

United Community Bancorp  
Form 10-Q  
November 16, 2009  
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**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 September 30, 2009

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)

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**United States of America**  
(State or other jurisdiction of

**36-4587081**  
(I.R.S.Employer

incorporation or organization)

Identification No.)

**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

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

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

As of November 10, 2009, there were 7,856,974 shares of the registrant's common stock outstanding.

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**UNITED COMMUNITY BANCORP**

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## Consolidated Statements of Financial Condition

| <i>(In thousands, except shares)</i>  | <b>September 30, 2009</b> | <b>June 30, 2009</b> |
|---|---------------------------|----------------------|
| <b><u>Assets</u></b>  |                           |                      |
| Cash and due from banks   | \$ 24,341                 | \$ 27,004            |
| Investment securities:  |                           |                      |
| Securities available for sale - at estimated market value   | 48,393                    | 46,769               |
| Securities held to maturity - at amortized cost   | 175                       | 175                  |
| Mortgage-backed securities available for sale - at estimated market value   | 33,871                    | 29,713               |
| Loans receivable, net   | 272,652                   | 272,270              |
| Loans available for sale  | 71                        | 2,193                |
| Property and equipment, net   | 6,137                     | 6,011                |
| Federal Home Loan Bank stock, at cost   | 2,016                     | 2,016                |
| Accrued interest receivable:  |                           |                      |
| Loans   | 1,262                     | 1,259                |
| Investments and mortgage-backed securities  | 464                       | 486                  |
| Other real estate owned, net  | 2,678                     | 1,940                |
| Cash surrender value of life insurance policies   | 6,883                     | 6,826                |
| Deferred income taxes   | 2,393                     | 2,700                |
| Prepaid expenses and other assets   | 1,806                     | 2,217                |
| <b>Total assets</b>   | <b>\$ 403,142</b>         | <b>\$ 401,579</b>    |
| <b><u>Liabilities and Stockholders' Equity</u></b>  |                           |                      |
| Deposits  | \$ 340,866                | \$ 339,616           |
| Advance from FHLB   | 3,583                     | 3,833                |
| Accrued interest on deposits  | 10                        | 15                   |
| Accrued interest on FHLB advance  | 8                         | 8                    |
| Advances from borrowers for payment of insurance and taxes  | 293                       | 179                  |
| Accrued expenses and other liabilities  | 2,789                     | 2,849                |
| <b>Total liabilities</b>  | <b>347,549</b>            | <b>346,500</b>       |
| 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 and 7,856,974 shares outstanding at September 30, 2009 and 8,464,000 shares issued, and 7,857,974 shares outstanding at June 30, 2009 | 36                        | 36                   |
| Additional paid-in capital  | 36,857                    | 36,791               |
| Retained earnings   | 28,105                    | 28,204               |
| Less shares purchased for stock plans   | (3,176)                   | (3,254)              |
| Treasury Stock, at cost - 607,026 and 606,026 shares at September 30, 2009 and June 30, 2009, respectively  | (6,980)                   | (6,974)              |
| Accumulated other comprehensive income:   |                           |                      |
| Unrealized gain on securities available for sale, net of income taxes   | 751                       | 276                  |
| <b>Total stockholders' equity</b>   | <b>55,593</b>             | <b>55,079</b>        |

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|   |    |         |    |         |
|---|----|---------|----|---------|
| Total liabilities and stockholders equity | \$ | 403,142 | \$ | 401,579 |
|---|----|---------|----|---------|

See accompanying notes to the consolidated financial statements.

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## Consolidated Statements of Income

For the three months ended September 30,

| <i>(In thousands, except per share data)</i>               | <b>2009</b>    | <b>2008</b>    |
|--|----------------|----------------|
| <b>Interest income:</b>                                    |                |                |
| Loans  | \$ 4,161       | \$ 4,568       |
| Investments and mortgage - backed securities               | 660            | 576            |
| <b>Total interest income</b>                               | <b>4,821</b>   | <b>5,144</b>   |
| <b>Interest expense:</b>                                   |                |                |
| Deposits   | 1,675          | 2,270          |
| Borrowed funds   | 30             | 38             |
| <b>Total interest expense</b>                              | <b>1,705</b>   | <b>2,308</b>   |
| <b>Net interest income</b>                                 | <b>3,116</b>   | <b>2,836</b>   |
| Provision for loan losses                                  | 622            | 335            |
| <b>Net interest income after provision for loan losses</b> | <b>2,494</b>   | <b>2,501</b>   |
| <b>Other income:</b>                                       |                |                |
| Service charges  | 482            | 484            |
| Gain on sale of loans                                      | 86             | 18             |
| Gain (loss) on sale of investments                         | (12)           | 42             |
| Income from Bank Owned Life Insurance                      | 57             | 65             |
| Other  | 73             | 87             |
| <b>Total other income</b>                                  | <b>686</b>     | <b>696</b>     |
| <b>Other expense:</b>                                      |                |                |
| Compensation and employee benefits                         | 1,471          | 1,476          |
| Premises and occupancy expense                             | 276            | 259            |
| Deposit insurance premium                                  | 220            | 63             |
| Advertising expense  | 91             | 77             |
| Data processing expense                                    | 56             | 57             |
| ATM service fees   | 107            | 108            |
| Provision for loss on sale of real estate owned            | 100            |                |
| Other operating expenses                                   | 554            | 553            |
| <b>Total other expense</b>                                 | <b>2,875</b>   | <b>2,593</b>   |
| <b>Income before income taxes</b>                          | <b>305</b>     | <b>604</b>     |
| Income tax provision                                       | 83             | 217            |
| <b>Net income</b>  | <b>\$ 222</b>  | <b>\$ 387</b>  |
| <b>Basic and diluted earnings per share</b>                | <b>\$ 0.03</b> | <b>\$ 0.05</b> |

See accompanying notes to the consolidated financial statements.



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**UNITED COMMUNITY BANCORP AND SUBSIDIARIES**

Consolidated Statements of Comprehensive Income

For the three months ended September 30,

| <i>(In thousands)</i>  | <b>2009</b> | <b>2008</b> |
|--|-------------|-------------|
| Net income   | \$ 222      | \$ 387      |
| Other comprehensive income, net of tax   |             |             |
| Unrealized gain (loss) on available for sale securities  | 483         | (132)       |
| Reclassification adjustment for net gains (losses) on available for sale securities included in income | (8)         | 25          |
| Total comprehensive income   | \$ 697      | \$ 280      |

See accompanying notes to the consolidated financial statements.



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## Consolidated Statements of Cash Flows

| <i>(In thousands)</i>   | For the three months ended<br>September 30, |                |
|---|---|----------------|
|   | 2009  | 2008           |
| <b>Operating activities:</b>  |   |                |
| Net income  | \$ 222                                      | \$ 387         |
| Adjustments to reconcile net income to net cash provided by operating activities:     |   |                |
| Depreciation  | 116   | 119            |
| Provision for loan losses   | 622   | 335            |
| Provision for loss on sale of real estate acquired through foreclosure                | 100   |                |
| Deferred loan origination fees/costs  | (19)  | (17)           |
| Amortization of premium (discount) on investments                                     | (123)                                       | 17             |
| Proceeds from sale of loans   | 4,908                                       | 1,645          |
| Loans disbursed for sale in the secondary market                                      | (2,700)                                     | (1,599)        |
| Gain on sale of loans   | (86)  | (18)           |
| Gain (loss) on sale of available for sale investment securities                       | 12  | (42)           |
| Gain on sale of other real estate owned   |   | (24)           |
| ESOP shares committed to be released  | 49  | 33             |
| Stock-based compensation expense  | 95  | 167            |
| Deferred income taxes   | (2)   | 332            |
| Effects of change in operating assets and liabilities:                                |   |                |
| Accrued interest receivable   | 19  | (5)            |
| Prepaid expenses and other assets   | 411   | 269            |
| Accrued interest on deposits  | (5)   | (35)           |
| Accrued expenses and other  | (60)  | 123            |
| <b>Net cash provided by operating activities</b>                                      | <b>3,559</b>                                | <b>1,687</b>   |
| <b>Investing activities:</b>  |   |                |
| Proceeds from maturity of available for sale investment securities                    | 390   |                |
| Proceeds from sale of available for sale investment securities                        | 486   | 601            |
| Proceeds from repayment of mortgage-backed securities available for sale              | 2,332                                       | 1,040          |
| Proceeds from sale of other real estate owned   |   | 480            |
| Purchases of mortgage-backed securities available for sale                            | (6,037)                                     |                |
| Purchases of available for sale investment securities                                 | (2,049)                                     | (515)          |
| Net increase in loans   | (1,832)                                     | (3,921)        |
| Increase in cash surrender value of life insurance                                    | (57)  | (65)           |
| Capital expenditures  | (242)                                       | (38)           |
| <b>Net cash used by investing activities</b>  | <b>(7,009)</b>                              | <b>(2,418)</b> |
| <b>Financing activities:</b>  |   |                |
| Net increase (decrease) in deposits   | 1,250                                       | (6,475)        |
| Repayments of Federal Home Loan Bank advances   | (250)                                       | (250)          |
| Dividends paid to stockholders  | (321)                                       | (292)          |
| Repurchases of common stock   | (6)   | (111)          |
| Net increase (decrease) in advances from borrowers for payment of insurance and taxes | 114   | (43)           |
| <b>Net cash provided (used) by financing activities</b>                               | <b>787</b>                                  | <b>(7,171)</b> |
| <b>Net decrease in cash and cash equivalents</b>                                      | <b>(2,663)</b>                              | <b>(7,902)</b> |

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|  |           |           |
|--|-----------|-----------|
| Cash and cash equivalents at beginning of period | 27,004    | 35,710    |
| Cash and cash equivalents at end of period       | \$ 24,341 | \$ 27,808 |

See accompanying notes to consolidated financial statements.

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UNITED COMMUNITY BANCORP AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

**1. BASIS OF PRESENTATION**

United Community Bancorp (the Company) is a federally-chartered corporation, which was organized to be 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 59% 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. UCB Real Estate Management Holding, LLC is a wholly-owned subsidiary of United Community Bank. The entity was formed for the purpose of holding real estate assets that are acquired by the Bank through, or in lieu of, foreclosure.

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 month period ended September 30, 2009 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2010. Certain accounts from prior periods may be reclassified in order to conform to current year presentation. These financial statements should be read in conjunction with the Company's audited consolidated financial statements and the accompanying notes thereto for the fiscal year ended June 30, 2009, which are included on the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission on September 28, 2009. In connection with the preparation of the accompanying financial statements, the Company evaluated events and transactions through November 16, 2009, which is the date the financial statements are issued.

**2. EMPLOYEE STOCK OWNERSHIP PLAN**

As of September 30, 2009 and June 30, 2009, the ESOP owned 245,262 shares of the Company's common stock, which were held in a suspense account until released for allocation to participants.

**3. EARNINGS PER SHARE (EPS)**

In June 2008, the Financial Accounting Standards Board (FASB) issued Accounting Standards Codification (ASC) 260-10-65-2, Transition Related to FSP EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities*. This guidance concludes that non-vested shares with non-forfeitable dividend rights are considered participating securities and, thus, subject to the two-class method pursuant to ASC 260, *Earnings per Share*, when computing basic and diluted EPS. This guidance became effective for the Company on July 1, 2009. The Company's restricted share awards contain non-forfeitable dividend rights but do not contractually obligate the holders to share in the losses of the Company. Accordingly, during periods of net income, unvested restricted shares are included in the determination of both basic and diluted EPS. During periods of net loss, these shares are excluded from both basic and diluted EPS.

Basic EPS is based on the weighted average number of common shares and unvested restricted 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. For the three month periods ended September 30, 2009 and 2008, 346,304 outstanding stock option awards were excluded from the computation of diluted weighted average outstanding shares as their effect would have been anti-dilutive. The following is a reconciliation of the basic and diluted weighted average number of common shares outstanding:

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## UNITED COMMUNITY BANCORP AND SUBSIDIARIES

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

|   | <b>Three Months Ended<br/>September 30,</b> |             |
|---|---|-------------|
|   | <b>2009</b>                                 | <b>2008</b> |
| Basic weighted average outstanding shares   | 7,612,070                                   | 7,597,109   |
| Effect of dilutive stock options            |   |             |
| Diluted weighted average outstanding shares | 7,612,070                                   | 7,597,109   |

**4. STOCK-BASED COMPENSATION**

The Company applies the provisions of ASC 718-10-35-2, *Compensation-Stock Compensation*, 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. 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 ASC 718-10-35-8. The expense is calculated for stock options at the date of grant using the Black-Scholes option pricing model. The expense associated with restricted stock awards is calculated based upon the value of the common stock on the date of grant.

**5. DIVIDENDS**

On July 23, 2009, the Board of Directors of the Company declared a cash dividend on the Company's outstanding shares of stock of \$0.10 per share. The dividend was paid on August 31, 2009. Accordingly, cash dividends approximating \$321,000 were paid to shareholders during the three month period ended September 30, 2009. United Community MHC waived its right to receive cash dividends of approximately \$466,000 on its shares of Company common stock.

On October 22, 2009, the Board of Directors of the Company declared a cash dividend on the Company's outstanding shares of stock of \$0.10 per share, payable on or about November 30, 2009 to shareholders of record as of the close of business on November 9, 2009. United Community MHC intends to waive its right to receive the dividend.

**6. SUPPLEMENTAL CASH FLOW INFORMATION**

|   | <b>Three Months Ended<br/>September 30,</b> |             |
|---|---|-------------|
|   | <b>2009</b>                                 | <b>2008</b> |
|   | <b>(Dollars in thousands)</b>               |             |
| Supplemental disclosure of cash flow information is as follows:                       |   |             |
| Cash paid during the period for:  |   |             |
| Income taxes  | \$  | \$          |
| Interest  | \$ 1,705                                    | \$ 2,343    |
| 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  | \$ 475                                      | \$ (107)    |
| Transfers of loans to other real estate owned   | \$ 838                                      | \$ 469      |

**7. TROUBLED DEBT RESTRUCTURINGS**

From time to time, as part of our loss mitigation process, loans may be renegotiated in a troubled debt restructuring when we determine that greater economic value will ultimately be recovered under the new terms than through foreclosure, liquidation, or bankruptcy. We may consider the borrower's payment status and history, the borrower's ability to pay upon a rate reset on an adjustable rate mortgage, size of the payment increase upon a rate reset, period of time remaining prior to the rate reset, and other



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UNITED COMMUNITY BANCORP AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

relevant factors in determining whether a borrower is experiencing financial difficulty. At September 30, 2009, the Bank had ten loans totaling \$7.1 million that qualified as troubled debt restructurings. One loan, secured by multifamily residential real estate for \$1.5 million, had an additional \$157,000 available to borrow. At September 30, 2009, the Bank has no other commitments to lend on its loans already restructured under troubled debt. At June 30, 2009, the Bank had five loans totaling \$4.5 million that qualified as troubled debt restructurings.

**8. DISCLOSURES ABOUT FAIR VALUE OF ASSETS AND LIABILITIES**

In accordance with ASC 825-10-50-10, for financial instruments where quoted market prices are not available, fair values are estimated using present value or other valuation methods.

The following methods and assumptions are used in estimating the fair values of financial instruments:

***Cash and cash equivalents***

The carrying values presented in the consolidated statements of position approximate fair value.

***Investments and mortgage-backed securities***

For investment securities (debt instruments) and mortgage-backed securities, fair values are based on quoted market prices, where available. If a quoted market price is not available, fair value is estimated using quoted market prices of comparable instruments.

***Loans receivable***

The fair value of the loan portfolio is estimated by evaluating homogeneous categories of loans with similar financial characteristics. Loans are segregated by types, such as residential mortgage, commercial real estate, and consumer. Each loan category is further segmented into fixed and adjustable rate interest, terms, and by performing and non-performing categories. The fair value of performing loans, except residential mortgage loans, is calculated by discounting contractual cash flows using estimated market discount rates which reflect the credit and interest rate risk inherent in the loan. For performing residential mortgage loans, fair value is estimated by discounting contractual cash flows adjusted for prepayment estimates using discount rates based on secondary market sources. The fair value for significant non-performing loans is based on recent internal or external appraisals. Assumptions regarding credit risk, cash flow, and discount rates are judgmentally determined by using available market information.

***Federal Home Loan Bank stock***

The carrying values presented in the consolidated statements of position approximate fair value.

***Deposits***

The fair value of passbook accounts, NOW accounts, and money market savings and demand deposits approximates their carrying values. The fair value of fixed maturity certificates of deposit is estimated using a discounted cash flow calculation that applies interest rates currently offered for deposits of similar maturities.

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## UNITED COMMUNITY BANCORP AND SUBSIDIARIES

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

*Off-balance sheet items*

Carrying value is a reasonable estimate of fair value. These instruments are generally variable rate or short-term in nature, with minimal fees charged.

The estimated fair values of the Company's financial instruments at September 30, 2009 and June 30, 2009 are as follows:

|  | September 30, 2009  |               | June 30, 2009       |               |
|--|---------------------|---------------|---------------------|---------------|
|  | Carrying<br>Amounts | Fair<br>Value | Carrying<br>Amounts | Fair<br>Value |
| (In thousands)                           |                     |               |                     |               |
| <b>Financial assets:</b>                 |                     |               |                     |               |
| Cash and interest bearing deposits       | \$ 24,341           | \$ 24,341     | \$ 27,004           | 27,004        |
| Investment securities available for sale | 48,393              | 48,393        | 46,769              | 46,769        |
| Investment securities held to maturity   | 175                 | 175           | 175                 | 175           |
| Mortgage-backed securities               | 33,871              | 33,871        | 29,713              | 29,713        |
| Loans receivable                         | 272,723             | 270,223       | 274,463             | 270,760       |
| Accrued interest receivable              | 1,726               | 1,726         | 1,745               | 1,745         |
| Investment in FHLB stock                 | 2,016               | 2,016         | 2,016               | 2,016         |
| <b>Financial liabilities:</b>            |                     |               |                     |               |
| Deposits                                 | \$ 340,866          | \$ 342,566    | \$ 339,616          | \$ 341,322    |
| Accrued interest payable                 | 18                  | 18            | 23                  | 23            |
| FHLB Advances                            | 3,853               | 3,905         | 3,833               | 3,856         |

Effective January 1, 2008, the Company adopted ASC 820-10-50-2, which establishes a framework for measuring fair value and expands disclosures about fair value measurements. ASC 820-10-50-2 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 at the measurement date.

ASC 820-10-50-2 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1      Quoted prices in active markets for identical assets or liabilities.
  
- Level 2      Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
  
- Level 3      Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Fair value methods and assumptions are set forth below for each type of financial instrument measured at fair value in the accompanying consolidated statements of financial condition. Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy.

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Level 2 securities include U.S. Government and agency mortgage-backed securities, U.S. Government agency bonds, and municipal securities. If quoted market prices are not available, the Bank utilizes a third party vendor to calculate the fair value of its available for sale securities. The third party vendor uses quoted prices of securities with similar characteristics when available. If such quotes are not available, the third party vendor uses pricing models or discounted cash flow models with observable inputs to determine the fair value of these securities. At September 30, 2009, the Company had \$33.9 million in mortgage-backed securities, \$39.7 million in U.S. Government agency



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## UNITED COMMUNITY BANCORP AND SUBSIDIARIES

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

bonds, and \$8.6 million in municipal bonds. At June 30, 2009, the Company had \$29.7 million in mortgage-backed securities, \$39.6 million in U.S. Government agency bonds, and \$7.0 million in municipal bonds. The valuations for these securities were for which were obtained from the third party vendor to our custodian without adjustment by the Bank. Management obtains and reviews the third party vendor's Statement of Auditing Standard No. 70 (SAS 70) examination report to evaluate the valuation methodologies and ensure that reported fair values are consistent with the requirements of ASC 820, including proper classification within the fair value hierarchy.

In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy. Securities classified within Level 3 include mortgage servicing rights and loans held for sale.

The Company is predominately an asset-based lender with real estate serving as collateral on a substantial majority of loans. Loans which are deemed to be impaired are primarily valued on a nonrecurring basis at the fair values of the underlying real estate collateral. Such fair values are obtained using independent appraisals, which the Company considers to be Level 2 inputs.

Fair value measurements for certain assets and liabilities measured at fair value on a recurring basis:

|                               | Total     | Quoted prices<br>in active<br>markets for<br>identical assets<br>(Level 1) | Significant<br>other<br>observable<br>inputs<br>(Level 2) | Significant<br>other<br>unobservable<br>inputs<br>(Level 3) |
|-------------------------------|-----------|--|---|---|
| September 30, 2009:           |           |  |   |   |
| Securities available for sale | \$ 82,264 | 126  | 82,138  |   |
| June 30, 2009:                |           |  |   |   |
| Securities available for sale | \$ 76,482 | 176  | 76,306  |   |

Fair value measurements for certain assets and liabilities measured at fair value on a nonrecurring basis:

|                           | Total    | Quoted prices<br>in active<br>markets for<br>identical assets<br>(Level 1) | Significant<br>other<br>observable<br>inputs<br>(Level 2) | Significant<br>other<br>unobservable<br>inputs<br>(Level 3) |
|---------------------------|----------|--|---|---|
| September 30, 2009:       |          |  |   |   |
| Mortgage servicing rights | \$ 436   |  |   | 436   |
| Other real estate owned   | \$ 2,678 |  | 2,678   |   |
| Loans held for sale       | \$ 71    |  |   | 71  |
| Impaired loans            | \$ 9,010 |  | 9,010   |   |
| June 30, 2009:            |          |  |   |   |
| Mortgage servicing rights | \$ 405   |  |   | 405   |
| Other real estate owned   | \$ 1,940 |  | 1,940   |   |
| Loans held for sale       | \$ 2,193 |  |   | 2,193   |
| Impaired loans            | \$ 7,512 |  | 7,512   |   |

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UNITED COMMUNITY BANCORP AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Investment securities available for sale at September 30, 2009 consist of the following:

|   | Amortized<br>Cost      | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Market<br>Value |
|---|------------------------|------------------------------|-------------------------------|------------------------------|
|   | (Dollars in thousands) |                              |                               |                              |
| Mortgage-backed securities                | \$ 33,043              | \$ 891                       | \$ 63                         | \$ 33,871                    |
| U.S. Government corporations and agencies | 39,456                 | 254                          | 19                            | 39,691                       |
| Municipal bonds                           | 8,302                  | 274                          |                               | 8,576                        |
| Other equity securities                   | 211                    |                              | 85                            | 126                          |
|   | \$ 81,012              | \$ 1,419                     | \$ 167                        | \$ 82,264                    |

Investment securities held to maturity at June 30, 2009 consist of the following:

|                 | Amortized<br>Cost      | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Market<br>Value |
|-----------------|------------------------|------------------------------|-------------------------------|------------------------------|
|                 | (Dollars in thousands) |                              |                               |                              |
| Municipal bonds | \$ 175                 |                              |                               | \$ 175                       |

Investment securities available for sale at June 30, 2009 consist of the following:

|   | Amortized<br>Cost      | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Market<br>Value |
|---|------------------------|------------------------------|-------------------------------|------------------------------|
|   | (Dollars in thousands) |                              |                               |                              |
| Mortgage-backed securities                | \$ 29,144              | \$ 619                       | \$ 50                         | \$ 29,713                    |
| U.S. League Intermediate - Term Portfolio | 60                     |                              | 13                            | 47                           |
| U.S. Government corporations and agencies | 39,515                 | 218                          | 92                            | 39,641                       |
| Municipal bonds                           | 7,091                  |                              | 139                           | 6,952                        |
| Other equity securities                   | 211                    |                              | 82                            | 129                          |
|   | \$ 76,021              | \$ 837                       | \$ 376                        | \$ 76,482                    |

Investment securities held to maturity at June 30, 2009 consist of the following:

|                 | Amortized<br>Cost      | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Market<br>Value |
|-----------------|------------------------|------------------------------|-------------------------------|------------------------------|
|                 | (Dollars in thousands) |                              |                               |                              |
| Municipal bonds | \$ 175                 |                              |                               | \$ 175                       |



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## UNITED COMMUNITY BANCORP AND SUBSIDIARIES

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The mortgage-backed securities, U.S. Government agency bonds and municipal bonds available for sale have the following maturities at September 30, 2009:

|  | Amortized<br>cost      | Estimated<br>market value |
|--|------------------------|---------------------------|
|  | (Dollars in thousands) |                           |
| Due or callable in one year or less      | \$ 13,126              | \$ 13,168                 |
| Due or callable in 1 - 5 years           | 26,604                 | 26,808                    |
| Due or callable in 5 - 10 years          | 10,752                 | 11,181                    |
| Due or callable in greater than 10 years | 30,318                 | 30,981                    |
| <b>Total debt securities</b>             | <b>\$ 80,800</b>       | <b>\$ 82,138</b>          |

The mortgage-backed securities, U.S. Government agency bonds and municipal bonds available for sale have the following maturities at June 30, 2009:

|  | Amortized<br>cost      | Estimated<br>market value |
|--|------------------------|---------------------------|
|  | (Dollars in thousands) |                           |
| Due or callable in one year or less      | \$ 12,410              | \$ 12,432                 |
| Due or callable in 1 - 5 years           | 26,441                 | 26,519                    |
| Due or callable in 5 - 10 years          | 1,325                  | 1,348                     |
| Due or callable in greater than 10 years | 6,430                  | 6,294                     |
| <b>Total debt securities</b>             | <b>\$ 46,606</b>       | <b>\$ 46,593</b>          |

The table below indicates the length of time individual investment securities and mortgage-backed securities have been in a continuous loss position at September 30, 2009:

|  | Less than 12 months    |                      | 12 months or longer |                      | Total      |                      |
|--|------------------------|----------------------|---------------------|----------------------|------------|----------------------|
|  | Fair Value             | Unrealized<br>Losses | Fair Value          | Unrealized<br>Losses | Fair Value | Unrealized<br>Losses |
|  | (Dollars in thousands) |                      |                     |                      |            |                      |
| U.S. League Intermediate - Term Portfolio & Callable |                        |                      |                     |                      |            |                      |
| Government agencies                                  | \$ 4,038               | \$ 19                | \$                  | \$                   | \$ 4,038   | \$ 19                |
| Mortgage-backed securities                           | 6,033                  | 31                   | 1,207               | 32                   | 7,240      | 63                   |
| Other equity securities                              |                        |                      | 126                 | 85                   | 126        | 85                   |
|  | \$ 10,071              | 50                   | 1,333               | 117                  | 11,404     | 167                  |
| Number of investments                                |                        | 5                    |                     | 8                    |            | 13                   |

Securities available for sale are reviewed for possible other-than-temporary impairment on a quarterly basis. During this review, Management considers the severity and duration of the unrealized losses as well as its intent and ability to hold the securities until recovery, taking into account balance sheet management strategies and its market view and outlook. Management also assesses the nature of the unrealized losses taking into consideration factors such as changes in risk-free interest rates, general credit spread widening, market supply and demand,

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creditworthiness of the issuer or any credit enhancement providers, and the quality of the underlying collateral. Management has the intent to hold these securities into the foreseeable future, and the decline in market value is due to changes in market interest rates. The fair values are expected to recover as the securities approach maturity dates.

### **9. EFFECT OF RECENT ACCOUNTING PRONOUNCEMENTS**

In June 2009, the FASB issued guidance now codified as FASB ASC Topic 105, *Generally Accepted Accounting Principles*, as the single source of authoritative nongovernmental U.S. GAAP. FASB ASC Topic 105 does not change current U.S. GAAP, but is intended to simplify user access to all authoritative U.S. GAAP by providing all authoritative literature related to a particular topic in one place. All existing accounting standard documents will be superseded and all other accounting literature not included in the FASB Codification will be considered non-

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UNITED COMMUNITY BANCORP AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

authoritative. These provisions of FASB ASC Topic 105 are effective for interim and annual periods ending after September 15, 2009 and, accordingly, are effective for the Company for the current fiscal reporting period. The adoption of this pronouncement did not have an impact on the Company's financial condition or results of operations, but will impact the Company's financial reporting process by eliminating all references to pre-codification standards. On the effective date of this Statement, the Codification superseded all then-existing non-SEC accounting and reporting standards, and all other non-grandfathered, non-SEC accounting literature not included in the Codification became non-authoritative.

FASB Accounting Standards Codification Topic 820 (ASC 820), *Fair Value Measurements and Disclosures*, clarifies the definition of fair value, provides a framework for the measurement of fair value, and expands disclosure requirements about fair value measurements. ASC 820 was effective as of July 1, 2008 for financial assets and liabilities. The Company had only partially applied the provisions of ASC 820 as Management elected the deferral provisions of ASC 820-10-65-1, *Transition Related to FASB Staff Position FAS 157-2*, as it applies to non-financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. ASC 820-10-65-1 delayed the effective date of ASC 820 for non-financial assets and liabilities that are not measured at fair value on a recurring basis (at least annually) until July 1, 2009 for the Company. Fair value measurements of non-financial assets and non-financial liabilities are used primarily in the impairment analyses of long-lived assets, goodwill and other intangible assets. There was no impact on the Company's financial statements as a result of the adoption of ASC 820 for non-financial assets and liabilities.

In April 2009, the FASB issued ASC 320-10-65, *Transition Related to FSP FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments*. The Company adopted the provisions of ASC 320-10-65 on July 1, 2009. ASC 320-10-65 amends the other-than-temporary impairment guidance for debt securities and expands the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. The adoption of this standard did not have a significant impact on the Company's financial statements.

In April 2009, the FASB issued ASC 820-10-65-4, *Transition Related to FASB Staff Position FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*. ASC 820-10-65-4 is an amendment of ASC 820-10, *Fair Value Measurements*. ASC 820-10-65-4 applies to all assets and liabilities and provides guidance on measuring fair value when the volume and level of activity has significantly decreased and guidance on identifying transactions that are not orderly. ASC 820-10-65-4 requires interim and annual disclosures of the inputs and valuation techniques used to measure fair value and a discussion of changes in valuation techniques and related inputs, if any, that occurred during the period. The Company adopted ASC 820-10-65-4 on July 1, 2009. ASC 820-10-65-4 did not have a significant impact on the Company's financial statements.

In June 2008, the FASB issued ASC 260-10-65-2, *Transition Related to FSP EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*. This guidance concludes that non-vested shares with non-forfeitable dividend rights are considered participating securities and, thus, subject to the two-class method pursuant to ASC 260, *Earnings per Share*, when computing basic and diluted EPS. This guidance became effective for the Company on July 1, 2009. Because the Company's restricted share awards contain non-forfeitable dividend rights, the provisions of this guidance must be applied. Upon adoption, the Company was required to adjust all prior period EPS data on a retrospective basis to conform with the provisions of this guidance. The impact on basic and diluted weighted average shares outstanding and EPS for the fiscal year ended June 30, 2009 is as follows:

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## UNITED COMMUNITY BANCORP AND SUBSIDIARIES

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

|                                    | Basic Weighted     |           | Basic Earnings per |          | Diluted Weighted   |           | Diluted Earnings |          |
|------------------------------------|--------------------|-----------|--------------------|----------|--------------------|-----------|------------------|----------|
|                                    | Average Common     |           | Share              |          | Average Common     |           | per              |          |
|                                    | Shares Outstanding |           | Share              |          | Shares Outstanding |           | Share            |          |
|                                    | Previously         | Adjusted  | Previously         | Adjusted | Previously         | Adjusted  | Previously       | Adjusted |
|                                    | Reported           | Adjusted  | Reported           | Adjusted | Reported           | Adjusted  | Reported         | Adjusted |
| Quarter ended September 30, 2008   | 7,486,298          | 7,533,272 | \$ 0.05            | \$ 0.05  | 7,517,916          | 7,533,272 | \$ 0.05          | \$ 0.05  |
| Quarter ended December 31, 2008    | 7,470,354          | 7,581,164 | \$ 0.04            | \$ 0.03  | 7,512,020          | 7,581,164 | \$ 0.03          | \$ 0.03  |
| Six months ended December 31, 2008 | 7,478,326          | 7,557,218 | \$ 0.09            | \$ 0.09  | 7,514,968          | 7,557,218 | \$ 0.09          | \$ 0.09  |
| Quarter ended March 31, 2009       | 7,541,869          | 7,624,977 | \$ 0.05            | \$ 0.05  | 7,541,869          | 7,624,977 | \$ 0.05          | \$ 0.05  |
| Nine months ended March 31, 2009   | 7,499,198          | 7,579,475 | \$ 0.13            | \$ 0.13  | 7,523,805          | 7,579,475 | \$ 0.13          | \$ 0.13  |
| Quarter ended June 30, 2009        | 7,538,175          | (1)       | \$ (0.04)          | (1)      | (1)                | (1)       | (1)              | (1)      |
| Year ended June 30, 2009           | 7,508,916          | 7,589,898 | \$ 0.10            | \$ 0.09  | 7,533,230          | 7,589,898 | \$ 0.10          | \$ 0.09  |

(1) Due to the net loss for the three month period ended June 30, 2009, no adjustments were made for outstanding stock options and unearned restricted shares as such effect would be anti-dilutive.

**10. SUBSEQUENT EVENTS**

In connection with the preparation of the accompanying financial statements, the Company evaluated events and transactions through November 16, 2009, which is the date the financial statements are issued. On November 12, 2009, the FDIC approved a final rule requiring banks to prepay their estimated quarterly assessments for the fourth quarter of 2009, as well as all of 2010, 2011, and 2012 on December 30, 2009. Management has estimated that the prepaid amount due will be \$1.8 million.

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**Item 2. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS FROM OPERATIONS**  
**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, or 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, 2009, which is available through the SEC's website at [www.sec.gov](http://www.sec.gov), as well as under Part II Item 1A. Risk Factors of this Form 10-Q. 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 the responsibility, 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.



**Table of Contents****Comparison of Financial Condition at September 30, 2009 and June 30, 2009**

Total assets were \$403.1 million at September 30, 2009, compared to \$401.6 million at June 30, 2009. The increase is primarily due to a \$5.8 million increase in investments, partially offset by a \$2.7 million decrease in cash, and a \$2.1 million decrease in loans available for sale. The increase in investments is the result of the purchase of \$8.1 million in investment securities during the quarter, partially offset by payments, sales and maturities on investments. The purchase of securities was funded by cash on hand and cash obtained through the sale of loans held for sale.

Total liabilities were \$347.5 million at September 30, 2009, compared to \$346.5 million at June 30, 2009. The increase is the result of a \$10.6 million increase in non-municipal deposits, partially offset by a decrease of \$9.3 million in municipal deposits. The increase in non-municipal deposits is attributable to increased advertising and promotional efforts in our existing market area. The decrease in municipal deposits is the result of the cyclical nature of these accounts, which is affected by the timing of the receipt of tax revenues and spending for ongoing civic projects.

Total stockholders' equity was \$55.6 million at September 30, 2009, compared to \$55.1 million at June 30, 2009. The increase is primarily the result of an increase of \$475,000 in unrealized gains on available for sale securities and net income of \$222,000, partially offset by dividends paid of \$321,000.

**Comparison of Operating Results for the Three Months Ended September 30, 2009 and 2008**

**General.** Net income was \$222,000 for the three months ended September 30, 2009, compared to net income of \$387,000 for the three months ended September 30, 2008. The decrease in net income is primarily the result of a \$287,000 increase in provision for loan losses and a \$282,000 increase in other expense, partially offset by an increase in net interest income of \$280,000 during the three months ended September 30, 2009, compared to the prior year quarter.

**Net Interest Income.** Net interest income increased \$280,000, or 9.9%, to \$3.1 million in the quarter ended September 30, 2009, as compared to \$2.8 million for the prior year quarter. The increase is the result of a decrease in the average interest rate paid on interest bearing liabilities from 2.85% to 1.99%, partially offset by a decrease in the average rate earned on interest earning assets from 5.76% to 5.10%. Changes in interest rates are reflective of changes in overall market rates during that same period.

The following table summarizes changes in interest income and interest expense for the three months ended September 30, 2009 and 2008.

|                                       | Three Months Ended<br>September 30, |          | %<br>Change |
|---------------------------------------|-------------------------------------|----------|-------------|
|                                       | 2009<br>(Dollars in thousands)      | 2008     |             |
| Interest income:                      |                                     |          |             |
| Loans                                 | \$ 4,161                            | \$ 4,568 | (8.9)%      |
| Investment securities                 | 655                                 | 459      | 42.7        |
| Other interest-earning assets         | 5                                   | 117      | (95.7)      |
| Total interest income                 | 4,821                               | 5,144    | (6.3)       |
| Interest expense:                     |                                     |          |             |
| NOW and money market deposit accounts | 256                                 | 618      | (58.6)      |
| Passbook accounts                     | 32                                  | 111      | (71.2)      |
| Certificates of deposit               | 1,387                               | 1,541    | (10.0)      |
| Total interest-bearing deposits       | 1,675                               | 2,270    | (26.2)      |
| FHLB advances                         | 30                                  | 38       | (21.1)      |
| Total interest expense                | 1,705                               | 2,308    | (26.1)      |
| Net interest income                   | \$ 3,116                            | \$ 2,836 | 9.9         |



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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 months ended September 30, 2009 and 2008. 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 September 30, |                             |             |                 |                             |             |
|---|----------------------------------|-----------------------------|-------------|-----------------|-----------------------------|-------------|
|   | Average Balance                  | 2009 Interest and Dividends | Yield/ Cost | Average Balance | 2008 Interest and Dividends | Yield/ Cost |
| (Dollars in thousands)  |                                  |                             |             |                 |                             |             |
| <b>Assets:</b>  |                                  |                             |             |                 |                             |             |
| Interest-earning assets:  |                                  |                             |             |                 |                             |             |
| Loans   | \$ 273,363                       | 4,161                       | 6.09%       | \$ 285,000      | 4,568                       | 6.41%       |
| Investment securities   | 79,437                           | 655                         | 3.30        | 37,446          | 459                         | 4.90        |
| Other interest-earning assets   | 25,295                           | 5                           | 0.08        | 34,552          | 117                         | 1.35        |
|   | 378,095                          | 4,821                       | 5.10        | 356,998         | 5,144                       | 5.76        |
| Noninterest-earning assets  | 23,456                           |                             |             | 24,154          |                             |             |
| Total assets  | \$ 401,551                       |                             |             | \$ 381,152      |                             |             |
| <b>Liabilities and stockholders equity:</b>                             |                                  |                             |             |                 |                             |             |
| Interest-bearing liabilities:   |                                  |                             |             |                 |                             |             |
| NOW and money market deposit accounts                                   | \$ 127,867                       | 256                         | 0.80%       | \$ 130,627      | 618                         | 1.89%       |
| Passbook accounts   | 40,569                           | 32                          | 0.32        | 40,770          | 111                         | 1.09        |
| Certificates of deposit   | 170,780                          | 1,387                       | 3.25        | 147,548         | 1,541                       | 4.18        |
| Total interest-bearing deposits   | 339,216                          | 1,675                       | 1.98        | 318,945         | 2,270                       | 2.85        |
| FHLB advances   | 3,708                            | 30                          | 3.24        | 4,708           | 38                          | 3.23        |
| Total interest-bearing liabilities                                      | 342,924                          | 1,705                       | 1.99        | 323,653         | 2,308                       | 2.85        |
| Noninterest-bearing liabilities   | 3,433                            |                             |             | 2,976           |                             |             |
| Total liabilities   | 346,357                          |                             |             | 326,629         |                             |             |
| Stockholders equity   | 55,194                           |                             |             | 54,523          |                             |             |
| Total liabilities and stockholders equity                               | \$ 401,551                       |                             |             | \$ 381,152      |                             |             |
| Net interest income   |                                  | \$ 3,116                    |             |                 | \$ 2,836                    |             |
| Interest rate spread  |                                  |                             | 3.11%       |                 |                             | 2.91%       |
| Net interest margin (annualized)  |                                  |                             | 3.30%       |                 |                             | 3.18%       |
| Average interest-earning assets to average interest-bearing liabilities |                                  |                             | 110.3%      |                 |                             | 110.3%      |

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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 months ended September 30, 2009 and 2008.

|   | <b>Three Months Ended<br/>September 30,<br/>2009      2008</b> |              |
|---|--|--------------|
|   | <b>(Dollars in thousands)</b>                                  |              |
| Allowance at beginning of period            | \$ 4,213   | \$ 4,619     |
| Provision for loan losses                   | 622  | 335          |
| Charge offs:                                |  |              |
| Multifamily residential real estate         | 831  |              |
| Nonresidential real estate and land         |  | 1,048        |
| Consumer and other loans                    | 17   | 4            |
| <b>Total charge-offs</b>                    | <b>848</b>   | <b>1,052</b> |
| Recoveries                                  |  |              |
| One- to four-family residential real estate | 2  |              |
| Multifamily residential real estate         | 5  |              |
| Consumer and other loans                    | 4  | 6            |
| <b>Total recoveries</b>                     | <b>11</b>  | <b>6</b>     |
| <b>Net charge-offs</b>                      | <b>837</b>   | <b>1,046</b> |
| Allowance at end of period                  | \$ 3,998   | \$ 3,908     |

The provision for loan losses was \$622,000 for the quarter ended September 30, 2009 compared to \$335,000 for the same quarter in the prior year. The increase is attributable to troubled debt restructurings, net of specific reserves of \$820,000 and \$643,000 at September 30, 2009 and June 30, 2009, respectively, increasing from \$4.5 million at June 30, 2009 to \$7.1 million at September 30, 2009. These increases are primarily the result of the economic conditions in our market area. At September 30, 2009, troubled debt restructurings included ten commercial real estate loans representing eight commercial lending relationships. These loans have been restructured with lower-than-market interest rates of 0% to 3%, for fixed terms that will end between 2010 and 2012.

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The following table provides information with respect to our nonperforming assets at the dates indicated. We did not have any accruing loans past due 90 days or more at the dates presented.

|  | At September 30,<br>2009 | At June 30,<br>2009<br>(Dollars in thousands) | % Change      |
|--|--------------------------|---|---------------|
| Nonaccrual loans:  |                          |   |               |
| Residential real estate:                                       |                          |   |               |
| One- to four-family  | \$ 1,508                 | \$ 1,943                                      | (22.4)%       |
| Multifamily  |                          | 2,492   | (100.0)       |
| Nonresidential real estate and land                            | 2,262                    | 1,455   | 55.5          |
| Consumer and other loans                                       | 180                      | 84  | 114.3         |
| <b>Total</b>   | <b>3,950</b>             | <b>5,974</b>                                  | <b>(33.9)</b> |
| Real estate and other assets owned                             | 3,482                    | 2,644   | 31.7          |
| Reserve for loss on sale of real estate and other assets owned | (804)                    | (704)   | (14.2)        |
| <b>Total nonperforming assets</b>                              | <b>\$ 6,628</b>          | <b>\$ 7,914</b>                               | <b>(16.2)</b> |
| <b>Total nonperforming loans to total loans</b>                | <b>1.45%</b>             | <b>2.18%</b>                                  | <b>(33.5)</b> |
| <b>Total nonperforming loans to total assets</b>               | <b>0.98%</b>             | <b>1.49%</b>                                  | <b>(34.2)</b> |
| <b>Total nonperforming assets to total assets</b>              | <b>1.64%</b>             | <b>1.97%</b>                                  | <b>(16.8)</b> |

Other nonperforming assets (comprised of nonperforming loans and REO) decreased to \$6.6 million at September 30, 2009 from a balance of \$7.9 million at June 30, 2009. Included in REO at September 30, 2009 are six separate properties totaling \$2.7 million. At June 30, 2009 there were four separate properties totaling \$1.9 million. The Bank is actively working to sell all of the assets in REO. Where necessary, management has reserved for losses on the sale of certain properties (these reserves are included in the REO balance at September 30, 2009 and June 30, 2009), and continues to maintain the properties and monitor their values based upon current market conditions. For the quarter ended September 30, 2009, the Bank recorded a \$100,000 provision for loss on the sale of REO, compared to \$0 in the prior year quarter. Nonperforming loans decreased to \$3.9 million at September 30, 2009 from \$6.0 million at June 30, 2009. A \$1.1 million commercial real estate loan was included in both troubled debt restructuring and nonperforming loans at September 30, 2009 and June 30, 2009. All other troubled debt restructurings are excluded from the above table. For more information on troubled debt restructurings, see the section titled, "Provision for Loan Losses," in this Form 10-Q. The decrease in nonperforming loans is attributable to \$1.6 million in the previously mentioned, newly classified troubled debt restructurings, \$1.7 million in loans being charged off to other real estate owned, and \$643,000 in loans coming current, partially offset by \$1.8 million in new nonperforming loans being added.

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**Other Income.** The following table summarizes other income for the three months ended September 30, 2009 and 2008.

|                                       | Three Months Ended<br>September 30, |        | %<br>Change |
|---------------------------------------|-------------------------------------|--------|-------------|
|                                       | 2009<br>(Dollars in thousands)      | 2008   |             |
| Service charges                       | \$ 482                              | \$ 484 | 0.4%        |
| Gain on sale of loans                 | 86                                  | 18     | 377.8       |
| Gain (loss) on sale of investments    | (12)                                | 42     | (128.6)     |
| Income from Bank Owned Life Insurance | 57                                  | 65     | (12.3)      |
| Other                                 | 73                                  | 87     | (16.1)      |
| Total                                 | \$ 686                              | \$ 696 | (1.4)       |

The decrease in noninterest income is primarily the result of a loss on sale of investments, compared to a gain in the prior year, partially offset by an increase in gain on sale of loans. The loss on sale of investments in the current year is a result of the sale of mutual funds that invested primarily in private label and government-backed mortgage-backed securities. The Bank exited this investment in the quarter ended September 30, 2009, which resulted in the Company recognizing a loss of \$12,000. The gain on the sale of investments in the prior year was the result of the sale of FHLMC Stock. The increase in gain on sale of loans is attributable to decreases in market interest rates, which caused an increase in refinancing of residential mortgage loans into lower fixed rate mortgage loans that have been sold to Freddie Mac for a gain.

**Other Expense.** The following table summarizes other expense for the three months ended September 30, 2009 and 2008.

|   | Three Months Ended<br>September 30, |          | %<br>Change |
|---|-------------------------------------|----------|-------------|
|   | 2009<br>(Dollars in thousands)      | 2008     |             |
| Compensation and employee benefits              | \$ 1,471                            | \$ 1,476 | (0.3)%      |
| Premises and occupancy expense                  | 276                                 | 259      | 6.6         |
| Deposit insurance premium                       | 220                                 | 63       | 249.2       |
| Advertising expense                             | 91                                  | 77       | 18.2        |
| Data processing expense                         | 56                                  | 57       | (1.8)       |
| ATM service fees                                | 107                                 | 108      | (0.9)       |
| Provision for loss on sale of real estate owned | 100                                 |          | 100.0       |
| Other operating expenses                        | 554                                 | 553      | 0.2         |
| Total   | \$ 2,875                            | \$ 2,593 | 10.9        |

The increase in other expense is a result of an increase in the Bank's FDIC deposit insurance premium in the current period, and an increase in provision for loss on sale of real estate owned. The increase in FDIC deposit insurance premium is the result of the increase in insurance rates over the last year. The increase in the provision for loss on other real estate owned is the result of the negative impact the economic recession has had on the market value of other real estate owned by the Bank.

**Income Taxes.** The decrease in the provision for income taxes from \$217,000 for the three months ended September 30, 2008 to \$83,000 for the three months ended September 30, 2009 is primarily due to a decrease of

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\$299,000 in income before taxes over the same periods in addition to a reduction in the effective tax rate due primarily to an increase in tax-exempt investment income.

**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 \$24.3 million and \$27.0 million at September 30, 2009 and June 30, 2009, respectively. Securities classified as available-for-sale whose market value exceeds our cost, which provide additional sources of liquidity, totaled \$70.4 million and \$28.3 million at September 30, 2009 and June 30, 2009, respectively. Total securities classified as available-for-sale were \$82.3 million and \$76.5 million at September 30, 2009 and June 30, 2009, respectively. In addition, at September 30, 2009 and June 30, 2009, we had the ability to borrow a total of approximately \$90.0 million and \$83.0 million, respectively, from the Federal Home Loan Bank of Indianapolis. The Bank had \$3.6 million and \$3.8 million in borrowings from the Federal Home Loan Bank as of September 30, 2009 and June 30, 2009, respectively.

At September 30, 2009 and June 30, 2009, we had \$30.2 million and \$32.3 million in loan commitments outstanding, respectively. At September 30, 2009, this consisted of \$2.6 million in mortgage loan commitments, \$5.4 million in commercial loan commitments, \$17.0 million in unused home equity lines of credit, \$4.3 million in commercial lines of credit, and \$948,000 of letters of credit outstanding. At June 30, 2009, we had \$2.6 million in mortgage loan commitments, \$21.9 million in unused home equity lines of credit, \$4.4 million in commercial lines of credit, and \$1.2 million in letters of credit outstanding. Certificates of deposit due within one year of September 30, 2009 and June 30, 2009 totaled \$115.6 million and \$95.1 million, respectively. This represented 64.2% and 57.7% of our certificates of deposit at September 30, 2009 and June 30, 2009, respectively. 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 September 30, 2009. 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.

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.

United Community Bancorp is a separate legal entity from the Bank and must provide for its own liquidity. In addition to its operating expenses, United Community Bancorp is responsible for paying any dividends declared to its shareholders and paying the obligations on its outstanding debentures. United Community Bancorp also has repurchased shares of its common stock. United Community Bancorp's primary source of income is dividends received from the Bank. The amount of dividends that the Bank may declare and pay to United Community Bancorp in any calendar year, without the receipt of prior approval from the OTS but with prior notice to the OTS, cannot exceed net income for that year to date plus retained net income (as defined) for the preceding two calendar years. At September 30, 2009, United Community Bancorp had cash and cash equivalents of \$3.3 million.

**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 September 30, 2009, we exceeded all of our regulatory capital requirements. We are considered well capitalized under the FDIC's regulatory framework for prompt corrective action.

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The following table summarizes the Bank's capital amounts and the ratios required at September 30, 2009:

|   | Actual    |       | For capital adequacy purposes |       | To be well capitalized under prompt corrective action provisions |       |
|---|-----------|-------|-------------------------------|-------|--|-------|
|   | Amount    | Ratio | Amount                        | Ratio | Amount   | Ratio |
| <b>September 30, 2009 (unaudited)</b>     |           |       |                               |       |  |       |
| Tier 1 capital to risk-weighted assets    | \$ 48,499 | 18.3% | \$ 10,570                     | 4.0%  | \$ 15,855  | 6.0%  |
| Total capital to risk-weighted assets     | 51,147    | 19.4% | 21,140                        | 8.0%  | 26,425   | 10.0% |
| Tier 1 capital to adjusted total assets   | 48,499    | 12.2% | 15,955                        | 4.0%  | 19,943   | 5.0%  |
| Tangible capital to adjusted total assets | 48,499    | 12.2% | 5,983                         | 1.5%  |  |       |

**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 14 of the notes to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended June 30, 2009, as filed with the SEC. We currently have no plans to engage in hedging activities in the future.

For the three months ended September 30, 2009, 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.



**Table of Contents****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, 2009. 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 analysis 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. This analysis assesses the risk of loss in market risk-sensitive instruments in the event of a sudden and sustained 50 to 300 basis point increase or 50 and 100 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, this analysis is not performed for decreases of more than 100 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 September 30, 2009 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 ( bp ) | Net Portfolio Value<br>(Dollars in thousands) |             |        | Net Portfolio Value as % of<br>Portfolio Value of Assets |           |
|--------------------|---|-------------|--------|--|-----------|
|                    | Change in Rates                               | Amount      | Change | % Change   | NPV Ratio |
| 300                | \$ 52,423                                     | \$ (10,066) | (16)%  | 12.95%   | (199) bp  |
| 200                | 56,838  | (5,651)     | (9)    | 13.86  | (109)     |
| 100                | 60,056  | (2,434)     | (4)    | 14.49  | (45)      |
| 50                 | 61,349  | (1,141)     | (2)    | 14.73  | (21)      |
| 0                  | 62,489  |             |        | 14.94  |           |
| (50)               | 63,187  | 697         | 1      | 15.06  | 12        |
| (100)              | 63,386  | 897         | 1      | 15.09  | 15        |

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

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sensitivity would be reduced if prepayments are 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 September 30, 2009, 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.

**Table of Contents****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, 2009, which could materially affect our business, financial condition or future results. As of September 30, 2009, the risk factors of the Company have not changed materially from those in our Annual Report on Form 10-K. 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**

The following table sets forth information regarding the Company's repurchases of its common stock during the quarter ended September 30, 2009.

| <b>Period</b>                           | <b>(a) Total Number of Shares Purchased(1)</b> | <b>(b) Average Price Paid per Share</b> | <b>(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(1)</b> | <b>(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs</b> |
|---|--|---|--|---|
| July 1, 2009 to July 31, 2009           |  |   |  | 117,710   |
| August 1, 2009 to August 31, 2009       | 1,000  | \$ 6.36                                 | 1,000  | 116,710   |
| September 1, 2009 to September 30, 2009 |  |   |  | 116,710   |
| <b>Total</b>                            | <b>1,000</b>                                   | <b>\$ 6.36</b>                          | <b>1,000</b>   |   |

- (1) On August 14, 2008, the Board of Directors of the Company approved the repurchase of up to 162,371 shares of its outstanding common stock, or 5.0% of outstanding shares not held by United Community MHC.

**Item 3. DEFAULTS UPON SENIOR SECURITIES**

Not applicable

**Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

Not applicable



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**Item 5. OTHER INFORMATION**

Not applicable

**Item 6. EXHIBITS**

|              |   |
|--------------|---|
| Exhibit 3.1  | Charter of United Community Bancorp (1)                     |
| Exhibit 3.2  | Amended and Restated Bylaws of United Community Bancorp (2) |
| Exhibit 31.1 | Certification of Chief Executive Officer                    |
| Exhibit 31.2 | Certification of Chief Financial Officer                    |
| Exhibit 32   | Section 1305 Certifications                                 |

- (1) Incorporated herein by reference to the Company's Registration Statement on Form S-1, as amended, as initially filed with the SEC on December 14, 2005 (File No. 333-130302).
- (2) Incorporated herein by reference to the Company's Current Report on Form 8-K filed with the SEC on October 26, 2007 (File No. 0-51800).

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**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: November 16, 2009

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

Date: November 16, 2009

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