

United Community Bancorp
Form 10-Q
May 14, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 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 March 31, 2007

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: 0-51800

United Community Bancorp

(Exact name of registrant as specified in its charter)

United States of America
(State or other jurisdiction of

36-4587081
(I.R.S. Employer Identification No.)

incorporation or organization)

92 Walnut Street, Lawrenceburg, Indiana
(Address of principal executive offices)

47025
(Zip Code)

(812) 537-4822

(Registrant's telephone number, including area code)

N/A

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

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

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. (See definition of accelerated filer and large accelerated filer in rule 12b-2 of the exchange act).

Large accelerated filer Accelerated filer Non-accelerated filer

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

As of May 4, 2007, there were 8,298,106 shares of the registrant's common stock outstanding.

UNITED COMMUNITY BANCORP

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Part I. Financial Information**Item 1. Financial Statements****UNITED COMMUNITY BANCORP AND SUBSIDIARY**

Consolidated Statements of Financial Condition

March 31, 2007 and June 30, 2006

Assets

| <i>(In thousands, except shares)</i> | (Unaudited) March 31, 2007 | June 30, 2006 |
|--|----------------------------------|------------------|
| Cash and cash equivalents | \$ 48,200 | \$ 15,010 |
| Investment securities: | | |
| Securities available for sale - at estimated market value | 20,993 | 42,083 |
| Securities held to maturity - at amortized cost (market approximates cost) | 223 | 245 |
| Mortgage-backed securities available for sale - at estimated market value | 28,957 | 34,263 |
| Loans receivable, net | 268,602 | 244,537 |
| Property and equipment, net | 6,380 | 5,427 |
| Federal Home Loan Bank stock, at cost | 1,610 | 1,687 |
| Accrued interest receivable: | | |
| Loans | 1,387 | 1,358 |
| Investments and mortgage-backed securities | 513 | 581 |
| Other real estate owned, net | 140 | 151 |
| Cash surrender value of life insurance policies | 6,293 | 6,124 |
| Deferred income taxes | 2,136 | 1,964 |
| Prepaid expenses and other assets | 806 | 1,277 |
| Total assets | \$ 386,240 | \$ 354,707 |

Liabilities and Stockholders Equity

| | | |
|---|-------------|-------------|
| Deposits | \$ 321,179 | \$ 289,807 |
| Accrued interest on deposits | 151 | 114 |
| Advances from borrowers for payment of insurance and taxes | 251 | 149 |
| Accrued expenses and other liabilities | 2,490 | 2,152 |
| Total liabilities | 324,071 | 292,222 |
| Commitments and contingencies | | |
| Stockholders equity | | |
| Preferred stock, \$0.01 par value; 1,000,000 shares authorized, none issued | | |
| Common stock, \$0.01 par value; 19,000,000 shares authorized, 8,464,000 shares issued at March 31, 2007 and June 30, 2006; 8,298,106 and 8,464,000 shares outstanding at March 31, 2007 and June 30, 2006 | 36 | 36 |
| Additional paid-in capital | 36,736 | 36,415 |
| Retained earnings | 30,772 | 29,636 |
| Less unearned ESOP shares | (3,104) | (3,318) |
| Less treasury stock, at cost - 165,894 shares at March 31, 2007 | (2,118) | |
| Accumulated other comprehensive income: | | |
| Unrealized gain (loss) on securities available for sale, net of income taxes | (153) | (284) |

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| | | |
|--|------------|------------|
| Total stockholders' equity | 62,169 | 62,485 |
| Total liabilities and stockholders' equity | \$ 386,240 | \$ 354,707 |

See accompanying notes to consolidated financial statements.

UNITED COMMUNITY BANCORP AND SUBSIDIARY

Consolidated Statements of Income

| <i>(In thousands, except per share data)</i> | (Unaudited) | | (Unaudited) | |
|---|-----------------------------------|----------|----------------------------------|-----------|
| | Three months ended March 31, 2007 | 2006 | Nine months ended March 31, 2007 | 2006 |
| Interest income: | | | | |
| Loans | \$ 4,361 | \$ 3,623 | \$ 12,807 | \$ 10,098 |
| Investments and mortgage - backed securities | 1,068 | 923 | 2,915 | 2,817 |
| Total interest income | 5,429 | 4,546 | 15,722 | 12,915 |
| Interest expense: | | | | |
| Deposits | 2,737 | 1,899 | 7,433 | 5,656 |
| Borrowed funds | | 41 | 97 | 41 |
| Total interest expense | 2,737 | 1,940 | 7,530 | 5,697 |
| Net interest income | 2,692 | 2,606 | 8,192 | 7,218 |
| Provision for loan losses | 95 | 30 | 635 | 90 |
| Net interest income after provision for loan losses | 2,597 | 2,576 | 7,557 | 7,128 |
| Other income (loss): | | | | |
| Service charges | 239 | 214 | 726 | 706 |
| Gain on sale of loans | 6 | 10 | 32 | 36 |
| Gain (loss) on sale of investments | 587 | (286) | 1,221 | (286) |
| Income from Bank Owned Life Insurance | 56 | 56 | 169 | 169 |
| Other | 113 | 123 | 207 | 219 |
| Total other income | 1,001 | 117 | 2,355 | 844 |
| Other expense: | | | | |
| Compensation and employee benefits | 1,504 | 1,197 | 4,033 | 3,319 |
| Premises and occupancy expense | 251 | 269 | 723 | 762 |
| Deposit insurance premium | 9 | 9 | 27 | 26 |
| Advertising expense | 63 | 69 | 221 | 222 |
| Data processing expense | 63 | 83 | 228 | 206 |
| ATM service fees | 52 | 82 | 228 | 232 |
| Charitable contributions | 3 | 1,859 | 7 | 1,869 |
| Other operating expenses | 373 | 270 | 1,285 | 754 |
| Total other expense | 2,318 | 3,838 | 6,752 | 7,390 |
| Income (loss) before income taxes | 1,280 | (1,145) | 3,160 | 582 |
| Income tax provision (benefit) | 567 | (381) | 1,225 | 245 |
| Net income (loss) | \$ 713 | \$ (764) | \$ 1,935 | \$ 337 |
| Basic and diluted earnings per share (1) | \$ 0.09 | \$ n/a | \$ 0.24 | \$ n/a |

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- (1) Due to the timing of the Bank's reorganization into the mutual holding company form and the completion of the initial public offering on March 30, 2006, earnings per share for the period from March 30, 2006 to March 31, 2006 is not considered meaningful and is not shown.
See accompanying notes to consolidated financial statements.

UNITED COMMUNITY BANCORP AND SUBSIDIARY

Consolidated Statements of Comprehensive Income

| <i>(In thousands)</i> | (Unaudited) | | (Unaudited) | |
|---|--|-------------------|---|-----------------|
| | Three months ended March 31, 2007 | 2006 | Nine months ended March 31, 2007 | 2006 |
| Net income | \$ 713 | \$ (764) | \$ 1,935 | \$ 337 |
| Other comprehensive income (loss), net of tax | | | | |
| Unrealized gain (loss) on available for sale securities during the period | 87 | (445) | 868 | (947) |
| Less reclassification adjustment for (gains) losses on available for sale securities included in income | (355) | 189 | (737) | 189 |
| Total comprehensive income | \$ 445 | \$ (1,020) | \$ 2,066 | \$ (421) |

See accompanying notes to consolidated financial statements.

UNITED COMMUNITY BANCORP AND SUBSIDIARY

Consolidated Statements of Cash Flows

| | (Unaudited) | |
|---|--------------------------------|-----------------|
| | Nine months ended March 31, | |
| <i>(In thousands)</i> | 2007 | 2006 |
| Operating activities: | | |
| Net income | \$ 1,935 | \$ 337 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 321 | 354 |
| Provision for loan losses | 635 | 90 |
| Deferred loan origination fees (costs) | (11) | (63) |
| Amortization of premium (discounts) on investments | 57 | 142 |
| Proceeds from sale of loans | 1,855 | 2,077 |
| Loans disbursed for sale in the secondary market | (1,840) | (2,059) |
| Gain on sale of loans | (32) | (36) |
| Loss (gain) on sale of available for sale investment securities | (1,221) | 286 |
| Loss on sale of other real estate owned | 69 | |
| ESOP shares committed to be released | 238 | |
| Stock-based compensation expense | 297 | |
| Deferred income taxes | (260) | (146) |
| Effects of change in operating assets and liabilities: | | |
| Accrued interest receivable | 39 | (241) |
| Prepaid expenses and other assets | 471 | (353) |
| Accrued interest on deposits | 37 | 34 |
| Income taxes payable | 395 | (303) |
| Accrued expenses and other | (57) | (4) |
| Net cash provided by operating activities | 2,928 | 115 |
| Investing activities: | | |
| Proceeds from maturity of available for sale investment securities | 20,679 | 7,000 |
| Proceeds from sale of available for sale investment securities | 1,239 | 9,069 |
| Proceeds from maturity of held to maturity investment securities | 22 | 20 |
| Proceeds from repayment of mortgage-backed securities available for sale | 6,011 | 16,531 |
| Proceeds from sale of other real estate owned | 134 | |
| Purchases of mortgage-backed securities available for sale | | (29,250) |
| Purchases of available for sale investment securities | (150) | (32,055) |
| Redemption of Federal Home Loan Bank stock | 77 | |
| Net (increase) decrease in loans | (24,863) | (27,074) |
| Increase in cash surrender value of life insurance | (169) | (169) |
| Capital expenditures | (1,275) | (329) |
| Net cash provided (used) by investing activities | 1,705 | (56,257) |
| Financing activities: | | |
| Net increase (decrease) in deposits | 31,372 | 2,467 |
| Proceeds from stock issuance, net of conversion cost | | 33,221 |
| Capitalization of mutual holding company | | (100) |
| Dividends paid to stockholders | (799) | |
| Repurchases of common stock | (2,118) | |
| Net increase in advances from borrowers for payment of insurance and taxes | 102 | (45) |
| Net cash provided (used) by financing activities | 28,557 | 35,543 |

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| | | |
|--|--------|----------|
| Net increase in cash and cash equivalents | 33,190 | (20,599) |
| Cash and cash equivalents at beginning of period | 15,010 | 76,263 |
| Cash and cash equivalents at end of period | 48,200 | 55,664 |

See accompanying notes to consolidated financial statements.

UNITED COMMUNITY BANCORP AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

BASIS OF PRESENTATION - United Community Bancorp (the **Company**), a Federally-chartered corporation, is the mid-tier holding company for United Community Bank (the **Bank**), which is a Federally-chartered, FDIC-insured savings bank. The Company was organized in conjunction with the Bank's reorganization from a mutual savings bank to the mutual holding company structure on March 30, 2006. Financial statements prior to the reorganization were the financial statements of the Bank. United Community MHC, a Federally-chartered corporation, is the mutual holding company parent of the Company. United Community MHC owns 55% of the Company's outstanding common stock and must always own at least a majority of the voting stock of the Company. The Company, through the Bank, operates in a single business segment providing traditional banking services through its office and branches in southeastern Indiana.

The accompanying unaudited financial statements were prepared in accordance with the instructions for Form 10-Q and Regulation S-X and therefore do not include all information or footnotes necessary for complete financial statements in conformity with accounting principles generally accepted in the United States of America. However, all normal recurring adjustments that, in the opinion of management, are necessary for a fair presentation of the financial statements have been included. There are no adjustments other than such normal recurring adjustments. The results for the three and nine month periods ended March 31, 2007 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2007. These financial statements should be read in conjunction with the Company's audited consolidated financial statements and the accompanying notes thereto for the year ended June 30, 2006, which are included on the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission on September 28, 2006.

2. EMPLOYEE STOCK OWNERSHIP PLAN (ESOP) As of March 31, 2007 and June 30, 2006, the ESOP owned 313,717 and 331,788 shares, respectively, of the Company's common stock, which were held in a suspense account until released for allocation to participants. As of March 31, 2007, the Company has committed to release 3,300 shares. The Company recognized compensation expense of \$40,000 and \$238,000 during the three and nine month periods ended March 31, 2007, respectively, which equals the fair value of the ESOP shares during the periods in which they became committed to be released.

3. STOCK-BASED COMPENSATION In November 2006, the Company adopted the United Community Bancorp 2006 Equity Incentive Plan (**Equity Incentive Plan**) for the issuance of restricted stock, incentive stock options and non-statutory stock options to employees, officers and directors of the Company. The aggregate number of shares of common stock reserved and available for issuance pursuant to awards granted under the Equity Incentive Plan is 580,630. Of the total shares available, 414,736 may be issued in connection with the exercise of stock options and 165,894 may be issued as restricted stock. The maximum number of shares of common stock that may be covered by options granted under the Equity Incentive Plan to any one person during any one calendar year is 103,684.

In December 2006, the Board of Directors of the Company authorized the funding of a trust that purchased 165,894 shares of the Company's outstanding common stock during the three months ended March 31, 2007 to be used to fund restricted stock awards under the Equity Incentive Plan.

The Company applies the provisions of Statement of Financial Accounting Standard No. 123(R) (**SFAS 123R**) to stock-based compensation, which requires the Company to measure the cost of employee services received in exchange for awards of equity instruments and to recognize this cost in the financial statements over the period during which the employee is required to provide such services.

In December 2006, the Company granted restricted stock awards for a total of 149,297 shares of common stock, incentive stock option awards for a total of 219,446 shares of common stock and non-statutory stock option awards for a total of 153,815 shares of common stock. These awards vest at 20% annually from January 2008 through January 2012. As of March 31, 2007, all granted awards remain outstanding and unvested. The remaining average contractual life of the stock option awards is 9.75 years as of March 31, 2007. The related expense for the nine month period ended March 31, 2007 was \$298,000. The Company has elected to recognize compensation cost associated with its outstanding stock-based compensation awards with graded vesting on an accelerated basis pursuant to SFAS 123R. The unvested expense as of March 31, 2007, that will be recorded as expense in future periods, is approximately \$2.3 million, which is net of the effect of estimated forfeitures. This expense has been calculated for stock options using the Black-Scholes option pricing model using the following assumptions: expected volatility of 11.49%, risk-free interest rate of 4.6%, expected term of ten years and expected dividend yield of 2.3%. The expense associated with restricted stock awards is calculated based upon the value of the common stock on the date of grant. The weighted average time over which this expense will be recorded is 60 months.

4. EARNINGS PER SHARE (EPS) Basic EPS is based on the weighted average number of common shares outstanding, adjusted for ESOP shares not yet committed to be released. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock. The following is a reconciliation of the basic and diluted weighted average number of common shares outstanding:

| | Quarter ended March 31, 2007 | Nine months ended March 31, 2007 |
|---|------------------------------------|---|
| Basic weighted average outstanding shares | 8,001,316 | 8,097,974 |
| Effect of dilutive stock options and restricted stock | 15,263 | 11,449 |
| Diluted weighted average outstanding shares | 8,016,579 | 8,109,423 |

The basic weighted average outstanding shares includes 3,300 shares committed to be released from the ESOP. Due to the timing of the Bank's reorganization into the mutual holding company form and the completion of the Company's initial public offering on March 30, 2006, there were no shares of common stock outstanding for the corresponding 2006 periods.

5. DIVIDENDS On July 27, 2006, October 26, 2006 and January 25, 2007, the Board of Directors of the Company declared cash dividends on the Company's outstanding shares of stock of \$0.07 per share. United Community MHC, which owns 4,655,200 shares of the Company's common stock, waived receipt of the dividends. The dividends were paid on August 31, 2006, November 30, 2006 and February 28, 2007. Accordingly, cash dividends approximating \$799,000 were paid to shareholders during the nine month period ended March 31, 2007. United Community MHC has waived its right to receive cash dividends of approximately \$978,000 on the shares of Company common stock owned by the MHC.

On April 26, 2007, the Board of Directors of the Company declared cash dividends on the Company's outstanding shares of stock of \$0.08 per share, payable on or about May 31, 2007. United Community MHC intends to waive its right to receive cash dividends on the shares of Company common stock owned by it.

6. REPURCHASES OF COMMON STOCK During December 2006, the Board of Directors of the Company authorized the funding of a trust that purchased 165,894 shares of the Company's outstanding common stock during the three months ended March 31, 2007 to be used to fund restricted stock awards granted under the Equity Incentive Plan. The repurchased stock has been recorded as treasury stock at cost of \$2,118,000 in the accompanying consolidated statement of financial position as of March 31, 2007.

In April 2007, the Board of Directors of the Company authorized the repurchase of an additional 190,440 shares of the Company's outstanding common stock subject to market conditions.

7. SUPPLEMENTAL CASH FLOW INFORMATION

| | Nine Months Ended March 31, 2007 2006 (Dollars in thousands) | |
|---|--|----------|
| Supplemental disclosure of cash flow information is as follows: | | |
| Cash paid during the period for: | | |
| Income taxes | \$ 1,089 | \$ 1,217 |
| Interest | \$ 7,490 | \$ 5,615 |
| Supplemental disclosure of non-cash investing and financing activities is as follows: | | |
| Unrealized gains (losses) on securities designated as available for sale, net of tax | \$ 131 | (\$ 758) |
| Transfers of loans to other real estate owned | \$ 191 | \$ 0 |

8. EFFECT OF RECENT ACCOUNTING PRONOUNCEMENTS

In March 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 156, Accounting for Servicing of Financial Assets, an amendment of FASB Statement No. 140. This statement amends FASB Statement No. 140 and requires that all separately recognized servicing rights be initially measured at fair value, if practicable. For each class of separately recognized servicing assets and liabilities, this statement permits the Company to choose either to report servicing assets and liabilities at fair value or at amortized cost. Under the fair value approach, servicing assets and liabilities will be recorded at fair value at each reporting date with changes in fair value recorded in earnings in the period in which the changes occur. Under the amortized cost method, servicing assets and liabilities are amortized in proportion to and over the period of estimated net servicing income or net servicing loss and are assessed for impairment based on fair value at each reporting date. This statement is effective as of the beginning of the first fiscal year that begins after September 15, 2006. The Company does not expect the adoption of SFAS No. 156 to have a material effect on its consolidated financial statements.

In July 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48), which clarifies the accounting for uncertainty in tax positions. This interpretation requires the recognition in the financial statements of the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2006, with the cumulative effect of the change in accounting principle recorded as an adjustment to beginning retained earnings. The Company does not expect the adoption of FIN 48 to have a material effect on its consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This statement applies under other accounting pronouncements that require or permit fair value measurements, which concluded in those pronouncements that fair value is a relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. The pronouncement is effective for financial statements issued for fiscal years beginning after November 15, 2007 and

interim periods within those fiscal years. The Company does not expect the adoption of SFAS No. 157 to have a material effect on its consolidated financial statements.

In September 2006, the Emerging Issues Task Force (EITF) reached a consensus on EITF Issue No. 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements*. The issue requires that an employer who issues an endorsement split-dollar life insurance arrangement that provides a benefit to an employee should recognize a liability for future benefits in accordance with SFAS No. 106, *Employers Accounting for Postretirement Benefits Other Than Pensions*, if in substance a postretirement plan exists, or Accounting Principles Board (APB) Opinion No. 12, *Omnibus Opinion*, if the arrangement is, in substance, an individual deferred compensation contract, based on the substantive agreement with the employee. This issue is effective for fiscal years beginning after December 31, 2007 with earlier application permitted. Management is currently assessing the impact of this issue on the Company's financial statements.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108 (SAB 108), *Considering the Effects of Prior Year Misstatements in Current Year Financial Statements*. SAB 108 was issued to provide guidance in quantifying the effects of financial statement misstatements. SAB 108 requires the Company to quantify the materiality of such errors under both the *rollover* and *iron curtain* approaches. The Company does not expect any material impact from the application of SAB 108.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* including an amendment of FASB Statement No. 155. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This Statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of SFAS No. 157. The Company does not expect this Statement to have a material effect on its consolidated financial statements.

Item 2. Management Discussion and Analysis

Forward-Looking Statements

This report contains forward-looking statements that are based on assumptions and may describe future plans, strategies and expectations of the Company. These forward-looking statements are generally identified by use of the words believe, expect, intend, anticipate, estimate, project, similar expressions. The Company's ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse effect on the operations of the Company and its subsidiaries include, but are not limited to, changes in interest rates, national and regional economic conditions, legislative and regulatory changes, monetary and fiscal policies of the U.S. government, including policies of the U.S. Treasury and the Federal Reserve Board, the quality and composition of the loan or investment portfolios, demand for loan products, deposit flows, competition, demand for financial services in the Bank's market area, changes in real estate market values in the Bank's market area, and changes in relevant accounting principles and guidelines. Additionally, other risks and uncertainties may be described in the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission on September 28, 2006, which is available through the SEC's website at www.sec.gov, as well as under Part II - Item 1A. Risk Factors of this Form 10Q. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. Except as required by applicable law or regulation, the Company does not undertake, and specifically disclaims any obligation, to release publicly the result of any revisions that may be made to any forward-looking statements to reflect events or circumstances after the date of the statements or to reflect the occurrence of anticipated or unanticipated events.

Comparison of Financial Condition at March 31, 2007 and June 30, 2006

Total assets were \$386.2 million at March 31, 2007 compared to \$354.7 million at June 30, 2006. Nonperforming assets increased from \$972,000 at June 30, 2006 to \$3.1 million at March 31, 2007. The increase in nonperforming assets is primarily due to an increase in nonperforming loans as the result of three commercial real estate loans totaling \$1.8 million and three one-to-four family residential real estate loans totaling \$300,000. During the nine month period ended March 31, 2007, cash and cash equivalents increased \$33.2 million to \$48.2 million due primarily to a \$21.3 million increase in certificates of deposit and a \$7.9 million increase in municipal deposits. Securities available for sale decreased \$21.1 million to \$21.0 million and mortgage backed securities available for sale decreased \$5.3 million to \$29.0 million. The decreases are due to the redeployment of these funds into higher yielding loans. Loans receivable increased \$24.1 million to \$268.6 million primarily as a result of increases in our commercial real estate loan portfolio. Loan growth in this portfolio is primarily the result of our marketing efforts which include media and personal contacts. Loan growth was funded primarily by sales and maturities of investment securities and by the increase in deposits.

Total liabilities increased \$31.8 million to \$324.1 million at March 31, 2007 from \$292.2 million at June 30, 2006. The increase in liabilities is primarily the result of a \$31.4 million increase in deposits, primarily relating to increases in certificates of deposits of \$21.3 million, demand deposits of \$2.7 million and municipal deposits of \$7.9 million, and an increase in accrued liabilities primarily resulting from an increase in income taxes payable. The increase in certificates of deposit is primarily the result of the Bank's offering of promotional rates on seven-month certificates of deposit in connection with the opening of its Aurora branch office.

Stockholders' equity at March 31, 2007 was \$62.2 million compared to \$62.5 million at June 30, 2006. The decrease is primarily due to the repurchase of 165,894 shares of common stock to fund a trust used to fund restricted stock awards under the Company's 2006 Equity Incentive Plan at an aggregate cost of \$2.1 million and dividends paid of \$799,000, offset by net income of \$1.9 million for the nine months ended March 31, 2007, a decrease in unrealized losses on securities available for sale of \$131,000, a reduction in unearned ESOP shares and related market value adjustments of \$238,000, and stock-based compensation expense of \$297,000.

Comparison of Operating Results for the Three and Nine Months Ended March 31, 2007 and 2006

General. Net income increased to \$713,000 for the three months ended March 31, 2007 compared to a net loss of \$764,000 for the three months ended March 31, 2006. The increase in net income was the result of an \$86,000 increase in net interest income, an \$884,000 increase in non-interest income and a \$1.5 million reduction in non-interest expenses, partially offset by a \$65,000 increase in provision for loan losses and a \$948,000 increase in income tax expense. Net income for the nine months ended March 31, 2007 was \$1.9 million compared to \$337,000 for the nine months ended March 31, 2006. The increase in net income for the nine month period was the result of a \$974,000 increase in net interest income, a \$1.5 million increase in non-interest income and a \$638,000 reduction in non-interest expenses, partially offset by a \$545,000 increase in provision for loan losses and a \$980,000 increase in income tax expense.

Net Interest Income. Net interest income for the quarter ended March 31, 2007 totaled \$2.7 million compared to \$2.6 million for the prior year quarter. The increase from the prior year quarter is primarily due to an increase in total interest income of \$883,000, partially offset by an increase in total interest expense of \$797,000. Interest income on loans increased by \$738,000 primarily due to the combined effect of an increase in average balance from \$224.5 million to \$265.7 million and an increase in average yield from 6.45% to 6.56%. Interest income on investment and mortgage-backed securities decreased by \$144,000 to \$603,000, primarily due to the impact of a decrease in average balance from \$74.4 million to \$51.7 million, partially offset by an increase in average yield from 4.01% to 4.67%. The decreases in investment and mortgage-backed securities is due to the deployment of the proceeds of these securities into higher yielding loans. Interest income on other interest-earning assets increased \$289,000 to \$465,000, primarily due to the impact of an increase in average balance from \$31.1 million to \$47.1 million and an increase in average yield from 2.26% to 3.95%. Interest expense on interest-bearing deposits increased by \$838,000 primarily due to the effect of an increase in average balance from \$302.6 million to \$317.9 million and an increase in the average rate paid from 2.51% to 3.44%. Interest expense on borrowed funds decreased \$41,000 due to average outstanding borrowings of \$6.7 million for the quarter ended March 31, 2006 compared with the absence of such borrowings during the quarter ended March 31, 2007. The increases in the average yields on loans and investments and in the average rates paid on interest-bearing deposits are primarily the result of an increase in market interest rates.

Net interest income for the nine months ended March 31, 2007 totaled \$8.2 million compared to \$7.2 million for the prior year period. The increase from the prior year period is primarily due to an increase in total interest income of \$2.8 million, partially offset by an increase in total interest expense of \$1.8 million. Interest income on loans increased by \$2.7 million primarily due to the combined effect of an increase in average balance from \$213.9 million to \$258.6 million and an increase in average yield from 6.29% to 6.60%. Interest income on investment and mortgage-backed securities decreased by \$31,000 to \$2.1 million, primarily due to the impact of a decrease in average balance from \$77.9 million to \$59.8 million, partially offset by an increase in average yield from 3.58% to 4.59%. Interest income on other interest-earning assets increased \$129,000 to \$854,000, primarily due to the impact of an increase in average balance from \$24.2 million to \$27.4 million and an increase in average yield from 4.00% to 4.16%. Interest expense on interest-bearing deposits increased by \$1.8 million, primarily due to the effect of an increase in average rate paid from 2.53% to 3.35%, partially offset by a decrease in average balance from \$298.5 million to \$295.6 million. Interest expense on borrowed funds increased \$56,000 due to an increase in average outstanding borrowings from \$2.0 million to \$2.7 million and an increase in average rate paid from 2.77% to 4.73%. The increases in the average yields on loans and investments and in the average rates paid on interest-bearing deposits and borrowed funds are primarily the result of an increase in market interest rates. The increase in borrowings was used to fund loan growth.

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The following table summarizes changes in interest income and interest expense for the three and nine months ended March 31, 2007 and 2006.

| | Three Months Ended March 31, | | | Nine Months Ended March 31, | | |
|--|---------------------------------|-----------------|--------------|--------------------------------|-----------------|--------------|
| | 2007 | 2006 | % Change | 2007 | 2006 | % Change |
| (Dollars in thousands) | | | | | | |
| Interest income: | | | | | | |
| Loans | \$ 4,361 | \$ 3,623 | 20.37% | \$ 12,807 | \$ 10,098 | 26.83% |
| Investment securities | 603 | 747 | (19.28) | 2,061 | 2,092 | (1.48) |
| Other interest-earning assets | 465 | 176 | 164.20 | 854 | 725 | 17.79 |
| Total interest income | 5,429 | 4,546 | 19.42 | 15,722 | 12,915 | 21.73 |
| Interest expense: | | | | | | |
| NOW and money market deposit accounts | 942 | 863 | 9.15 | 2,696 | 2,693 | 0.11 |
| Passbook accounts | 191 | 160 | 19.38 | 582 | 530 | 9.81 |
| Certificates of deposit | 1,604 | 876 | 83.11 | 4,155 | 2,433 | 70.78 |
| Total interest-bearing deposits | 2,737 | 1,899 | 44.13 | 7,433 | 5,656 | 31.42 |
| FHLB advances | | 41 | n/a | 97 | 41 | 136.59 |
| Total interest expense | 2,737 | 1,940 | 41.08 | 7,530 | 5,697 | 32.17 |
| Net interest income | \$ 2,692 | \$ 2,606 | 3.30 | \$ 8,192 | \$ 7,218 | 13.49 |

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The following table summarizes average balances and average yields and costs of interest-earning assets and interest-bearing liabilities for the three and nine months ended March 31, 2007 and 2006. For the purposes of this table, average balances have been calculated using month-end balances, and nonaccrual loans are included in average balances only. Yields are not presented on a tax equivalent basis.

| | Three Months Ended March 31, | | | | | | Nine Months Ended March 31, | | | | | |
|---|------------------------------|------------------------------|----------------|--------------------|------------------------------|----------------|-----------------------------|------------------------------|----------------|--------------------|------------------------------|----------------|
| | 2007 | | | 2006 | | | 2007 | | | 2006 | | |
| | Average Balance | Interest and Dividends | Yield/ Cost | Average Balance | Interest and Dividends | Yield/ Cost | Average Balance | Interest and Dividends | Yield/ Cost | Average Balance | Interest and Dividends | Yield/ Cost |
| (Dollars in thousands) | | | | | | | | | | | | |
| Assets: | | | | | | | | | | | | |
| Interest-earning assets: | | | | | | | | | | | | |
| Loans | \$ 265,745 | \$ 4,361 | 6.56% | \$ 224,530 | \$ 3,623 | 6.45% | \$ 258,625 | \$ 12,807 | 6.60% | \$ 213,915 | \$ 10,098 | 6.29% |
| Investment securities | 51,697 | 603 | 4.67 | 74,436 | 747 | 4.01 | 59,812 | 2,061 | 4.59 | 77,901 | 2,092 | 3.58 |
| Other interest-earning assets | 47,073 | 465 | 3.95 | 31,126 | 176 | 2.26 | 27,376 | 854 | 4.16 | 24,154 | 725 | 4.00 |
| | 364,515 | 5,429 | 5.96 | 330,092 | 4,546 | 5.51 | 345,813 | 15,722 | 6.06 | 315,970 | 12,915 | 5.45 |
| Noninterest-earning assets | 18,649 | | | 21,787 | | | 19,149 | | | 20,207 | | |
| Total assets | \$ 383,164 | | | \$ 351,879 | | | \$ 364,962 | | | \$ 336,177 | | |
| Liabilities and stockholders equity: | | | | | | | | | | | | |
| Interest-bearing liabilities: | | | | | | | | | | | | |
| NOW and money market deposit accounts (1) | \$ 140,174 | \$ 942 | 2.69 | \$ 154,270 | \$ 863 | 2.24 | \$ 129,363 | \$ 2,696 | 2.78 | \$ 149,610 | \$ 2,693 | 2.40 |
| Passbook accounts (1) | 42,726 | 191 | 1.79 | 44,598 | 160 | 1.44 | 44,384 | 582 | 1.75 | 44,838 | 530 | 1.58 |
| Certificates of deposit (1) | 135,024 | 1,604 | 4.75 | 103,756 | 876 | 3.38 | 121,806 | 4,155 | 4.55 | 104,012 | 2,433 | 3.12 |
| Total interest-bearing deposits | 317,924 | 2,737 | 3.44 | 302,624 | 1,899 | 2.51 | 295,553 | 7,433 | 3.35 | 298,460 | 5,656 | 2.53 |
| FHLB advances | | | | 6,711 | 41 | 2.44 | 2,733 | 97 | 4.73 | 1,975 | 41 | 2.77 |
| Total interest-bearing liabilities | 317,924 | 2,737 | 3.44 | 309,335 | 1,940 | 2.51 | 298,286 | 7,530 | 3.37 | 300,435 | 5,697 | 2.53 |
| Noninterest bearing liabilities | 3,038 | | | 1,311 | | | 3,532 | | | 1,975 | | |
| Total liabilities | 320,962 | | | 310,646 | | | 301,818 | | | 302,410 | | |
| Stockholders equity | 62,202 | | | 41,233 | | | 63,144 | | | 33,767 | | |
| Total liabilities and stockholders equity | \$ 383,164 | | | \$ 351,879 | | | \$ 364,962 | | | \$ 336,177 | | |

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| | | | | |
|---|----------|----------|----------|----------|
| Net interest income | \$ 2,692 | \$ 2,606 | \$ 8,192 | \$ 7,218 |
| Interest rate spread | 2.52% | 3.00% | 2.69% | 2.92% |
| Net interest margin (annualized) | 2.95% | 3.16% | 3.16% | 3.05% |
| Average interest-earning assets to average interest-bearing liabilities | 114.65% | 106.71% | 115.93% | 105.17% |

(1) Includes municipal deposits

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Provision for Loan Losses. The following table summarizes the activity in the allowance for loan losses and provision for loan losses for the three and nine months ended March 31, 2007 and 2006.

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|-------------------------------------|---------------------------------|----------|--------------------------------|----------|
| | 2007 | 2006 | 2007 | 2006 |
| | (Dollars in thousands) | | | |
| Allowance at beginning of period | \$ 2,629 | \$ 2,176 | \$ 2,105 | \$ 2,266 |
| Provision for loan losses | 95 | 30 | 635 | 90 |
| Charge offs: | | | | |
| Real estate | | | 20 | 13 |
| Nonresidential real estate and land | | | 8 | |
| Consumer and other loans | 1 | 184 | 18 | 341 |
| Total charge-offs | 1 | 184 | 46 | 354 |
| Recoveries | | | | |
| Real estate | 7 | | 20 | 9 |
| Consumer and other loans | 40 | 1 | 56 | 12 |
| Total recoveries | 47 | 1 | 76 | 21 |
| Net charge-offs | (46) | 183 | (30) | 333 |
| Allowance at end of period | \$ 2,770 | \$ 2,023 | \$ 2,770 | \$ 2,023 |

The provision for loan losses was \$95,000 for the quarter ended March 31, 2007 compared to \$30,000 for the quarter ended March 31, 2006. The provision for loan losses was \$635,000 for the nine months ended March 31, 2007 compared to \$90,000 for the nine months ended March 31, 2006. The increase is primarily due to the increase in size of the loan portfolio, as well as an increase of \$2.2 million in nonperforming loans for the nine months ended March 31, 2007 as compared to a decrease of \$214,000 in nonperforming loans for the nine months ended March 31, 2006. The increase in nonperforming loans is primarily the result of three commercial real estate loans totaling \$1.8 million and three one-to-four family residential real estate loans totaling \$0.3 million. The following table provides information with respect to our nonperforming assets at the dates indicated. We did not have any troubled debt restructurings or any accruing loans past due 90 days or more at the dates presented.

| | At March 31, 2007 | At June 30, 2006 | % Change |
|--|------------------------|---------------------|----------|
| | (Dollars in thousands) | | |
| Nonaccrual loans: | | | |
| Residential real estate: | | | |
| One- to four-family | \$ 930 | \$ 602 | 54.49% |
| Nonresidential real estate and land | 1,937 | 183 | 958.47 |
| Consumer and other loans | 117 | 36 | 225.00 |
| Total | 2,984 | 821 | 263.46 |
| Real estate owned | 140 | 151 | (7.28) |
| Total nonperforming assets | \$ 3,124 | \$ 972 | 221.40 |
| Total nonperforming loans to total loans | 1.11% | 0.33% | 236.65 |
| Total nonperforming loans to total assets | 0.77% | 0.23% | 235.90 |
| Total nonperforming assets to total assets | 0.81% | 0.27% | 199.56 |

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Other Income. The following table summarizes other income for the three and nine months ended March 31, 2007 and 2006.

| | Three Months Ended March 31, | | | Nine Months Ended March 31, | | |
|---------------------------------------|---------------------------------|--------|----------|--------------------------------|--------|----------|
| | 2007 | 2006 | % Change | 2007 | 2006 | % Change |
| | (Dollars in thousands) | | | | | |
| Service charges | \$ 239 | \$ 214 | 11.7% | \$ 726 | \$ 706 | 2.8% |
| Gain on sale of loans | 6 | 10 | (40.0) | 32 | 36 | (11.1) |
| Gain (loss) on sale of investments | 587 | (286) | (305.2) | 1,221 | (286) | (526.9) |
| Income from Bank Owned Life Insurance | 56 | 56 | | 169 | 169 | |
| Other | 113 | 123 | (8.1) | 207 | 219 | (5.5) |
| Total | \$ 1,001 | \$ 117 | 755.6 | \$ 2,355 | \$ 844 | 179.0 |

Noninterest income was \$1.0 million for the quarter ended March 31, 2007, compared to \$117,000 for the same period in 2006. A gain on sale of investments of \$587,000 was reported for the quarter ended March 31, 2007, compared to a loss of \$286,000 for the same period in 2006. The gain is primarily related to the sale of securities issued by Freddie Mac, the proceeds of which were used to fund loan growth.

Noninterest income was \$2.4 million for the nine months ended March 31, 2007, compared to \$844,000 for the same period in 2006, primarily due to the gain on sale of investments of \$1.2 million that was reported for the nine months ended March 31, 2007, compared to a loss of \$286,000 for the same period in 2006. The gain is primarily related to the sale of securities issued by Freddie Mac, the proceeds of which were used to fund loan growth.

Other Expense. The following table summarizes other expense for the three and nine months ended March 31, 2007 and 2006.

| | Three Months Ended March 31, | | | Nine Months Ended March 31, | | |
|------------------------------------|---------------------------------|----------|----------|--------------------------------|----------|----------|
| | 2007 | 2006 | % Change | 2007 | 2006 | % Change |
| | (Dollars in thousands) | | | | | |
| Compensation and employee benefits | \$ 1,504 | \$ 1,197 | 25.6% | \$ 4,033 | \$ 3,319 | 21.5% |
| Premises and occupancy expense | 251 | 269 | (6.7) | 723 | 762 | (5.1) |
| Deposit insurance premium | 9 | 9 | | 27 | 26 | 3.8 |
| Advertising expense | 63 | 69 | (8.7) | 221 | 222 | (0.5) |
| Data processing expense | 63 | 83 | (24.1) | 228 | 206 | 10.7 |
| ATM service fees | 52 | 82 | (36.6) | 228 | 232 | (1.7) |
| Charitable contributions | 3 | 1,859 | (99.8) | 7 | 1,869 | (99.6) |
| Other operating expenses | 373 | 270 | 38.1 | 1,285 | 754 | 70.4 |
| Total | \$ 2,318 | \$ 3,838 | (39.6) | \$ 6,752 | \$ 7,390 | (8.6) |

Noninterest expense was \$2.3 million for the quarter ended March 31, 2007 compared to \$3.8 million for the same prior year period. The decrease in noninterest expense was primarily the result of a \$1.9 million decrease in charitable contributions, partially offset by an increase in compensation and benefit expense of \$307,000 and an increase in other expenses of \$103,000. The reduction in charitable contributions is due to the funding of the United Community Charitable Foundation of \$1.9 million during the quarter ended March 31, 2006. The increase in compensation and benefit expense is primarily due to stock-based compensation expense of \$298,000 during the quarter ended March 31, 2007 as well as an increase in the number of employees to staff our new Aurora branch and our proposed St. Leon branch, which opened on May 7, 2007. The increase in stock-based compensation is due in part to the Company's election to recognize compensation expense associated with its outstanding stock-based compensation awards with graded vesting on an accelerated basis pursuant to SFAS 123R, as follows: \$1,190,000 in year one; \$669,000 in year two; \$408,000 in year three; \$235,000 in year four and \$104,000 in year five. The increase in other expenses is primarily due to additional expenses associated with being a public company.

Noninterest expense was \$6.8 million for the nine months ended March 31, 2007 compared to \$7.4 million for the same prior year period. The decrease in noninterest expense was primarily the result of a \$1.9 million decrease in charitable contributions, partially offset by a \$714,000 increase in compensation and benefit expense, and a \$531,000 increase in other operating expenses. The reduction in charitable contributions is due to the absence of the 2006 funding of the United Community Charitable Foundation as discussed above. The increase in compensation and benefit expense is due to stock-based compensation expense of \$298,000 during the nine months ended March 31, 2007 as well as an increase in the number of employees to staff our new Aurora and proposed St. Leon branches as discussed above. The increase in stock-based compensation is due in part to the Company's election to recognize compensation expense associated with its outstanding stock-based compensation awards with graded vesting on an accelerated basis pursuant to SFAS 123R, as follows: \$1,190,000 in year one; \$669,000 in year two; \$408,000 in year three; \$235,000 in year four and \$104,000 in year five. The increase in other expenses is primarily due to additional expenses associated with being a public company. Other operating expenses are primarily comprised of miscellaneous loan expense, professional fees, bank fees and office expenses.

Income Taxes. Income tax expense was \$567,000 for the quarter ended March 31, 2007 compared to an income tax benefit of \$381,000 for the same period in 2006. The increase in expense is primarily due to a \$2.4 million increase in pre-tax earnings as well as an increase in the annual effective tax rate resulting primarily from nondeductible charges related to certain stock-based compensation awards.

Income tax expense increased \$980,000 to \$1.2 million for the nine months ended March 31, 2007, compared to \$245,000 for the same period in 2006. The increase in expense is primarily due to a \$2.6 million increase in pre-tax earnings.

Liquidity Management. Liquidity is the ability to meet current and future financial obligations of a short-term nature. Our primary sources of funds consist of deposit inflows, loan repayments, maturities and sales of securities and borrowings from the Federal Home Loan Bank of Indianapolis. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions and competition.

We regularly adjust our investments in liquid assets based upon our assessment of: (1) expected loan demands; (2) expected deposit flows, in particular municipal deposit flows; (3) yields available on interest-earning deposits and securities; and (4) the objectives of our asset/liability management policy.

Our most liquid assets are cash and cash equivalents. The levels of these assets depend on our operating, financing, lending and investing activities during any given period. Cash and cash equivalents totaled \$48.2 million and \$15.0 million at March 31, 2007 and June 30, 2006, respectively. Securities classified as available-for-sale whose market value exceeds our cost, which provide additional sources of liquidity, totaled \$3.6 million and \$2.1 million at March 31, 2007 and June 30, 2006, respectively. Total securities classified as available-for-sale were \$50.0 million and \$76.3 million at March 31, 2007 and June 30, 2006, respectively. In addition, at June 30, 2006, we had the ability to borrow a total of approximately \$85 million from the Federal Home Loan Bank of Indianapolis. There were no outstanding borrowings from the Federal Home Loan Bank of Indianapolis as of March 31, 2007 and June 30, 2006.

At March 31, 2007 and June 30, 2006, we had \$22.4 million and \$23.5 million in loan commitments outstanding, respectively. At March 31, 2007, this consisted of \$5.5 million of mortgage loan commitments, \$12.2 million in unused home equity lines of credit and \$4.7 million in commercial lines of credit. At March 31, 2007 and June 30, 2006, we also had \$3.4 million of letters of credit outstanding. At June 30, 2006, we had \$6.5 million in mortgage loan commitments, \$14.5 million in unused home equity lines of credit and \$2.5 million in commercial lines of credit. Certificates of deposit due within one year of March 31, 2007 and June 30, 2006 totaled \$101.6 million and \$67.7 million, respectively. This represented 73.8% and 64.1% of certificates of deposit at March 31, 2007 and June 30, 2006, respectively. We believe the large percentage of certificates of deposit that mature within one year reflects customers' hesitancy to invest their funds for long periods in the current low interest rate environment. If these maturing deposits do not remain with us, we will be required to seek other sources of funds, including other certificates of deposit and borrowings. Depending on market conditions, we may be required to pay higher rates on such deposits or other borrowings than we currently pay on the certificates of deposit due on or before March 31, 2008. We believe, however, based on past experience, that a significant portion of our certificates of deposit will remain with us. We have the ability to attract and retain deposits by adjusting the interest rates offered.

Historically, municipal deposits, consisting primarily of tax revenues from the local river boat casino operations, have been a significant source of funds for our lending and investment activities. At March 31, 2007, \$146.5 million, or 45.6% of our total deposits, consisted of municipal deposits compared to \$138.6 million, or 47.8% of total deposits at June 30, 2006. Municipal deposits are generally short-term deposits and are generally considered rate-sensitive instruments. In recent years, we have increased our municipal deposits significantly. Municipal deposits fluctuate depending on various circumstances, including local tax revenues and the payment obligations of the municipalities whose funds are on deposit. During the three months ended March 31, 2007, we experienced a net increase in municipal deposits of \$18.3 million and during the nine months ended March 31, 2007, we experienced a net increase in municipal deposits of \$7.9 million.

Our primary investing activities are the origination and purchase of loans and the purchase of securities. Our primary financing activities consist of activity in deposit accounts, dividends paid to stockholders and Federal Home Loan Bank advances. Deposit flows are affected by the overall level of interest rates, the interest rates and products offered by us and our local competitors and other factors. We generally manage the pricing of our deposits to be competitive and to increase core deposit relationships. Occasionally, we offer promotional rates on certain deposit products to attract deposits.

Capital Management. We are subject to various regulatory capital requirements administered by the Office of Thrift Supervision, including a risk-based capital measure. The risk-based capital guidelines include both a definition of capital and a framework for calculating risk-weighted assets by assigning balance sheet assets and off-balance sheet items to broad risk categories. At March 31, 2007 and June 30, 2006, we exceeded all of our regulatory capital requirements. We are considered well capitalized under regulatory guidelines.

The capital from the stock offering in March 2006 increased our consolidated equity by \$30.5 million. The capital from the offering significantly increased our liquidity and capital resources. Over time, the initial level of liquidity will be reduced as net proceeds from the stock offering are used for general corporate purposes, including the funding of lending activities. Our financial condition and results of operations are expected to be enhanced by the capital from the offering, resulting in increased net interest-earning assets and net income. However, the large increase in equity resulting from the capital raised in the offering will, initially, have an adverse impact on our return on equity. We may use capital management tools such as cash dividends and common share repurchases. However, under Office of Thrift Supervision regulations, we are not allowed to repurchase any shares during the first year following the offering, except to fund the restricted stock awards under the equity incentive plan, unless extraordinary circumstances exist and we receive regulatory approval. See Note 5 of the financial statements that accompany this report for information concerning dividends declared and paid by the Company during the nine months ended March 31, 2007.

The following table summarizes the Bank's capital amounts and the ratios required at March 31, 2007:

| | Actual | | For capital adequacy purposes | | To be well capitalized under prompt corrective action provisions | |
|---|-----------|--------|-------------------------------|-------|--|--------|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| (in thousands) | | | | | | |
| March 31, 2007 (unaudited) | | | | | | |
| Tier 1 capital to risk-weighted assets | \$ 47,440 | 19.76% | \$ 9,601 | 4.00% | \$ 14,402 | 6.00% |
| Total capital to risk-weighted assets | 49,810 | 20.75% | 19,202 | 8.00% | 24,003 | 10.00% |
| Tier 1 capital to adjusted total assets | 47,440 | 12.48% | 15,205 | 4.00% | 19,006 | 5.00% |
| Tangible capital to adjusted total assets | 47,440 | 12.48% | 5,702 | 1.50% | | |

Off-Balance Sheet Arrangements. In the normal course of operations, we engage in a variety of financial transactions that, in accordance with U.S. generally accepted accounting principles, are not recorded in our financial statements. These transactions involve, to varying degrees, elements of credit, interest rate and liquidity risk. Such transactions are used primarily to manage customers' requests for funding and take the form of loan commitments, letters of credit and lines of credit. For information about our loan commitments and unused lines of

credit, see Note 12 of the notes to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended June 30, 2006, as filed with the SEC. We currently have no plans to engage in hedging activities in the future.

For the year ended June 30, 2006 and for the nine months ended March 31, 2007, we engaged in no off-balance sheet transactions reasonably likely to have a material effect on our financial condition, results of operations or cash flows.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

For a discussion of the Company's asset and liability management policies as well as the potential impact of interest rate changes upon the market value of the Company's portfolio equity, see Management's Discussion and Analysis of Financial Condition and Results of Operations in the Company's Annual Report on Form 10-K, filed with the Securities and Exchange Commission on September 28, 2006. The main components of market risk for the Company are interest rate risk and liquidity risk. The Company manages interest rate risk and liquidity risk by establishing and monitoring the volume, maturities, pricing and mix of assets and funding sources with the objective of managing assets and funding sources to provide results that are consistent with liquidity, growth, risk limits and profitability goals. Model simulation is used to measure earnings volatility under both rising and falling rate scenarios.

We use a net portfolio value analyses prepared by the Office of Thrift Supervision to review our level of interest rate risk. This analysis measures interest rate risk by computing changes in net portfolio value of our cash flows from assets, liabilities and off-balance sheet items in the event of a range of assumed changes in market interest rates. Net portfolio value represents the market value of portfolio equity and is equal to the market value of assets minus the market value of liabilities, with adjustments made for off-balance sheet items. These analyses assess the risk of loss in market risk-sensitive instruments in the event of a sudden and sustained 100 to 300 basis point increase or 100 and 200 basis point decrease in market interest rates with no effect given to any steps that we might take to counter the effect of that interest rate movement. Because of the low level of market interest rates, these analyses are not performed for decreases of more than 200 basis points.

The following table, which is based on information that we provide to the Office of Thrift Supervision, presents the change in our net portfolio value at March 31, 2007 that would occur in the event of an immediate change in interest rates based on Office of Thrift Supervision assumptions, with no effect given to any steps that we might take to counteract that change.

| Basic Point Change in Rates (bp) | Net Portfolio Value (Dollars in thousands) | | | Net Portfolio Value as % of Present Value of Assets | |
|------------------------------------|---|---------|----------|--|-------------|
| | Amount | Change | % Change | NPV Ratio | Change (bp) |
| 300 | \$ 48,438 | -13,550 | -22% | 12.78% | -289bp |
| 200 | 53,440 | -8,548 | -14 | 13.88 | -178bp |
| 100 | 57,746 | -4,242 | -7 | 14.80 | -87bp |
| 0 | 61,988 | | | 15.67 | |
| -100 | 65,674 | 3,686 | 6 | 16.39 | 73bp |
| -200 | 68,942 | 6,954 | 11 | 17.01 | 135bp |

The Office of Thrift Supervision uses various assumptions in assessing interest rate risk. These assumptions relate to interest rates, loan prepayment rates, deposit decay rates and the market values of certain assets under differing interest rate scenarios, among others. As with any method of measuring interest rate risk, certain shortcomings are inherent in the methods of analyses presented in the foregoing tables. For example,

although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. Additionally, certain assets, such as adjustable-rate mortgage loans, have features that restrict changes in interest rates on a short-term basis and over the life of the asset. Further, in the event of a change in interest rates, expected rates of prepayments on loans and early withdrawals from certificates could deviate significantly from those assumed in calculating the table. Prepayment rates can have a significant impact on interest income. Because of the large percentage of loans and mortgage-backed securities we hold, rising or falling interest rates have a significant impact on the prepayment speeds of our earning assets that in turn affect the rate sensitivity position. When interest rates rise, prepayments tend to slow. When interest rates fall, prepayments tend to rise. Our asset sensitivity would be reduced if prepayments slow and vice versa. While we believe these assumptions to be reasonable, there can be no assurance that assumed prepayment rates will approximate actual future mortgage-backed security and loan repayment activity.

Item 4. Controls and Procedures.

The Company's management, including the Company's principal executive officer and principal financial officer, have evaluated the effectiveness of the Company's disclosure controls and procedures, as such term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended, (the Exchange Act). Based upon their evaluation, the principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective for the purpose of ensuring that the information required to be disclosed in the reports that the Company files or submits under the Exchange Act with the Securities and Exchange Commission (the SEC) (1) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (2) is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. During the quarterly period ended March 31, 2007, there were no changes in the Company's internal control over financial reporting which materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

PART II OTHER INFORMATION**Item 1. LEGAL PROCEEDINGS**

Periodically, there have been various claims and lawsuits against us, such as claims to enforce liens and contracts, condemnation proceedings on properties in which we hold security interests, claims involving the making and servicing of real property loans and other issues incident to our business. We are not party to any pending legal proceedings that we believe would have a material adverse effect on our financial condition, results of operations or cash flows.

Item 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended June 30, 2006, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks that we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially affect our business, financial condition and/or operating results.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

In December 2006, the Board of Directors of the Company authorized the funding of a trust to purchase up to 165,894 shares of the Company's outstanding common stock to be used to fund restricted stock awards under the United Community Bancorp 2006 Equity Incentive Plan. 165,894 shares were repurchased in January 2007. In April 2007, the Board of Directors of the Company authorized the repurchase of an additional 190,400 shares of the Company's outstanding common stock. Repurchases will be made from time to time depending on market conditions and other factors.

The following table sets forth information regarding the Company's repurchases of its common stock during the quarter ended March 31, 2007.

| Period | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs |
|---|---|---|---|---|
| January 2007 Beginning date: January 1, 2007 Ending date: January 31, 2007 | 165,894 | \$ 12.77 | 165,894 | |
| February 2007 Beginning date: February 1, 2007 Ending date: February 28, 2007 | | n/a | | |
| March 2007 Beginning date: March 1, 2007 Ending date: March 31, 2007 | | n/a | | |

Item 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS
Not applicable

Item 5. OTHER INFORMATION

Not applicable

Item 6. EXHIBITS

Exhibit 31.1 Certification of Chief Executive Officer

Exhibit 31.2 Certification of Chief Financial Officer

Exhibit 32 Section 1305 Certifications

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.

UNITED COMMUNITY BANCORP

Date: May 10, 2007

By: /s/ William F. Ritzmann
William F. Ritzmann
President and Chief Executive Officer

Date: May 10, 2007

By: /s/ Vicki A. March
Vicki A. March
Senior Vice President, Chief Financial Officer
and Treasurer