash equivalents	88,613	39,560
Interest earning time deposits in other financial institutions	10,972	19,267
Securities available-for-sale, at fair value	1,528	2,290
Securities held-to-maturity, fair value of \$6,045 and \$3,866 at December 31, 2010 and June 30, 2010, respectively	5,916	3,751
Federal Home Loan Bank (FHLB) stock, at cost	11,242	12,179
Loans receivable, net of allowance for loan losses of \$12,302 and \$13,309 at December 31, 2010 and June 30, 2010, respectively	732,806	757,985
Accrued interest receivable	2,962	3,234
Premises and equipment, net	2,325	2,035
Core deposit intangible	60	85
Goodwill	3,950	3,950
Bank-owned life insurance	12,620	12,372
Real estate owned (REO)	1,373	1,373
Other assets	7,957	8,721
Total assets	\$ 882,324	\$ 866,802
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits		
Noninterest bearing	\$ 36,175	\$ 53,022
Interest bearing	602,752	577,672
Total deposits	638,927	630,694
Federal Home Loan Bank advances, short-term	45,000	77,000
Federal Home Loan Bank advances, long-term	40,000	60,000
Accrued expenses and other liabilities	5,015	4,403
Total liabilities	728,942	772,097
Commitments and contingent liabilities		
Stockholders' equity		
Nonredeemable serial preferred stock, \$.01 par value; 25,000,000 shares authorized; issued and outstanding — none	—	—
Common stock, \$.01 par value; 100,000,000 authorized; December 31, 2010 — 9,558,960 shares issued	96	147

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June 30, 2010 — 10,595,640 shares issued		
Additional paid-in capital	100,453	59,513
Retained earnings	58,110	54,996
Accumulated other comprehensive income, net of tax	37	32
Unearned employee stock ownership plan (ESOP) shares	(5,314)	(1,706)
Treasury stock, at cost (December 31, 2010 — none; June 30, 2010 — 1,034,670 shares)	—	(18,277)
Total stockholders' equity	153,382	94,705
Total liabilities and stockholders' equity	\$ 882,324	\$ 866,802

The accompanying notes are an integral part of these unaudited consolidated financial statements

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KAISER FEDERAL FINANCIAL GROUP, INC. AND SUBSIDIARY
Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)
(Unaudited)

(Dollars in thousands, except per share data)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2010	2009	2010	2009
Interest income				
Interest and fees on loans	\$ 11,076	\$ 11,020	\$ 22,107	\$ 22,052
Interest on securities, taxable	54	92	120	195
Federal Home Loan Bank dividends	12	—	25	27
Other interest	58	105	139	263
Total interest income	11,200	11,217	22,391	22,537
Interest expense				
Interest on deposits	2,376	2,746	4,865	5,553
Interest on borrowings	1,252	1,709	2,840	4,032
Total interest expense	3,628	4,455	7,705	9,585
Net interest income	7,572	6,762	14,686	12,952
Provision for loan losses	200	5,650	950	6,515
Net interest income after provision for loan losses	7,372	1,112	13,736	6,437
Noninterest income				
Service charges and fees	462	578	913	1,195
ATM fees and charges	510	470	1,013	920
Referral commissions	75	77	150	158
Loss on equity investment	(60)	(75)	(120)	(150)
Bank-owned life insurance	124	121	248	243
Other noninterest income	4	22	9	27
Total noninterest income	1,115	1,193	2,213	2,393
Noninterest expense				
Salaries and benefits	2,286	2,119	4,520	4,261
Occupancy and equipment	596	585	1,181	1,182
ATM expense	452	426	903	837
Advertising and promotional	124	107	203	211
Professional services	361	216	616	399
Federal deposit insurance premiums	274	240	535	491
Postage	74	73	140	137
Telephone	174	169	349	350
REO and foreclosure expense	71	4	254	(6)
Other operating expense	424	381	825	730
Total noninterest expense	4,836	4,320	9,526	8,592
Income (loss) before income tax expense	3,651	(2,015)	6,423	238
Income tax expense (benefit)	1,381	(809)	2,388	34
Net income (loss)	\$ 2,270	\$ (1,206)	\$ 4,035	\$ 204
Comprehensive income (loss)	\$ 2,265	\$ (1,219)	\$ 4,040	\$ 187

Earnings (loss) per common
share:

Basic	\$ 0.24	\$ (0.13)	\$ 0.43	\$ 0.02
Diluted	\$ 0.24	\$ (0.13)	\$ 0.43	\$ 0.02

The accompanying notes are an integral part of these unaudited consolidated financial statements

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KAISER FEDERAL FINANCIAL GROUP, INC. AND SUBSIDIARY
Consolidated Statements of Stockholders' Equity
(Unaudited)
(Dollars in thousands, except per share data)

	Common Stock			Accumulated Other Comprehensive Income			Treasury Stock		Total	
	Comprehensive Income	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Unearned ESOP Shares	Shares	Amount		
Balance June 30, 2010		10,595,640	\$ 147	\$ 59,513	\$ 54,996	\$ 32	\$(1,706)	\$(1,034,670)	\$(18,277)	\$ 94,705
Comprehensive income										
Net income for the six months ended December 31, 2010	\$ 4,035	—	—	—	4,035	—	—	—	—	4,035
Other comprehensive income – unrealized loss on securities, net of tax	5	—	—	—	—	5	—	—	—	5
Total comprehensive income	\$ 4,040									
Dividends declared (\$0.20 per share) *					(921)					(921)
Items relating to Conversion and stock offering:										
Treasury stock retired pursuant to reorganization		(1,034,670)	(14)	(18,263)				1,034,670	18,277	
Cancellation of K-Fed Mutual Holding Company shares and fractional shares		(6,377,010)	(101)	101						
Proceeds from stock offering, net of expense		6,375,000	64	59,021						59,085

of \$4,665

Purchase of shares by ESOP pursuant to reorganization	—	—	—	—	—	(3,825)	—	—	(3,825)
Stock options earned	—	—	41	—	—	—	—	—	41
Allocation of stock awards	—	—	55	—	—	—	—	—	55
Allocation of ESOP common stock	—	—	(15)	—	—	217	—	—	202
Balance December 31, 2010	9,558,960	\$ 96	\$ 100,453	\$ 58,110	\$ 37	\$ (5,314)	-\$	-\$	153,382

* K-Fed Mutual Holding Company waived its receipt of dividends for the quarter ended September 30, 2010 on the shares it owned.

The accompanying notes are an integral part of these unaudited consolidated financial statements

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KAISER FEDERAL FINANCIAL GROUP, INC. AND SUBSIDIARY
Consolidated Statements of Cash Flows
(Unaudited)
(Dollars in thousands)

	Six Months Ended December 31,	
	2010	2009
OPERATING ACTIVITIES		
Net income	\$ 4,035	\$ 204
Adjustments to reconcile net income to net cash provided by operating activities:		
(Accretion) Amortization of net premiums on securities	(2)	2
Accretion of net discounts on loan purchases	(16)	(14)
Amortization of net loan origination costs	41	34
Provision for loan losses	950	6,515
Gain on sale of REO	—	(8)
REO direct write-down	154	—
Depreciation and amortization	372	390
Amortization of core deposit intangible	25	33
Loss on equity investment	120	150
Increase in cash surrender value of bank-owned life insurance	(248)	(243)
Accretion of debt exchange costs	—	(4)
Allocation of ESOP common stock	202	203
Allocation of stock awards	55	155
Stock options earned	41	175
Net change in accrued interest receivable	272	171
Net change in other assets	507	(4,509)
Net change in accrued expenses and other liabilities	612	(246)
Net cash provided by operating activities	7,120	3,008
INVESTING ACTIVITIES		
Proceeds from maturities and principal repayments of available-for-sale securities	772	1,042
Purchases of held-to-maturity securities	(3,000)	—
Proceeds from maturities and principal repayments of held-to-maturity securities	835	991
Net change in interest earning time deposits with other financial institutions	8,295	6,285
Net change in loans	22,980	(18,026)
Proceeds from sale of real estate owned	1,204	504
Redemption of FHLB stock	937	—
Purchases of premises and equipment	(662)	(184)
Net cash provided by (used in) investing activities	31,361	(9,388)
FINANCING ACTIVITIES		
Repayment of FHLB advances	(52,000)	(60,000)
Dividends paid on common stock	(921)	(928)
Purchase of treasury stock	—	(114)

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Net change in deposits	8,233	58,006
Net proceeds from stock offering	59,085	—
Purchase of shares by ESOP pursuant to reorganization	(3,825)	—
Change in State of California time deposit	—	(15,000)
Net cash provided by (used in) financing activities	10,572	(18,036)