MSB FINANCIAL CORP.
Form 10-K
September 28, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

ANNUAL REPORT

PURSUANT TO SECTIONS 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

(Mark One)

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

For the fiscal year ended: June 30, 2009 or

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

For the transition period from ____________ to ____________

Commission File No. **001-33246**

MSB FINANCIAL CORP.
(Exact name of Registrant as specified in its Charter)

United States	**34-1981437**
(State or other Jurisdiction of	(I.R.S. Employer Identification No.)
Incorporation or Organization)	

1902 Long Hill Road, Millington, New Jersey	**07946-0417**
(Address of Principal Executive Offices)	(Zip Code)

Registrant's telephone number, including area code:**908-647-4000**

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $0.10 par value	**The Nasdaq Stock Market LLC**

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES o NO x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES o NO x

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 x NO o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). o YES o NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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. (Check one):

Large accelerated filer o	Accelerated filer o
Non-accelerated filer o	Smaller reporting company x
(Do not check if a smaller reporting company)	

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

The aggregate market value of the voting stock held by non-affiliates of the Registrant, based on the closing price of the Registrant's common stock as quoted on the Nasdaq Stock Market LLC on December 31, 2008, was approximately $23.2 million.

As of September 16, 2009 there were 5,310,921 shares outstanding of the Registrant's common stock.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the Proxy Statement for the 2009 Annual Meeting of Shareholders. (Parts II and III)

MSB FINANCIAL CORP.

FORM 10-K

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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PART I

Forward-Looking Statements

MSB Financial Corp. (the "Company") may from time to time make written or oral "forward-looking statements," including statements contained in the Company's filings with the Securities and Exchange Commission (including this Annual Report on Form 10-K and the exhibits thereto), in its reports to stockholders and in other communications by the Company, which are made in good faith by the Company pursuant to the "safe harbor" provisions of the private securities litigation reform act of 1995.

These forward-looking statements involve risks and uncertainties, such as statements of the Company's plans, objectives, expectations, estimates and intentions, that are subject to change based on various important factors (some of which are beyond the Company's control). The following factors, among others, could cause the Company's financial performance to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements: The strength of the United States economy in general and the strength of the local economies in which the Company conducts operations; the effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the board of governors of the federal reserve system, inflation, interest rate, market and monetary fluctuations; the timely development of and acceptance of new products and services of the Company and the perceived overall value of these products and services by users, including the features, pricing and quality compared to competitors' products and services; the willingness of users to substitute competitors' products and services for the Company's products and services; the success of the Company in gaining regulatory approval of its products and services, when required; the impact of changes in financial services' laws and regulations (including laws concerning taxes, banking, securities and insurance); technological changes, acquisitions; market volatility; changes in consumer spending and saving habits; and the success of the Company at managing the risks involved in the foregoing.

The Company cautions that the foregoing list of important factors is not exclusive. The Company does not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by or on behalf of the Company.

Item 1. Business

General

The Company is a federally chartered corporation organized in 2004 for the purpose of acquiring all of the capital stock that Millington Savings Bank (the "Bank") issued in its mutual holding company reorganization. During the fiscal year ended June 30, 2007, the Company conducted its initial public offering and sold 2,529,281 shares for net proceeds of approximately $24.5 million. The Company's principal executive offices are located at 1902 Long Hill Road, Millington, New Jersey 07946-0417 and its telephone number at that address is (908) 647-4000.

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

The Bank is a New Jersey-chartered stock savings bank and its deposits are insured by the Federal Deposit Insurance Corporation. As of June 30, 2009, the Bank had 52 full time equivalent employees.

The Bank is regulated by the New Jersey Department of Banking and Insurance and the Federal Deposit Insurance Corporation. The OTS regulates the MHC and the Company as federally-chartered savings and loan holding companies.

Throughout this document, references to “we,” “us,” or “our” refer to the Bank or Company, or both, as the context indicates.

Competition

We operate in a market area with a high concentration of banking and other financial institutions, and we face substantial competition in attracting deposits and in originating loans. A number of our competitors are significantly larger institutions with greater financial and managerial resources and lending limits. Our ability to compete successfully is a significant factor affecting our growth potential and profitability.

Our competition for deposits and loans historically has come from other insured financial institutions such as local and regional commercial banks, savings institutions, and credit unions located in our primary market area. We also compete with mortgage banking and finance companies for real estate loans and with commercial banks and savings institutions for consumer loans, and we face competition for funds from investment products such as mutual funds, short-term money funds and corporate and government securities. There are large competitors operating throughout our total market area, and we also face strong competition from other community-based financial institutions.

Lending Activities

We have traditionally focused on the origination of one-to-four family loans and home equity loans and lines of credit, which together comprise a substantial portion of the total loan portfolio. We also provide financing for commercial real estate, including multi-family dwellings/apartment buildings, service/retail and mixed-use properties, churches and non-profit properties, medical and dental facilities and other commercial real estate. In recent years, construction loans have grown as a component of our portfolio. We also originate commercial loans. Our consumer loans are comprised of auto loans, personal loans and account loans.

Loan Portfolio Composition. The following tables analyze the composition of the Bank's portfolio by loan category at the dates indicated. Except as set forth below, there were no concentrations of loans exceeding 10% of total loans.

	At June 30,									
	2009		**2008**		**2007**		**2006**		**2005**	
	Amount	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**
	(Dollars in thousands)									
Type of Loans:										
One-to-four family real estate	$ 155,143	54.68 %	$ 145,868	56.31 %	$ 123,601	50.94 %	$ 120,921	53.89 %	$ 113,488	58.50 %
Commercial real estate	34,115	12.03	30,068	11.61	28,989	11.95	23,587	10.51	17,971	9.26
Construction	20,978	7.39	17,771	6.86	23,822	9.82	23,276	10.37	18,398	9.48
Consumer	1,106	.39	1,259	0.49	1,995	0.82	1,861	0.83	1,819	0.94
Home equity	62,179	21.92	54,778	21.15	55,896	23.04	49,257	21.95	38,291	19.74
Commercial	10,176	3.59	9,285	3.58	8,338	3.43	5,497	2.45	4,029	2.08
Total loans receivable	283,697	100.00 %	259,029	100.00 %	242,641	100.00 %	224,399	100.00 %	193,996	100.00 %
Less:										
Construction loans in process	(5,609)		(3,568)		(7,999)		(4,968)		(5,719)	
Allowance for loan losses	(1,808)		(1,025)		(926)		(921)		(874)	
Deferred loan fees	(222)		(146)		(218)		(189)		(211)	
Total loans receivable, net	$ 276,058		$ 254,290		$ 233,498		$ 218,321		$ 187,192	

Loan Maturity Schedule. The following table sets forth the maturity of the Bank's loan portfolio at June 30, 2009. Demand loans, loans having no stated maturity, and overdrafts are shown as due in one year or less. Undisbursed amounts on construction loans totaling $5.6 million at June 30, 2009 are not shown in the table. The table shows contractual maturities and does not reflect repricing or the effect of prepayments. Actual maturities may differ.

	At June 30, 2009						
	One-to-Four Family Real Estate	**Commercial Real Estate**	**Construction**	**Consumer**	**Home Equity**	**Commercial**	**Total**
	(In thousands)						
Amounts Due:							
Within 1 Year	$ 8,688	$ 1,681	$ 12,836	$ 675	$ 58	$ 5,483	$ 29,421
After 1 year:							
1 to 5 years	29,134	10,383	2,533	431	2,322	3,594	48,397
5 to 10 years	24,535	10,697	-	-	23,411	299	58,942
After 10 years	92,786	11,354	-	-	36,388	800	141,328
Total due after one year	146,455	32,434	2,533	431	62,121	4,693	248,667
Total amount due	$ 155,143	$ 34,115	$ 15,369	$ 1,106	$ 62,179	$ 10,176	$ 278,088

The following table sets forth the dollar amount of all loans at June 30, 2009 due after June 30, 2010, which have fixed interest rates and which have floating or adjustable interest rates.

	Fixed Rates	Floating or Adjustable Rates	Total
	(In thousands)		
One-to-four family real estate	$ 140,852	$ 5,603	$ 146,455
Commercial real estate	32,434	-	32,434
Construction	2,533	-	2,533
Consumer	260	171	431
Home equity	36,529	25,592	62,121
Commercial	2,535	2,158	4,693
Total	$ 215,143	$ 33,524	$ 248,667

One-to-Four Family Real Estate Mortgages. Our primary lending activity consists of the origination of one-to-four family first mortgage loans. Fixed rate, conventional mortgage loans are offered by the Bank with terms from 5 to 30 years. A bi-weekly payment option is available wherein a payment is made every fourteen days via automatic deduction from the borrower's Millington Savings Bank account.

We also originate fixed rate balloon mortgages with terms of 3 to 10 years and flexible amortizations. At the end of each term the mortgage may be paid off in full with no penalty or, provided that the loan is in good standing and there has been no negative change in value of the collateral, we may extend the existing mortgage on new terms, at a new interest rate. If the mortgage is extended, there may be additional charges at the time of each extension.

We originate adjustable rate mortgages, or ARM's, with up to 30 year terms at rates based upon the U.S. Treasury One Year Constant Maturity as an index. Our ARM's currently reset on an annual basis, beginning with the first year, and have a two percent annual increase cap and a six percent lifetime adjustment cap. We do not originate "teaser" rate or negative amortization loans.

Substantially all residential mortgages include "due on sale" clauses, which are provisions giving the lender the right to declare a loan immediately payable if the borrower sells or otherwise transfers an interest in the property to a third party. Property appraisals on real estate securing one-to-four family residential loans are made by state certified or licensed independent appraisers and are performed in accordance with applicable regulations and policies. We require title insurance policies on all first lien one-to-four family residential loans. Homeowners, liability, fire and, if applicable, flood insurance policies are also required.

We provide financing on residential investment properties with either 3 to 10 year balloon mortgages or 5 to 30 year fixed duration mortgages. At the end of each term a balloon mortgage on an investment property may be paid off in full with no penalty or, provided that the loan is in good standing and there has been no negative change in value of the collateral, we may extend the existing mortgage on new terms, at a new interest rate. If the mortgage is extended, there may be additional charges at the time of each extension. Our investment property lending product is available to individuals or proprietorships, partnerships, limited liability corporations, and corporations with personal guarantees. All investment property is underwritten on its ability substantially to carry itself, unless the property is a two-family residence with the mortgagor living in one of the units. Preference is given to those loans where rental

income covers all operating expenses, including but not limited to principal and interest, real estate tax, hazard insurance, utilities, maintenance, and reserve. Operating expenses generally may not exceed rental income by more than 10%. Any negative cash flow will be included in the limit on the borrower's total debt ratio.

We generally originate one-to-four family first mortgage loans, for primary residence or investment, for up to 80% loan-to-value. Although not our normal practice, our lending policy permits us to exceed this limit. Our president and executive vice president are both authorized to approve a loan-to-value ratio of up to 90%. Loans in excess of 90% loan-to-value must have private mortgage insurance and must be approved by the Board of Directors.

Commercial Real Estate Mortgages. Our commercial real estate lending includes multi-family dwellings/apartment buildings, service/retail and mixed-use properties, churches and non-profit properties, medical and dental facilities and other commercial real estate. Our commercial real estate mortgage loans are either 3 to 10 year balloon mortgages (with a maximum amortization period of 25 years) or 15 year fixed duration mortgages. This type of lending is made available to proprietorships, partnerships, and corporations with personal guarantees. All commercial property is underwritten on its ability substantially to provide satisfactory cash flows. A cash flow and lease analysis is performed for each property. Preference is given to those loans where rental income covers all operating expenses, including but not limited to principal and interest, real estate tax, hazard insurance, utilities, maintenance, and reserve. Operating expenses may exceed rental income by not more than 10%. Any negative cash flow will be included in the limit on the borrower's total debt ratio. Cash from other assets of the borrower, who may own multiple properties and generate a surplus, can be made available to cover debt-service shortages of the financed property.

The maximum loan-to-value ratio on most commercial real estate loans we originate is 80%. Although not our normal practice, our lending policy permits us to originate these loans in excess of an 80% loan-to-value. Our President and Executive Vice President are authorized to approve a loan-to-value ratio of up to 90% on commercial real estate loans.

The management skills of the borrower are judged on the basis of his/her professional experience and must be documented to meet the Bank's satisfaction in relation to the desired project. The assets of the borrower must indicate his/her ability to support the proposed investment, both in terms of liquidity and net worth, and tangible history of the borrower's capability and experience must be evident.

Unlike single-family residential mortgage loans, which generally are made on the basis of the borrower's ability to make repayment from his or her employment and other income, and which are secured by real property whose value tends to be more easily ascertainable, multi-family and commercial real estate loans typically are made on the basis of the borrower's ability to make repayment from the cash flow of the borrower's business or rental income. As a result, the availability of funds for the repayment of commercial real estate and multi-family loans may be substantially dependent on the success of the business itself and the general economic environment. Commercial real estate and multi-family loans, therefore, have greater credit risk than one-to-four family residential mortgages or consumer loans. In addition, commercial real estate and multi-family loans generally result in larger balances to single borrowers, or related groups of borrowers and also generally require substantially greater evaluation and oversight efforts.

Construction Loans. We originate construction and land acquisition loans for an owner-occupied residence or to a builder with a valid contract of sale. With prior Board of Director approval, we also provide financing for speculative residential or commercial construction and development. Individual consideration is given to builders based on their past performance, workmanship, and financial worth.

Our construction lending includes loans for construction or major renovations or improvements of owner-occupied residences; however, the majority of this portfolio consists of real estate developers.

Construction loans are mortgages with a one-year duration. Funds are disbursed periodically upon inspections made by our inspectors on the completion of each phase, as per the approved draw schedule. Funds disbursed may not exceed 90% loan-to-value of land and improvements at any time during construction. Interest rates on disbursed funds are based on the rate and terms set at the time of closing. The majority of our construction lending is variable rate loans with rates tied to the prime rate published in *The Wall Street Journal*, plus a premium. Payments on disbursed funds must be made on a monthly basis. The loan-to-value limitation on land acquisition loans is 75%.

Construction lending is generally considered to involve a higher degree of credit risk than residential mortgage lending. If the estimate of construction cost proves to be inaccurate, we may be compelled to advance additional funds to complete the construction with repayment dependent, in part, on the success of the ultimate project rather than the ability of a borrower or guarantor to repay the loan. If we are forced to foreclose on a project prior to completion, there is no assurance that we will be able to recover the entire unpaid portion of the loan. In addition, we may be required to fund additional amounts to complete a project and may have to hold the property for an indeterminate period of time.

Consumer Loans. Our consumer lending products consist of new and used auto loans, secured and unsecured personal loans, account loans and overdraft lines of credit. The maximum term for a loan on a new or used automobile is six years or four years, respectively. We will lend up to 80% of retail value or dealer invoice on a car loan. We offer a reduction on the interest rate for car loans with payments automatically deducted from the borrower’s checking or statement savings account with us.

Our personal loans have terms of up to four years with a minimum and maximum balance of $1,000 and $5,000, respectively. A reduction to the interest rate is offered for loans with automatic debit repayment from a checking or statement savings account with us. Our account loans permit a depositor to borrow up to 90% of his or her funds on deposit with us in certificate of deposit accounts. The interest rate is the current rate paid to the depositor, plus a premium. A minimum payment of interest only is required. We offer an overdraft line of credit with a minimum of $500 and up to a maximum of $5,000 and an interest rate tied to the prime rate published in *The Wall Street Journal*, plus a premium.

Consumer lending is generally considered to involve a higher degree of credit risk than residential mortgage lending. Consumer loan repayment is dependent on the borrower’s continuing financial stability and can be adversely affected by job loss, divorce, illness or personal bankruptcy. The application of various federal laws, including federal and state bankruptcy and insolvency laws, may limit the amount which can be recovered on consumer loans in the event of a default. Account loans are fully secured.

Home Equity Loans and Lines of Credit. We offer fixed rate home equity loans and variable rate home equity lines of credit with a minimum credit limit of $5,000. Collateral valuation is established through a variety of methods, including an on-line appraisal valuation estimator, drive by appraisals, recent assessed tax value, purchase price or consideration value as evidenced by a deed or property search report or a report of real estate comparables from a licensed realtor. Loan requests over $250,000, however, require full appraisals, and requests over $450,000 require Board approval. The loan-to-value limit on home equity lending is 80% on owner occupied property and 75% on investment property. The variable rate on home equity lines of credit is adjusted monthly and is currently set at prime for owner occupied properties and prime plus a premium for investment properties. The fixed rate loans on investment property are also higher than fixed rate owner occupied home equity loans. We generally provide home equity financing only for a first or second lien position.

Our fixed rate home equity loans have terms of 5 to 30 years. Our variable rate home equity lines of credit have terms of 15 years, and we also offer an interest only home equity line of credit based on a 10 year term. The loan-to-value limit on interest only home equity financing is 70% on owner occupied property and 60% on investment property. We also offer bridge loans with a variable rate and a 70% loan-to-value limit on owner occupied property and 60% on investment property.

Commercial Loans. We offer revolving lines of credit to businesses to finance short-term working capital needs like accounts receivable and inventory. These lines of credit may be unsecured or secured by accounts receivable and inventory or real estate. We generally provide such financing for no more than a 3 year term and with a variable rate.

We also originate commercial term loans to fund longer-term borrowing needs such as purchasing equipment, property improvements or other fixed asset needs. These loans are secured by new and used machinery, equipment, fixtures, furniture or other long-term fixed assets and have terms of 1 to 7 years. We originate commercial term loans for other general long-term business purposes, and these loans are secured by real estate. Interest on commercial term loans is payable monthly and principal may be payable monthly or quarterly.

The normal minimum amount for our commercial term loans and lines of credit is $5,000. We generally will not lend more than $100,000 on a commercial line of credit or $500,000 on a commercial term loan. We typically do not provide working capital loans to businesses outside our normal market area or to new businesses where repayment is dependent solely on future profitable operation of the business. We avoid originating loans for which the primary source of repayment could be liquidation of the collateral securing the loan in light of poor repayment prospects. We typically require personal guarantees on all commercial loans, regardless of other collateral securing the loan.

The loan-to-value limits related to commercial lending vary according to the collateral. Loans secured by real estate may be originated for up to 80% loan-to-value. Other limits are as follows. Savings accounts: 90% of the deposit amount; accounts receivable: 80% of eligible amounts receivable 60 days or less past due or 90 days from invoice, whichever is less; inventory: 50% of raw materials and 60% of finished goods; stocks: 50% to 75% depending on exchange or market listing; bonds: ‘A’ rated or better, 90% of market value, less than ‘A’ rated, 60% of market value; new equipment: 75% of purchase price; and used equipment: lesser of 75% of purchase price or 75% of current market value.

Loans to One Borrower. Under federal law, savings institutions have, subject to certain exemptions, lending limits to one borrower in an amount equal to the greater of $500,000 or 15% of the institution’s unimpaired capital and surplus. Accordingly, as of June 30, 2009, our loans to one borrower legal limit was approximately $5.1million.

The Bank’s lending policies require Board approval before any borrower’s existing and/or committed borrowings from the Bank may exceed $1.0 million in aggregate. Any single loan in excess of $1.0 million also requires prior Board approval.

Loan Originations, Purchases, Sales, Solicitation and Processing. Our customary sources of loan applications include repeat customers, referrals from realtors and other professionals and “walk-in” customers. Our residential loan originations are driven by the Bank’s reputation, as opposed to being advertising driven.

We normally do not sell loans into the secondary mortgage market and did not sell any loans in the five year period ended June 30, 2009. Because it has been our policy to retain the loans we originate in our portfolio, we have not uniformly originated our real estate mortgage loans to meet the

documentation standards to sell loans in the secondary mortgage market. We may do so, however, in the future if we find it desirable in connection with interest rate risk management to sell longer term fixed rate mortgages into the secondary mortgage market.

We did not purchase any whole loans in the five-year period ended June 30, 2009. We did, however, purchase a few participation interests in loans originated by other banks during this period.

Loan Approval Procedures and Authority. Lending policies and loan approval limits are approved and adopted by the Board of Directors. Lending authority is vested primarily in President and Chief Executive Officer Gary Jolliffe, Executive Vice President and Chief Operating Officer Michael Shriner and Vice President and Chief Lending Officer Nancy Schmitz. Each of these officers may approve loans within the following limits: first mortgage real estate and construction loans up to $500,000; home equity loans up to $150,000; consumer loans up to $150,000; and commercial loans up to $150,000. These officers may combine their authorities to make home equity, consumer and commercial loans up to $450,000 and first mortgage real estate and construction loans up to $1.0 million. Prior Board approval is required for home equity, consumer and commercial loans in excess of $450,000 and for first mortgage real estate and construction loans in excess of $1.0 million. The Board also must give prior approval for any aggregation of existing and/or committed loans to one borrower that exceed $1.0 million. Certain other Bank employees also have limited lending authority.

Asset Quality

Loan Delinquencies and Collection Procedures. The Bank's procedures for delinquent loans are as follows:

15 days delinquent:	late charge added, first delinquent notice mailed
30 days delinquent:	second delinquent notice mailed
45 days delinquent:	additional late charge, third delinquent notice mailed, telephone contact made
60 days delinquent:	telephone contact made, separate letter mailed
90 days delinquent:	decision made to foreclose or workout

When a loan is 90 days delinquent, the Board may determine to refer it to an attorney for repossession or foreclosure. All reasonable attempts are made to collect from borrowers prior to referral to an attorney for collection. In certain instances, we may modify the loan or grant a limited moratorium on loan payments to enable the borrower to reorganize his or her financial affairs, and we attempt to work with the borrower to establish a repayment schedule to cure the delinquency.

As to mortgage loans, if a foreclosure action is taken and the loan is not reinstated, paid in full or refinanced, the property is sold at judicial sale at which we may be the buyer if there are no adequate offers to satisfy the debt. Any property acquired as the result of foreclosure or by deed in lieu of foreclosure is classified as real estate owned until it is sold or otherwise disposed of. When real estate owned is acquired, it is recorded at its fair market value less estimated selling costs. The initial writedown of the property is charged to the allowance for loan losses. Adjustments to the carrying value of the property that result from subsequent declines in value are charged to operations in the period in which the declines occur. At June 30, 2009, we held no real estate owned.

As to commercial loans, the Bank requires updated financial statements when the loan becomes 90 days delinquent. As to account loans, the outstanding balance is collected from the related account along with accrued interest when the loan is 180 days delinquent.

Loans are reviewed on a regular basis, and all delinquencies of 60 days or more are reported to the Board of Directors. Loans are placed on non-accrual status when they are more than 90 days delinquent, except for such loans which are well collateralized and in the process of collection, in addition to those loans that may be placed on a non-accrual status at any time if, in the opinion of management, the collection of additional interest is doubtful. Loans with a current value ratio of 60% or less, however, are not automatically placed on non-accrual status if more than 90 days delinquent. Interest accrued and unpaid at the time a loan is placed on non-accrual status is charged against interest income. Subsequent payments are either applied to the outstanding principal balance or recorded as interest income, depending on the assessment of the ultimate collectability of the loan. At June 30, 2009, we had approximately $6.5 million of loans that were held on a non-accrual basis, of which $6.4 million were classified as impaired and were subject to specific loss allowances totaling $579,000.

Non-Performing Assets. The following table provides information regarding our non-performing loans and other non-performing assets as of the dates indicated.

	At June 30,				
	2009	**2008**	**2007**	**2006**	**2005**
Loans accounted for on a non-accrual basis:					
One-to-four family real estate	$ 3,714	$ 1,234	$ 116	$ -	$ 1,662
Commercial real estate	926	410	-	-	-
Construction	-	-	666	-	-
Consumer	-	-	-	1	13
Home equity	1,356	634	634	325	554
Commercial	550	658	166	98	99
Total	6,546	2,936	1,582	424	2,328
Accruing loans contractually past due 90 days or more:					
One-to-four family real estate	2,394	1,615	740	252	39
Commercial real estate	-	378	-	-	-
Construction	250	-	-	47	-
Consumer	10	16	-	-	2
Home equity	78	234	27	-	38
Commercial	377	-	-	-	-
Total	3,109	2,243	767	299	79
Total non-performing loans	$ 9,655	$ 5,179	$ 2,349	$ 723	$ 2,407
Total non-performing assets	$ 9,655	$ 5,179	$ 2,349	$ 723	$ 2,407
Total non-performing loans to total loans	3.40 %	2.00 %	0.97 %	0.32 %	1.24 %
Total non-performing loans to total assets	2.74 %	1.68 %	0.83 %	0.27 %	1.01 %
Total non-performing assets to total assets	2.74 %	1.68 %	0.83 %	0.27 %	1.01 %

During the year ended June 30, 2009, gross interest income of $384,000 would have been recorded on loans accounted for on a non-accrual basis if those loans had been current, and $156,000 of interest on a cash basis as collected was included in income. At June 30, 2009, there were $1.3 million in loans that were not classified as nonaccrual, 90 days past due or restructured but where known information about possible credit problems of borrowers caused management to have serious concerns as to the ability of the borrowers to comply with present loan repayment terms and may result in future disclosure as nonaccrual, 90 days past due or restructured.

Classified Assets. Management, in compliance with the Uniform Credit Classification and Account Management Policy adopted by the Federal Deposit Insurance Corporation, has instituted an internal loan review program, whereby non-performing loans are classified as special mention, substandard, doubtful or loss. It is our policy to review the loan portfolio, in accordance with regulatory classification procedures, on at least a quarterly basis. When a loan is classified as substandard or doubtful, management is required to evaluate the loan for impairment. When management classifies a portion of a loan as loss, a reserve equal to 100% of the loss amount is required to be established or the loan is to be charged-off.

An asset that does not currently expose the Bank to a sufficient degree of risk to warrant an adverse classification, but which possesses credit deficiencies or potential weaknesses that deserve management's close attention is classified as "special mention."

An asset classified as "substandard" is inadequately protected by the current net worth and paying capacity of the obligor or the collateral pledged, if any. Assets so classified have well-defined weaknesses and are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

An asset classified as "doubtful" has all the weaknesses inherent in a "substandard" asset with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. The possibility of a loss on a doubtful asset is high.

That portion of an asset classified as "loss" is considered uncollectible and of such little value that its continuance as an asset, without establishment of a specific valuation or charge-off, is not warranted. This classification does not necessarily mean that an asset has absolutely no recovery or salvage value; but rather, it is not practical or desirable to defer writing off a basically worthless asset even though partial recovery may be effected in the future.

Management's classification of assets is reviewed by the Board on a regular basis and by the regulatory agencies as part of their examination process. An independent loan review firm performs periodic reviews of our loan portfolio.

The following table discloses the Bank's classification of assets as of June 30, 2009.

	At June 30, 2009
	(In thousands)
Special Mention	$ 4,018
Substandard	7,755
Doubtful	-
Loss	474
Total	$ 12,247

At June 30, 2009, 43 out of the 52 loans classified totaling $9.7 million are included as non-performing loans in the non-performing assets table.

Allowance for Loan Losses. The allowance for loan losses is a valuation account that reflects our estimation of the losses in our loan portfolio to the extent they are both probable and reasonable to estimate. The allowance is established through provisions for loan losses that are charged to income in the period they are established. We charge losses on loans against the allowance for loan losses when we believe the collection of loan principal is unlikely. Recoveries on loans previously charged-off are added back to the allowance.

Management, in determining the allowance for loan losses, considers the losses inherent in the loan portfolio and changes in the nature and volume of our loan activities, along with general economic and real estate market conditions. We establish a specific allowance for loans classified as “loss” or that are determined to be impaired. We make provisions for loan losses to a general allowance according to (i) the type of loan, one-to-four family real estate mortgages, commercial real estate mortgages, construction loans, commercial term loans and lines of credit, consumer loans and home equity loans and lines of credit, with commercial, construction and consumer loans receiving a higher allowance than other loan types, and (ii) whether the loan is current and performing or delinquent, with higher allowances made according to the number of days a loan is delinquent. However, for purposes of establishing the general valuation allowance, loans that are delinquent 90 days or more are not subject to higher allowances if they have a loan-to-value ratio of less than 60%.

We maintain a loan review system which provides for a systematic review of the loan portfolios and the early identification of potential impaired loans. We generally review a loan for impairment as soon as the loan is 60 or more days delinquent. A loan evaluated for impairment is deemed to be impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. All loans identified as impaired are evaluated independently. We do not aggregate such loans for evaluation purposes. Payments received on impaired loans are applied to unpaid interest, escrow, late charges and principal in accordance with the individual loan payment schedule, with the oldest installments due credited first.

Specific loan loss allowances are established for impaired loans based on a review of such information and/or appraisals of the underlying collateral. General loan loss allowances are based upon a combination of factors including, but not limited to, actual loan loss experience, composition of the loan portfolio, current economic conditions and management’s judgment. The estimation of the allowance for loan losses is inherently subjective as it requires estimates and assumptions that are susceptible to significant revisions as more information becomes available or as future events change. Future additions to the allowance for loan losses may be necessary if economic and other conditions in the future differ substantially from the current operating environment. In addition, the New Jersey Department of Banking and Insurance and the Federal Deposit Insurance Corporation, as an integral part of their examination process, periodically review our loan and foreclosed real estate portfolios and the related allowance for loan losses and valuation allowance for foreclosed real estate. They may require the allowance for loan losses or the valuation allowance for foreclosed real estate to be increased based on their review of information available at the time of the examination, which would negatively affect our earnings.

The following table sets forth information with respect to the Bank's allowance for loan losses for the periods indicated:

	Year Ended June 30,									
	2009		2008		2007		2006		2005	
	(Dollars in thousands)									
Allowance balance at beginning of period	$ 1,025		$ 926		$ 921		$ 874		$ 742	
Provision for loan losses	783		135		5		60		135	
Charge-offs:										
Consumer	-		42		3		17		3	
Total charge-offs	-		42		3		17		3	
Recoveries:										
Consumer	-		6		3		4		-	
Total recoveries	-		6		3		4		-	
Net charge-offs	$ -		$ 36		$ -		$ 13		$ 3	
Allowance balance at end of period	$ 1,808		$ 1,025		$ 926		$ 921		$ 874	
Total loans outstanding at end of period	$ 283,697		$ 259,029		$ 242,641		$ 224,399		$ 193,996	
Average loans outstanding during period	$ 266,164		$ 243,879		$ 228,069		$ 205,905		$ 179,837	
Allowance for loan losses as a percentage of non-performing loans	18.73	%	19.79	%	39.42	%	127.39	%	36.31	%
Allowance for loan losses as a percentage of total loans	0.64	%	0.40	%	0.38	%	0.41	%	0.45	%
Net loans charged-off as a percentage of average loans	-	%	0.01	%	-	%	0.01	%	-	%

Allocation of Allowance for Loan Losses. The following table sets forth the allocation of the Bank's allowance for loan losses by loan category and the percent of loans in each category to total loans receivable at the dates indicated. The portion of the loan loss allowance allocated to each loan category does not represent the total available for future losses that may occur within the loan category since the total loan loss allowance is a valuation allocation applicable to the entire loan portfolio.

	At June 30,									
	2009		**2008**		**2007**		**2006**		**2005**	
	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans
	(Dollars in thousands)									
At end of period allocated to:										
One-to-four family real estate	$ 683	54.68 %	$ 471	56.31 %	$ 389	50.94 %	$ 436	53.89 %	$ 467	58.50 %
Commercial real estate	345	12.03	116	11.61	105	11.95	108	10.51	72	9.26
Construction	152	7.39	74	6.86	83	9.82	125	10.37	72	9.48
Consumer	6	0.39	7	0.49	9	0.82	9	0.83	19	0.94
Home equity	468	21.92	238	21.15	236	23.04	178	21.95	202	19.74
Commercial	154	3.59	119	3.58	104	3.43	65	2.45	42	2.08
Total allowance	$ 1,808	100.00 %	$ 1,025	100.00 %	$ 926	100.00 %	$ 921	100.00 %	$ 874	100.00 %

Securities Portfolio

Our investment policy is designed to manage cash flows and foster earnings within prudent interest rate risk and credit risk guidelines. The portfolio mix is governed by our short term and long term liquidity needs. Rate-of-return, cash flow, rating and guarantor-backing are also considered when making investment decisions. The purchase of principal only and stripped coupon interest only security instruments is specifically not authorized by our investment policy. Furthermore, other than government related securities which may not be rated, we only purchase securities with a rating of AAA or AA. We invest primarily in mortgage-backed securities, U.S. government obligations and U.S. government agency issued securities.

Mortgage-backed securities represent a participation interest in a pool of mortgages issued by U.S. government agencies or government-sponsored entities, such as Federal Home Loan Mortgage Corporation ("Freddie Mac"), the Government National Mortgage Association ("Ginnie Mae"), and the Federal National Mortgage Association ("Fannie Mae"), as well as non-government, private corporate issuers. Mortgage-backed securities are pass-through securities and generally yield less than the mortgage loans underlying the securities. The characteristics of the underlying pool of mortgages,*i.e.*, fixed-rate or adjustable-rate, as well as prepayment risk, are passed on to the certificate holder.

Mortgage-backed securities issued or sponsored by U.S. government agencies and government-sponsored entities are guaranteed as to the payment of principal and interest to investors. Private corporate issuers' mortgage-backed securities typically offer rates above those paid on government agency issued or sponsored securities, but lack the guaranty of those agencies.

Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities," requires that securities be categorized as "held to maturity," "trading securities" or "available for sale," based on management's intent as to the ultimate disposition of each security. Statement No. 115 allows debt securities to be classified as "held to maturity" and reported in financial statements at amortized cost if the reporting entity has the positive intent and ability to hold these securities to maturity. Securities that might be sold in response to changes in market interest rates, changes in the security's prepayment risk, increases in loan demand, or other similar factors cannot be classified as "held to maturity."

At the present time, nearly our entire securities portfolio is purchased with the intent to hold the security until maturity. At June 30, 2009, we maintained a small trading account totaling $37,000 and the rest of our securities portfolio was classified as held to maturity. Securities not classified as "held to maturity" or as "trading securities" are classified as "available for sale" and are reported at fair value with unrealized gains and losses on the securities impacting equity.

Individual securities are considered impaired when fair value is less than amortized cost. Management evaluates all securities with unrealized losses quarterly to determine if such impairments are "temporary" or "other-than-temporary" in accordance with applicable accounting guidance including, but not limited to, SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities", and Emerging Issues Task Force ("EITF") Issue No. 99-20, "Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to be Held by a Transferor in Securitized Financial Asset," as amended. Accordingly, the Company accounts for temporary impairments based upon security classification as either trading, available for sale or held to maturity. Temporary impairments on "available for sale" securities are recognized, on a tax-effected basis, through other comprehensive income with offsetting entries adjusting the carrying value of the security and the balance of deferred taxes. Temporary impairments of "held to maturity" securities are not recognized in

the consolidated financial statements; however, information concerning the amount and duration of impairments on held to maturity securities is disclosed in the notes to the consolidated financial statements. The carrying value of securities held in a trading portfolio is adjusted to fair value through earnings on a monthly basis.

Other-than-temporary impairments on securities that the Company has decided to sell or will more likely than not be required to sell prior to the full recovery of their fair value to a level equal to or exceeding amortized cost are recognized in earnings. Otherwise, the other-than-temporary impairment is bifurcated into credit-related and noncredit-related components. The credit-related impairment generally represents the amount by which the present value of the cash flows expected to be collected on a debt security falls below its amortized cost. The noncredit-related component represents the remaining portion of the impairment not otherwise designated as credit-related. Credit-related other-than-temporary impairments are recognized in earnings while noncredit-related other-than-temporary impairments are recognized, net of deferred taxes, in other comprehensive income.

At June 30, 2009, our securities portfolio did not contain securities of any issuer, other than the U.S. government or its agencies, having an aggregate book value in excess of 10% of stockholders' equity. We do not currently participate in hedging programs, interest rate caps, floors or swaps, or other activities involving the use of off-balance sheet derivative financial instruments, however, we may in the future utilize such instruments if we believe it would be beneficial for managing our interest rate risk.

The following table sets forth certain information regarding the carrying values, weighted average yields and maturities of our held to maturity securities portfolio at June 30, 2009. This table shows contractual maturities and does not reflect repricing or the effect of prepayments. Actual maturities of the securities held by us may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without prepayment penalties. Callable securities pose reinvestment risk because we may not be able to reinvest the proceeds from called securities at an equivalent or higher interest rate.

	At June 30, 2009										
	One Year or Less		One to Five Years		Five to Ten Years		More than Ten Years		Total Investment Securities		
	Carrying Value	Average Yield	Carrying Value	Average Yield	Carrying Value	Average Yield	Carrying Value	Average Yield	Carrying Value	Average Yield	Market Value
	(Dollars in thousands)										
U.S. Government Agency Obligations	$ -	- %	$ 5,000	1.36 %	$ 4,525	4.54 %	$ 31,790	5.26 %	$ 41,315	4.71 %	$ 41,124
Mortgage-Backed Securities:											
Government National Mortgage Association	-	-	-	-	12	9.73	26	5.75	38	6.98	39
Federal Home Loan Mortgage Corporation	-	-	14	6.52	139	5.59	382	4.77	535	5.03	551
Federal National Mortgage Association	-	-	-	-	962	4.80	1,837	5.94	2,799	5.55	2,928
Total	$ -	- %	$ 5,014	1.37 %	$ 5,638	4.62 %	$ 34,035	5.29 %	$ 44,687	4.77 %	$ 44,642

The following table sets forth the carrying value of our held to maturity securities portfolio at the dates indicated. Securities classified as held to maturity are shown at our amortized cost.

	At June 30		
	2009	2008	2007
	(In thousands)		
U.S. Government Agency Obligations	$ 41,315	$ 24,023	$ 24,120
Government National Mortgage Association	38	41	55
Federal Home Loan Mortgage Corporation	535	652	758
Federal National Mortgage Association	2,799	4,027	4,403
Total securities held to maturity	$ 44,687	$ 28,743	$ 29,336

Sources of Funds

General. Deposits are our major source of funds for lending and other investment purposes. To the extent that our loan originations have exceeded the funding available from deposits, we have borrowed funds from the Federal Home Loan Bank to supplement the amount of funds for lending and funding daily operations.

In addition, we derive funds from loan and mortgage-backed securities principal repayments, and proceeds from the maturity and call of investment securities. Loan and securities payments are a relatively stable source of funds, while deposit inflows and outflows are significantly influenced by pricing strategies and money market conditions.

Deposits. Our current deposit products include checking and savings accounts, certificates of deposit and fixed or variable rate individual retirement accounts (IRA's). Deposit account terms vary, primarily as to the required minimum balance amount, the amount of time, if any, that the funds must remain on deposit and the applicable interest rate. Our savings account menu includes regular passbook, statement, money market and club accounts. We also offer a six-level tiered savings account. Our certificates of deposit currently range in terms from 6 months to 10 years. Our IRA's are available with the same maturities as certificates of deposit accounts, with the exception of the 30 month term. We offer a two year certificate of deposit that permits the depositor to increase the interest rate to the current two year rate once during the term.

Deposits are obtained primarily from within New Jersey. The Bank utilizes brokered deposits as a funding source. Brokered deposits at June 30, 2009 totaled $2.6 million. Premiums or incentives for opening accounts are sometimes offered. We periodically select particular certificate of deposit maturities for promotion in connection with asset/liability management and interest rate risk concerns.

The determination of deposit and certificate interest rates is based upon a number of factors, including: (1) need for funds based on loan demand, current maturities of deposits and other cash flow needs; (2) a current survey of a selected group of competitors' rates for similar products; (3) economic conditions; and (4) business plan projections.

A large percentage of our deposits are in certificates of deposit. The inflow of certificates of deposit and the retention of such deposits upon maturity are significantly influenced by general interest rates and money market conditions, making certificates of deposit traditionally a more volatile source of funding than core deposits. Our liquidity could be reduced if a significant amount of certificates of deposit maturing within a short period of time were not renewed. To the extent that such deposits do not remain with us, they may need to be replaced with borrowings which could increase our cost of funds and negatively impact our net interest rate spread and our financial condition.

The following tables set forth the distribution of average deposits for the periods indicated and the weighted average nominal interest rates for each period on each category of deposits presented.

	For the Year Ended June 30,								
	2009			2008			2007		
	Average Balance	Percent of Total Deposits	Weighted Average Nominal Rate	Average Balance	Percent of Total Deposits	Weighted Average Nominal Rate	Average Balance	Percent of Total Deposits	Weighted Average Nominal Rate
	(Dollars in thousands)								
Non-interest-bearing demand	$10,101	4.17 %	0.00 %	$8,540	3.95 %	0.00 %	$ 9,804	4.75 %	0.00 %
Interest-bearing demand	26,175	10.82	0.63	26,906	12.46	0.90	29,056	14.07	0.96
Savings and club	90,512	37.40	2.22	51,048	23.63	2.48	48,248	23.37	1.86
Certificates of deposit	115,210	47.61	3.61	129,506	59.96	4.76	119,364	57.81	4.65
Total deposits	$241,998	100.00 %	2.62 %	$216,000	100.00 %	3.55 %	$ 206,472	100.00 %	3.26 %

The following table sets forth certificates of deposit classified by interest rate as of the dates indicated.

	At June 30, 2009			2008			2007		
	Amount	Percent of Total		Amount	Percent of Total		Amount	Percent of Total	
	(Dollars in thousands)								
Interest Rate:									
1.00% - 1.99%	$ 13,756	10.84	%	$ 1	-	%	$ 7	0.01	%
2.00% - 2.99%	50,253	39.60		22,434	18.46		1	-	
3.00% - 3.99%	43,690	34.43		13,639	11.22		4,997	3.89	
4.00% - 4.99%	9,520	7.50		44,128	36.32		47,472	36.98	
5.00% - 5.99%	9,682	7.63		41,307	34.00		75,857	59.08	
6.00% - 6.99%	-	0.00		-	0.00		48	0.04	
Total	$ 126,901	100.00	%	$ 121,509	100.00	%	$ 128,382	100.00	%

The following table sets forth the amount and maturities of certificates of deposit at the Bank at June 30, 2009.

	Amount Due Year Ending June 30,					
	2010	2011	2012	2013	2014	After June 30, 2015
	(In thousands)					
Interest Rate:						
1.00% - 1.99%	$ 12,597	$ 1,159	$ -	$ -	$ -	$ -
2.00% - 2.99%	42,987	6,430	716	50	70	-
3.00% - 3.99%	23,358	8,406	10,323	459	759	385
4.00% - 4.99%	4,287	1,876	253	1,728	175	1,201
5.00% - 5.99%	-	-	1,926	1,529	413	5,814
Total	$ 83,229	$ 17,871	$ 13,218	$ 3,766	$ 1,417	$ 7,400

The following table shows the amount of the Bank's certificates of deposit of $100,000 or more by time remaining until maturity as of June 30, 2009.

	Certificates of Deposit (In thousands)
Remaining Time Until Maturity:	
Within three months	$11,560
Three through six months	9,750
Six through twelve months	11,625
Over twelve months	16,908
Total	$49,843

Borrowings. To supplement our deposits as a source of funds for lending or investment, we have borrowed funds in the form of advances from the Federal Home Loan Bank. At June 30, 2009, our collateralized borrowing limit with the Federal Home Loan Bank was $86.9 million and our outstanding borrowings with the Federal Home Loan Bank totaled $36.2 million. Information regarding our total borrowings as of June 30, 2009 are set forth in the following table.

	At June 30, 2009			
	Balance		**Rate**	**Maturity**
	(Dollars in thousands)			
Total Borrowings:				
Overnight Line of Credit	$	-	Daily adjustable rate	Next day
Five Year Amortizing Fixed Rate Advance	$	218	3.600%	August 2009
Two Year Fixed Rate Convertible Advance	$	6,000	4.641%	August 2009
Five Year Fixed Rate Advance	$	5,000	4.250%	December 2009
Five Year Fixed Rate Advance	$	5,000	4.280%	June 2010
Ten Year Fixed Rate Convertible Advance	$	10,000	3.272%	November 2017
Ten Year Fixed Rate Convertible Advance	$	10,000	3.460%	March 2018

Advances from the Federal Home Loan Bank are typically secured by the Federal Home Loan Bank stock and a portion of our residential mortgage loans and by other assets, mainly securities which are obligations of or guaranteed by the U.S. government. Additional information regarding our borrowings is included under Note 9 to our consolidated financial statements beginning on page F-1.

Subsidiary Activity

MSB Financial Corp. has no direct subsidiaries other than Millington Savings Bank. The Bank has one wholly owned subsidiary, Millington Savings Services Corp., formed in 1984. The service corporation is currently inactive.

Regulation And Supervision

The Bank and the Company operate in a highly regulated industry. This regulation establishes a comprehensive framework of activities in which they may engage and is intended primarily for the protection of the Deposit Insurance Fund and depositors. Set forth below is a brief description of certain laws that relate to the regulation of the Bank and the Company. The description does not purport to be complete and is qualified in its entirety by reference to applicable laws and regulations.

Regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities, including the imposition of restrictions on operations, the classification of assets and the adequacy of the allowance for loan losses. Any change in such regulation and oversight, whether in the form of regulatory policy, regulations, or legislation, including changes in the regulations governing mutual holding companies, could have a material adverse impact on the Company and the Bank. The adoption of regulations or the enactment of laws that restrict the operations of the Bank and/or the Company or impose burdensome requirements upon one or both of them could reduce their profitability and could impair the value of the Bank's franchise, resulting in negative effects on the trading price of the Company's common stock.

Emergency Economic Stabilization Act of 2008

In response to recent unprecedented market turmoil, the Emergency Economic Stabilization Act ("EESA") was enacted on October 3, 2008. EESA authorizes the Secretary of the Treasury to purchase up to $700 billion in troubled assets from financial institutions under the Troubled Asset Relief Program or TARP. Troubled assets include residential or commercial mortgages and related instruments originated prior to March 14, 2008 and any other financial instrument that the Secretary determines, after consultation with the Chairman of the Board of Governors of the Federal Reserve System, the purchase of which is necessary to promote financial stability. If the Secretary exercises his authority under TARP, EESA directs the Secretary of Treasury to establish a program to guarantee troubled assets originated or issued prior to March 14, 2008. The Secretary is authorized to purchase up to $250 billion in troubled assets immediately and up to $350 billion upon certification by the President that such authority is needed. The Secretary's authority will be increased to $700 billion if the President submits a written report to Congress detailing the Secretary's plans to use such authority unless Congress passes a joint resolution disapproving such amount within 15 days after receipt of the report. The Secretary's authority under TARP expires on December 31, 2009 unless the Secretary certifies to Congress that extension is necessary provided that his authority may not be extended beyond October 3, 2010.

Institutions selling assets under TARP will be required to issue warrants for common or preferred stock or senior debt to the Secretary. If the Secretary purchases troubled assets directly from an institution without a bidding process and acquires a meaningful equity or debt position in the institution as a result or acquires more than $300 million in troubled assets from an institution regardless of method, the institution will be required to meet certain standards for executive compensation and corporate governance, including a prohibition against incentives to take unnecessary and excessive risks, recovery of bonuses paid to senior executives based on materially inaccurate earnings or other statements and a prohibition against agreements for the payment of golden parachutes. Institutions that sell more than $300 million in assets under TARP auctions will not be entitled to a tax deduction for compensation in excess of $500,000 paid to its chief executive or chief financial official or any of its other three most highly compensated officers. In addition, any severance paid to such officers for involuntary termination or termination in connection with a bankruptcy or receivership will be subject to the golden parachute rules under the Internal Revenue Code.

EESA increases the maximum deposit insurance amount up to $250,000 until December 31, 2009 and removes the statutory limits on the FDIC's ability to borrow from the Treasury during this period. The FDIC may not take the temporary increase in deposit insurance coverage into account when setting assessments. EESA allows financial institutions to treat any loss on the preferred stock of the Federal National Mortgage Association or Federal Home Loan Mortgage Corporation as an ordinary loss for tax purposes. This provision was effective October 3, 2008.

Pursuant to his authority under EESA, the Secretary of the Treasury has created the TARP Capital Purchase Plan under which the Treasury Department will invest up to $250 billion in senior preferred stock of U.S. banks and savings associations or their holding companies. Qualifying financial institutions may issue senior preferred stock with a value equal to not less than 1% of risk-weighted assets and not more than the lesser of $25 billion or 3% of risk-weighted assets. The senior preferred stock will pay dividends at the rate of 5% per annum until the fifth anniversary of the investment and thereafter at the rate of 9% per annum. No dividends may be paid on common stock unless dividends have been paid on the senior preferred stock. Until the third anniversary of the issuance of the senior preferred, the consent of the U.S. Treasury will be required for any increase in the dividends on the common stock or for any stock repurchases unless the senior preferred has been redeemed in its entirety or the Treasury has transferred the senior preferred to third parties. The senior preferred will not have voting rights other than the right to vote as a class on the issuance of any preferred stock ranking senior, any change in its terms or any merger, exchange or similar transaction that would adversely affect its rights. The senior preferred will also have the right to elect two directors if dividends have not been paid for six periods. The senior preferred will be freely transferable and participating institutions will be required to file a shelf registration statement covering the senior preferred. The issuing institution must grant the Treasury piggyback registration rights. Prior to issuance, the financial institution and its senior executive officers must modify or terminate all benefit plans and arrangements to comply with EESA. Senior executives must also waive any claims against the Department of Treasury.

In connection with the issuance of the senior preferred, participating publicly traded institutions must issue to the Secretary immediately exercisable 10-year warrants to purchase common stock with an aggregate market price equal to 15% of the amount of senior preferred. The exercise price of the warrants will equal the market price of the common stock on the date of the investment. The Secretary may only exercise or transfer one-half of the warrants prior to the earlier of December 31, 2009 or the date the issuing financial institution has received proceeds equal to the senior preferred investment from one or more offerings of common or preferred stock qualifying as Tier 1 capital. The Secretary will not exercise voting rights with respect to any shares of common stock acquired through exercise of the warrants. The financial institution must file a shelf registration statement covering the warrants and underlying common stock as soon as practicable after issuance and grant piggyback registration rights. The number of warrants will be reduced by one-half if the financial institution raises capital equal to the amount of the senior preferred through one or more offerings of common stock or preferred stock qualifying as Tier 1 capital. If the financial institution does not have sufficient authorized shares of common stock available to satisfy the warrants or their issuance otherwise requires shareholder approval, the financial institution must call a meeting of shareholders for that purpose as soon as practicable after the date of investment. The exercise price of the warrants will be reduced by 15% for each six months that lapse before shareholder approval subject to a maximum reduction of 45%.

The American Recovery and Reinvestment Act of 2009 (“ARRA”) has imposed additional compensation restrictions on companies participating in the TARP Capital Purchase Program. ARRA directs the Secretary of the Treasury to adopt standards for executive compensation that include limits on compensation that exclude incentives to take unnecessary and excessive risks that threaten the value of the participant while any assistance remains outstanding and provision for recovery by the participant of any bonus, retention award or incentive compensation paid to any senior executive office and up to 20 next mostly highly compensated employees of the participant based on statements of earnings, revenues, gains or other criteria that are later found to be materially inaccurate. The board of directors of any TARP participant must adopt policies on excessive or luxury expenditures, as identified by the Secretary. TARP participants will be required to annually allow shareholders to have a separate non-binding vote on executive compensation while a TARP investment is outstanding.

Due to its strong capital position the Company did not participate in the Treasury's Capital Purchase Plan.

Regulation of the Company

General. The Company is a savings and loan holding company within the meaning of Section 10 of the Home Owners' Loan Act. It is required to file reports with the Office of Thrift Supervision and is subject to regulation and examination by the Office of Thrift Supervision. The Company must also obtain regulatory approval from the Office of Thrift Supervision before engaging in certain transactions, such as mergers with or acquisitions of other financial institutions.

Activities Restrictions. As a savings and loan holding company and as a subsidiary holding company of a mutual holding company, the Company is subject to statutory and regulatory restrictions on its business activities. The non-banking activities of the Company and its non-savings institution subsidiaries are restricted to certain activities specified by Office of Thrift Supervision regulation, which include performing services and holding properties used by a savings institution subsidiary, activities authorized for savings and loan holding companies as of March 5, 1987, and non-banking activities permissible for bank holding companies pursuant to the Bank Holding Company Act of 1956 or authorized for financial holding companies pursuant to the Gramm-Leach-Bliley Act. Before engaging in any non-banking activity or acquiring a company engaged in any such activities, the Company must file with the Office of Thrift Supervision either a prior notice or (in the case of non-banking activities permissible for bank holding companies) an application regarding its planned activity or acquisition.

Mergers and Acquisitions. The Company must obtain approval from the Office of Thrift Supervision before acquiring, directly or indirectly, more than 5% of the voting stock of another savings institution or savings and loan holding company or acquiring such an institution or holding company by merger, consolidation or purchase of its assets. Federal law also prohibits a savings and loan holding company from acquiring more than 5% of a company engaged in activities other than those authorized for savings and loan holding companies by federal law or acquiring or retaining control of a depository institution that is not insured by the Federal Deposit Insurance Corporation. In evaluating an application for the Company to acquire control of a savings institution, the Office of Thrift Supervision would consider the financial and managerial resources and future prospects of the Company and the target institution, the effect of the acquisition on the risk to the insurance funds, the convenience and the needs of the community and competitive factors.

Waivers of Dividends by the MHC. Office of Thrift Supervision regulations require the MHC to notify the Office of Thrift Supervision of any proposed waiver of its receipt of dividends from the Company. The Office of Thrift Supervision reviews dividend waiver notices on a case-by-case basis, and, in general, does not object to any such waiver if: (i) the waiver would not be detrimental to the safe and sound operations of the subsidiary savings association and (ii) the mutual holding company's board of directors determines that such waiver is consistent with such directors' fiduciary duties to the mutual holding company's members. During the year ended June 30, 2009, the MHC waived its right to receive dividends declared by the Company totaling approximately $371,000 ($649,000 on a cumulative basis).

Conversion of the MHC to Stock Form. Office of Thrift Supervision regulations permit the MHC to convert from the mutual form of organization to the capital stock form of organization, commonly referred to as a second step conversion. In a second step conversion a new holding company would be formed as the successor to the Company, the MHC's corporate existence would end, and certain depositors of the Bank would receive the right to subscribe for shares of the new holding company. In a second step conversion, each share of common stock held by stockholders other than the MHC would be automatically converted into shares of common stock of the new holding company.

Acquisition of Control. Under the federal Change in Bank Control Act, a notice must be submitted to the Office of Thrift Supervision if any person (including a company), or group acting in concert, seeks to acquire "control" of a savings and loan holding company or savings association. An acquisition of "control" can occur upon the acquisition of 10% or more of the voting stock of a savings and loan holding company or savings institution or as otherwise defined by the Office of Thrift Supervision. Under the Change in Bank Control Act, the Office of Thrift Supervision has 60 days from the filing of a complete notice to act, taking into consideration certain factors, including the financial and managerial resources of the acquirer and the anti-trust effects of the acquisition. Any company that so acquires control would then be subject to regulation as a savings and loan holding company.

Regulation of the Bank

General. As a New Jersey chartered, Federal Deposit Insurance Corporation-insured savings bank, the Bank is regulated by the New Jersey Department of Banking and Insurance and the Federal Deposit Insurance Corporation. The Bank's operations are subject to extensive regulation, including restrictions or requirements with respect to loans to one borrower, the percentage of non-mortgage loans or investments to total assets, capital distributions, permissible investments and lending activities, liquidity, transactions with affiliates and community reinvestment. The Bank must file regulatory reports concerning its activities and financial condition, and must obtain regulatory approvals prior to entering into certain transactions, such as mergers with or acquisitions of other financial institutions. The New Jersey Department of Banking and Insurance and the Federal Deposit Insurance Corporation regularly examine the Bank and prepare reports to the Bank's Board of Directors on deficiencies, if any, found in its operations. The regulatory authorities have substantial discretion to impose enforcement action on an institution that fails to comply with applicable regulatory requirements, particularly with respect to its capital requirements.

Deposit Insurance. The Bank's deposits are insured to applicable limits by the Federal Deposit Insurance Corporation. The maximum deposit insurance amount has been increased from $100,000 to $250,000 until December 31, 2013. On October 13, 2008, the FDIC established a Temporary Liquidity Guarantee Program under which the FDIC will fully guarantee all non-interest-bearing transaction accounts until December 31, 2009 (the "Transaction Account Guarantee Program") and all senior unsecured debt of insured depository institutions or their qualified holding companies issued between October 14, 2008 and October 31, 2009 that matures prior to December 31, 2012 (the "Debt Guarantee Program"). Senior unsecured debt would include federal funds purchased and certificates of deposit standing to the credit of the bank. After November 12, 2008, institutions that did not opt out of the Programs by December 5, 2008 are assessed at the rate of ten basis points for transaction account balances in excess of $250,000 and at a rate between 50 and 100 basis points of the amount of debt issued. Participating holding companies that have not issued FDIC-guaranteed debt prior to April 1, 2009 must apply to remain in the Debt Guarantee Program. Participating institutions will be subject to surcharges for debt issued after that date. The Company has opted out of the Debt Guarantee Program and elected to remain in the Transaction Account Guarantee Program.

Pursuant to the Federal Deposit Insurance Reform Act of 2005 (the "Reform Act"), the FDIC is authorized to set the reserve ratio for the Deposit Insurance Fund annually at between 1.15% and 1.5% of estimated insured deposits. If the Deposit Insurance Fund's reserves exceed the designated reserve ratio, the FDIC is required to pay out all or, if the reserve ratio is less than 1.5%, a portion of the excess as a dividend to insured depository institutions based on the percentage of insured deposits held on December 31, 1996 adjusted for subsequently paid premiums. Insured depository institutions that were in existence on December 31, 1996 and paid assessments prior to that date (or their successors) are entitled to a one-

time credit against future assessments based on their past contributions to the predecessor to the Deposit Insurance Fund.

The FDIC has set the designated reserve ratio at 1.25% of estimated insured deposits. The FDIC has also adopted a risk-based premium system that provides for quarterly assessments based on an insured institution's ranking in one of four risk categories based on their examination ratings and capital ratios. Well-capitalized institutions with the CAMELS ratings of 1 or 2 are grouped in Risk Category I and have been assessed for deposit insurance at an annual rate of between five and seven basis points with the assessment rate for an individual institution determined according to a formula based on a weighted average of the institution's individual CAMELS component ratings plus either five financial ratios or the average ratings of its long-term debt. Institutions in Risk Categories II, III and IV are currently assessed at annual rates of 10, 28 and 43 basis points, respectively. The Bank used its special assessment credit to offset the cost of its deposit insurance premium until the second quarter of calendar 2008 when the credit was exhausted.

Due to recent bank failures, the FDIC has determined that the reserve ratio was 1.01% as of June 30, 2008. In accordance with the Reform Act, the FDIC must establish and implement a plan within 90 days to restore the reserve ratio to 1.15% within five years (subject to extension due to extraordinary circumstances). For the quarter beginning January 1, 2009, the FDIC raised the base annual assessment rate for institutions in Risk Category I to between 12 and 14 basis points while the base annual assessment rates for institutions in Risk Categories II, III and IV were increased to 17, 35 and 50 basis points, respectively. For the quarter beginning April 1, 2009 the FDIC has set the base annual assessment rate for institutions in Risk Category I to between 12 and 16 basis points and the base annual assessment rates for institutions in Risk Categories II, III and IV at 22, 32 and 45 basis points, respectively. An institution's assessment rate could be lowered by as much as five basis points based on the ratio of its long-term unsecured debt to deposits or, for smaller institutions based on the ratio of certain amounts of Tier 1 capital to deposits. The assessment rate would be adjusted for Risk Category I institutions that have a high level of brokered deposits and have experienced higher levels of asset growth (other than through acquisitions) and could be increased by as much as ten basis points for institutions in Risk Categories II, III and IV whose ratio of brokered deposits to deposits exceeds 10% of assets. Reciprocal deposit arrangements like CDARS® would be treated as brokered deposits for Risk Category II, III and IV institutions but not for institutions in Risk Category I. An institution's base assessment rate would also be increased if an institution's ratio of secured liabilities (including FHLB advances and repurchase agreements) to deposits exceeds 25%. The maximum adjustment for secured liabilities for institutions in Risk Categories I, II, III and IV would be 8, 11, 16 and 22.5 basis points, respectively, provided that the adjustment may not increase an institution's base assessment rate by more than 50%. The FDIC has further imposed a special assessment equal to five basis points of assets less Tier 1 capital as of June 30, 2009 or $160,000 payable on September 30, 2009 and may impose additional special assessments.

In addition, all FDIC-insured institutions are required to pay assessments to the FDIC to fund interest payments on bonds issued by the Financing Corporation ("FICO"), an agency of the Federal government established to recapitalize the Federal Savings and Loan Insurance Corporation. The FICO assessment rates, which are determined quarterly, averaged .0027% of insured deposits, respectively, in fiscal year 2009. These assessments will continue until the FICO bonds mature in 2017.

Regulatory Capital Requirements. Federal Deposit Insurance Corporation capital regulations require savings institutions to meet three minimum capital standards: (1) tangible capital equal to 1.5% of total adjusted assets, (2) "Tier 1" or "core" capital equal to at least 4% (3% if the institution has received the highest possible rating on its most recent examination) of total adjusted assets, and (3) risk-based capital equal to 8% of total risk-weighted assets. At June 30, 2009, the Bank was in compliance with the minimum capital standards and qualified as "well capitalized." For the Bank's compliance with these

regulatory capital standards, see Note 14 to the consolidated financial statements. In assessing an institution's capital adequacy, the Federal Deposit Insurance Corporation takes into consideration not only these numeric factors but also qualitative factors, and has the authority to establish higher capital requirements for individual institutions where necessary.

The Federal Deposit Insurance Corporation may require any savings institution that has a risk-based capital ratio of less than 8%, a ratio of Tier 1 capital to risk-weighted assets of less than 4% or a ratio of Tier 1 capital to total adjusted assets of less than 4% (3% if the institution has received the highest rating on its most recent examination) to take certain action to increase its capital ratios. If the savings institution's capital is significantly below the minimum required levels of capital or if it is unsuccessful in increasing its capital ratios, the institution's activities may be restricted.

For purposes of the capital regulations, tangible capital is defined as core capital less all intangible assets except for certain mortgage servicing rights. Tier 1 or core capital is defined as common stockholders' equity, non-cumulative perpetual preferred stock and related surplus, minority interests in the equity accounts of consolidated subsidiaries, and certain non-withdrawable accounts and pledged deposits of mutual savings banks. The Bank does not have any non-withdrawable accounts or pledged deposits. Tier 1 and core capital are reduced by an institution's intangible assets, with limited exceptions for certain mortgage and non-mortgage servicing rights and purchased credit card relationships. Both core and tangible capital are further reduced by an amount equal to the savings institution's debt and equity investments in "non-includable" subsidiaries engaged in activities not permissible for national banks other than subsidiaries engaged in activities undertaken as agent for customers or in mortgage banking activities and subsidiary depository institutions or their holding companies.

The risk-based capital standard for savings institutions requires the maintenance of total capital of 8% of risk-weighted assets. Total capital equals the sum of core and supplementary capital. The components of supplementary capital include, among other items, cumulative perpetual preferred stock, perpetual subordinated debt, mandatory convertible subordinated debt, intermediate-term preferred stock, the portion of the allowance for loan losses not designated for specific loan losses and up to 45% of unrealized gains on equity securities. The portion of the allowance for loan and lease losses includable in supplementary capital is limited to a maximum of 1.25% of risk-weighted assets. Overall, supplementary capital is limited to 100% of core capital. For purposes of determining total capital, a savings institution's assets are reduced by the amount of capital instruments held by other depository institutions pursuant to reciprocal arrangements and by the amount of the institution's equity investments (other than those deducted from core and tangible capital) and its high loan-to-value ratio land loans and non-residential construction loans.

A savings institution's risk-based capital requirement is measured against risk-weighted assets, which equal the sum of each on-balance-sheet asset and the credit-equivalent amount of each off-balance-sheet item after being multiplied by an assigned risk weight. These risk weights range from 0% for cash to 100% for delinquent loans, property acquired through foreclosure, commercial loans, and certain other assets.

Qualified Thrift Lender Test. Savings institutions must meet a qualified thrift lender test or they become subject to the business activity restrictions and branching rules applicable to national banks. To qualify as a qualified thrift lender, a savings institution must either (i) be deemed a "domestic building and loan association" under the Internal Revenue Code by maintaining at least 60% of its total assets in specified types of assets, including cash, certain government securities, loans secured by and other assets related to residential real property, educational loans and investments in premises of the institution or (ii) satisfy the statutory qualified thrift lender test set forth in the Home Owners' Loan Act by maintaining at least 65% of its portfolio assets in qualified thrift investments (defined to include residential mortgages

and related equity investments, certain mortgage-related securities, small business loans, student loans and credit card loans). For purposes of the statutory qualified thrift lender test, portfolio assets are defined as total assets minus goodwill and other intangible assets, the value of property used by the institution in conducting its business, and specified liquid assets up to 20% of total assets. A savings institution must maintain its status as a qualified thrift lender on a monthly basis in at least nine out of every twelve months. The Bank met the qualified thrift lender test as of June 30, 2009 and in each of the last twelve months and, therefore, qualifies as a qualified thrift lender.

A savings bank that fails the qualified thrift lender test and does not convert to a bank charter generally will be prohibited from: (1) engaging in any new activity not permissible for a national bank, (2) paying dividends not permissible under national bank regulations, and (3) establishing any new branch office in a location not permissible for a national bank in the institution’s home state. In addition, if the institution does not requalify under the qualified thrift lender test within three years after failing the test, the institution would be prohibited from engaging in any activity not permissible for a national bank and would have to repay any outstanding advances from the Federal Home Loan Bank as promptly as possible.

Community Reinvestment Act. Under the Community Reinvestment Act, every insured depository institution, including the Bank, has a continuing and affirmative obligation consistent with its safe and sound operation to help meet the credit needs of its entire community, including low and moderate income neighborhoods. The Community Reinvestment Act does not establish specific lending requirements or programs for financial institutions nor does it limit an institution’s discretion to develop the types of products and services that it believes are best suited to its particular community. The Community Reinvestment Act requires the depository institution’s record of meeting the credit needs of its community to be assessed and taken into account in the evaluation of certain applications by such institution, such as a merger or the establishment of a branch office by the Bank. An unsatisfactory Community Reinvestment Act examination rating may be used as the basis for the denial of an application. the Bank received a “satisfactory” rating in its most recent Community Reinvestment Act examination.

Federal Home Loan Bank System. The Bank is a member of the Federal Home Loan Bank of New York, which is one of twelve regional federal home loan banks. Each Federal Home Loan Bank serves as a reserve or central bank for its members within its assigned region. It is funded primarily from funds deposited by financial institutions and proceeds derived from the sale of consolidated obligations of the Federal Home Loan Bank System. It makes loans to members pursuant to policies and procedures established by its board of directors.

As a member, the Bank is required to purchase and maintain stock in the Federal Home Loan Bank of New York in an amount equal to the greater of 1% of its aggregate unpaid residential mortgage loans, home purchase contracts or similar obligations at the beginning of each year or 5% of its outstanding Federal Home Loan Bank advances.

The Federal Home Loan Banks are required to provide funds for the resolution of troubled savings institutions and to contribute to affordable housing programs through direct loans or interest subsidies on advances targeted for community investment and low- and moderate-income housing projects. These contributions have adversely affected the level of Federal Home Loan Bank dividends paid and could continue to do so in the future. In addition, these requirements could result in the Federal Home Loan Banks imposing a higher rate of interest on advances to their members.

Item 1A. Risk Factors

Not applicable as the Company is a "smaller reporting company."

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

At June 30, 2009, our investment in property and equipment, net of depreciation and amortization, totaled $11.0 million, including leasehold improvements and construction in progress. The following table lists our offices.

Office Location	Year Facility Opened		Leased or Owned
Millington Main Office 1902 Long Hill Road Millington, NJ	1994	(1)	Owned
Dewy Meadow Branch Office 415 King George Road Basking Ridge, NJ	2002		Leased
RiverWalk Branch Office 675 Martinsville Road Basking Ridge, NJ	2005	(2)	Leased
Martinsville Branch Office 1924 Washington Valley Road Martinsville, NJ	2006		Leased
Bearnardsville Branch Office 122 Morristown Road Bernardsville, NJ	2008		Owned

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(1) The Bank's main office opened in 1911 in Millington, New Jersey. The Bank moved into its current main office in 1994.
(2) The Bank's first branch office opened in 1998 in Liberty Corner, New Jersey. This office was relocated in 2005.

Item 3. Legal Proceedings

The Bank, from time to time, is a party to routine litigation which arises in the normal course of business, such as claims to enforce liens, 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. There were no lawsuits pending or known to be contemplated against the Company or the Bank at June 30, 2009 that would have a material effect on operations or income.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year ended June 30, 2009.

PART II

Item 5. Market for Common Equity and Related Stockholder Matters and Purchases of Equity Securities

(a) ***Market Information.*** Upon completion of the Company's initial public offering in January 2007, the Company's common stock commenced trading on The NASDAQ Stock Market under the symbol "MSBF". The table below shows the reported high and low closing prices of common stock and dividends declared during the periods indicated.

	High	Low	Dividends
2008			
Quarter ended September 30, 2007	$ 11.25	$ 9.71	$ -
Quarter ended December 31, 2007	$ 10.31	$ 9.40	$ 0.03
Quarter ended March 31, 2008	$ 11.20	$ 9.16	$ 0.03
Quarter ended June 30, 2008	$ 10.95	$ 10.52	$ 0.03
2009			
Quarter ended September 30, 2008	$ 10.95	$ 9.23	$ 0.03
Quarter ended December 31, 2008	$ 10.50	$ 8.95	$ 0.03
Quarter ended March 31, 2009	$ 10.15	$ 7.91	$ 0.03
Quarter ended June 30, 2009	$ 9.50	$ 7.91	$ 0.03

Dividends. Declarations of dividends by the Board of Directors depend on a number of factors, including investment opportunities, growth objectives, financial condition, profitability, tax considerations, minimum capital requirements, regulatory limitations, and general economic as well as stock market conditions. The timing, frequency and amount of dividends is determined by the Board.

Stockholders. As of September 16, 2009, there were approximately 634 registered shareholders of record of the Company's common stock. This number does not include brokerage firms, banks and registered clearing agents acting as nominees for an indeterminate number of beneficial ("street name") owners.

(b) Not applicable

(c) ***Issuer Purchases of Equity Securities.***

Treasury stock repurchases during the fourth quarter of fiscal year 2009 for the Company were as follows:

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 be Purchased under the plans or programs
April, 2009	55,600	$	9.05	55,600	58,534
May, 2009	500		9.05	500	58,034
June, 2009	-		-	-	58,034
Total	56,100	$	9.05	56,100	

Item 6. Selected Financial Data

Not applicable as the Company is a smaller reporting company.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

This discussion and analysis reflects the Company's consolidated financial statements and other relevant statistical data and is intended to enhance your understanding of our financial condition and results of operations. You should read the information in this section in conjunction with the Company's consolidated financial statements and accompanying notes thereto beginning on page F-1 following Item 15 of this Form 10-K.

Overview

Our primary business is attracting retail deposits from the general public and using those deposits, together with funds generated from operations, principal repayments on securities and loans and borrowed funds, for our lending and investing activities. Our loan portfolio consists of one- to four-family residential real estate mortgages, commercial real estate mortgages, construction loans, commercial loans, home equity loans and lines of credit, and other consumer loans. We also invest in U.S. government obligations and mortgage-backed securities.

We reported net income of $212,000 for the fiscal year ended June 30, 2009 as compared to net income of $612,000 for fiscal 2008.

Net interest income for fiscal 2009 was up approximately 15.4% as compared to fiscal 2008 while non-interest expense was up approximately 15.3%. The interest rate spread increased in fiscal 2009

to 2.54%, compared to 2.21% for fiscal 2008, mainly as a result of a lower interest rate environment. For the year ended June 30, 2009, interest income decreased by $90,000 or 0.5% while interest expense decreased by $1.3 million or 13.9% as compared to 2008.

Total assets were $352.3 million at June 30, 2009, a 14.3% increase compared to $308.1 million at June 30, 2008. The increase in assets occurred primarily as the result of a $21.8 million increase in loans receivable, net and an increase of $15.9 million in securities held to maturity. Deposits were $272.3 million at June 30, 2009, compared to $225.4 million at June 30, 2008. FHLB advances were $36.2 million at June 30, 2009, down slightly from $37.1 million at June 30, 2008.

Stockholders’ equity at June 30, 2009 was $41.0 million compared to our stockholders’ equity at the prior year-end of $43.4 million, primarily due to the repurchase of treasury stock during the fiscal year 2009, offset by net income from the period. Our return on average equity for fiscal 2009 was 0.50%, compared to 1.39% for fiscal 2008. The decrease in return on average equity for 2009 reflects the reduction in net income for the fiscal year ended June 30, 2009 as compared the year ended June 30, 2008.

The Bank experienced considerable deposit growth during the months of January, February and March 2009. During this period deposit balances grew by approximately $33.6 million, or 14.3%. The increase in deposits was attributed to customers seeking a safe harbor for their funds due to the declining interest rate environment and stock market uncertainty. This “flight to safety” resulted in the Bank not having to borrow overnight funds since January 26, 2009. During this period, deposit growth exceeded continued loan demand resulting in the purchase of investment securities. Management had explored the option of paying down its longer-term borrowings however it was deemed not to be cost effective.

Critical Accounting Policies

Our accounting policies are integral to understanding the results reported and are described in Note 2 to our consolidated financial statements beginning on page F-1. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the dates of the consolidated statements of financial condition and revenues and expenses for the periods then ended. Actual results could differ significantly from those estimates. A material estimate that is particularly susceptible to significant change relates to the determination of the allowance for loan losses.

The allowance for loan losses is established through provisions for loan losses charged against income. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is maintained at a level by management which represents the evaluation of known and inherent risks in the loan portfolio at the consolidated balance sheet date that are both probable and reasonable to estimate. Management’s periodic evaluation of the adequacy of the allowance is based on the Bank’s past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower’s ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions, and other relevant factors. This evaluation is inherently subjective, as it requires material estimates that may be susceptible to significant change, including the amounts and timing of future cash flows expected to be received on impaired loans.

The allowance consists of specific and general components. The specific component related to loans that are classified as doubtful, substandard, or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or

observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers nonclassified loans and is based on historical loss experience adjusted for qualitative factors.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and construction loans by the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer and residential mortgage loans for impairment disclosures.

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

Comparison of Financial Condition at June 30, 2009 and 2008

General. Total assets reached $352.3 million at June 30, 2009, compared to $308.1 million at June 30, 2008. The increase was fueled by loan originations and purchase of securities, the funding for which was provided primarily by a $46.9 million or 20.8% increase in deposits, to $272.3 million at June 30, 2009, compared to $225.4 million at June 30, 2008.

Total assets grew $44.2 million or 14.3% between years while total liabilities increased by $46.6 million or 17.6%, and the ratio of average interest-earning assets to average-interest bearing liabilities decreased to 112.42% for fiscal 2009 as compared to 115.73% for fiscal 2008.

Loans. Loans receivable, net, rose to $276.1 million at June 30, 2009 from $254.3 million at June 30, 2008, an increase of $21.8 million, or 8.6%. As a percentage of assets, loans decreased to 78.4% from 82.5%. The Bank experienced strong demand for its one-to-four family residential loans in its market area; the one-to-four family portfolio grew by $9.3 million or 6.4% during the year. Home equity loans grew by $7.4 million, a 13.5% increase, while commercial real estate loans increased by $4.0 million, or 13.5%, construction loans increased by $3.2 million, or 18.0%, and commercial business loans increased

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by $891,000, or 9.6% from June 30, 2008. The consumer loan portfolio decreased by $153,000 or 12.2%, between June 30, 2008 and June 30, 2009.

Securities. Our portfolio of securities held to maturity was at $44.7 million at June 30, 2009 as compared to $28.7 million at June 30, 2008. Maturities, calls and principal repayments during the year totaled $10.3 million as compared to $20.6 million during the prior year. We purchased $26.3 million of new securities during the year ended June 30, 2009 compared to $20.0 million during the year ended June 30, 2008.

Deposits. Total deposits at June 30, 2009 were $272.3 million, a $46.9 million increase as compared to $225.4 million at June 30, 2008. Savings and club accounts increased by $42.4 million, certificate of deposit accounts increased by $5.4 million, and demand accounts, in the aggregate, decreased by $874,000.

Borrowings. Total borrowings at June 30, 2009 amounted to $36.2 million, compared to $37.1 million at June 30, 2008. The Bank did not make any long term borrowings during 2009 and did not have short-term borrowings at June 30, 2009 and 2008.

Equity. Stockholders’ equity was $41.0 million at June 30, 2009 as compared to $43.4 million at June 30, 2008, reflecting a decrease of $2.4 million for the period ended June 30, 2009. The decrease in equity was primarily attributed to the repurchase of $2.6 million in treasury stock, along with $254,000 in cash dividends declared on our common stock, offset by $212,000 in net income, $166,000 in stock based compensation and $162,000 in ESOP shares earned.

Comparison of Operating Results for the Two Years Ended June 30, 2009

General. Our results of operations depend primarily on our net interest income. Net interest income is the difference between the interest income we earn on our interest-earning assets and the interest we pay on our interest-bearing liabilities. It is a function of the average balances of loans and investments versus deposits and borrowed funds outstanding in any one period and the yields earned on those loans and investments and the cost of those deposits and borrowed funds. Our results of operations are also affected by our provision for loan losses, non-interest income and non-interest expense. Non-interest income includes service fees and charges, including income on bank owned life insurance. Non-interest expense includes salaries and employee benefits, occupancy and equipment expense and other general and administrative expenses such as service bureau fees and advertising costs.

Our net income for the year ended June 30, 2009 was $212,000, a 65.4% decrease compared to net income of $612,000 for the year ended June 30, 2008. A $1.2 million or 15.4% increase in net interest income and a $185,000 decrease in income tax expense were offset by an increase of $648,000 in the provision for loan losses, a decrease of $22,000 or 3.9% in other non-interest income, and a $1.1 million or 15.3% increase in non-interest expense for the year ended June 30, 2009.

Net Interest Income. Net interest income for the year ended June 30, 2009 amounted to $8.8 million, 15.4% higher than net interest income for the year ended June 30, 2008 of $7.6 million. A $1.3 million, or 13.9% decrease in interest expense for the year ended June 30, 2009 was partially offset by a $90,000 or 0.5% decrease in interest income.

Average earning assets increased by $27.8 million or 10.0% for the year ended June 30, 2009, compared to the year ended June 30, 2008, whereas the average rate on earning assets decreased by 57 basis points to 5.40% for the year ended June 30, 2009, resulting in a decrease of $90,000 or 0.5% in total interest income compared to the year ended June 30, 2008. Interest income on loans decreased slightly by

$137,000 or 0.9% for the year ended June 30, 2009, compared to the year ended June 30, 2008, while average yield declined 57 basis points to 5.57%. Average loan receivable balances increased $22.3 million or 9.1% to $266.2 million for the year ended June 30, 2009, compared to $243.9 million for the year ended June 30, 2008. Interest income on securities held to maturity increased $186,000 or 13.4% for the year ended June 30, 2009, compared to the year ended June 30, 2008. Average securities held to maturity balances increased $2.1 million or 7.5% for the year ended June 30, 2009, compared to the year ended June 30, 2008, as the yield on the investment held to maturity portfolio increased by 27 basis points to 5.18% for the year ended June 30, 2009, compared to the year ended June 30, 2008. Interest income on other interest-earning assets decreased by $139,000 or 51.7% for the year ended June 30, 2009, compared to the year ended June 30, 2008 as a 295 basis point decrease in yield to 1.35% was partially offset by an average balance increase of $3.4 million or 54.3%.

Total interest expense decreased $1.3 million or 13.9% for the year ended June 30, 2009, compared to the year ended June 30, 2008. Average interest-bearing liabilities increased $31.8 million or 13.2%, from $240.5 million for the year ended June 30, 2008, to $272.3 million for the year ended June 30, 2009, the effect of which was more than offset by a 90 basis point decrease in the average rate from 3.76% to 2.86%, for the respective periods. Interest expense on deposits decreased $1.3 million or 17.6% for the year ended June 30, 2009, compared to the year ended June 30, 2008, as a result of a 97 basis point reduction to 2.73% in the average rate on interest-bearing deposits, tempered by an increase of $24.4 million or 11.8% in average interest-bearing deposits. The average balance of savings balances increased $39.5 million or 77.3%, whereas average certificates of deposit reflected a decrease of $14.3 million or 11.0%, as did NOW and money market balances with a decrease of $731,000 or 2.7% for the year ended June 30, 2009 compared to the same period ended June 30, 2008. The average rate on savings deposits, certificates of deposit and NOW and money market accounts decreased by 26 basis points, 115 basis points, and 27 basis points, respectively, for the year ended June 30, 2009 compared to the year ended June 30, 2008. Total interest expense on borrowings increased by $91,000 or 6.7% for the year ended June 30, 2009, compared to the same period ended June 30, 2008. Federal Home Loan Bank advance average balances increased $7.4 million or 22.3%, whereas the average rate decreased by 53 basis points, from 4.13% to 3.60%, for the year ended June 30, 2009 compared to the same period ended June 30, 2008.

Our net interest rate spread was 2.54% for the year ended June 30, 2009 and 2.21% for the year ended June 30, 2008. The spread increased during the year ended June 30, 2009 as our average cost of interest-bearing liabilities decreased by 90 basis points to 2.86% from 3.76% during the year ended June 30, 2008. Correspondingly, the average yield on interest-earning assets decreased 57 basis points from 5.97% for the year ended June 30, 2008 to 5.40% for the year ended June 30, 2009.

Provision for Loan Losses. The allowance for loan losses is a valuation account that reflects our estimation of the losses inherent in our loan portfolio to the extent they are both probable and reasonable to estimate. The allowance is established through provisions for loan losses that are charged to income in the period they are established. We charge losses on loans against the allowance for loan losses when we believe the collection of loan principal is unlikely. Recoveries on loans previously charged-off are added back to the allowance. The provision for the year ended June 30, 2009 was $783,000 as compared to $135,000 for the year before. The allowance for loan losses as a percentage of non-performing loans was 18.73% at June 30, 2009 compared to 19.79% at June 30, 2008 and the allowance for loan losses as a percentage of total loans was 0.64% at June 30, 2009 compared to 0.40% at June 30, 2008. While at June 30, 2009 non-performing loans increased $4.5 million from the prior year, most of these loans are adequately collateralized by real estate. Of the $9.7 million in non-performing loans at June 30, 2009, $3.2 million required specific loss allowances totaling $579,000.

Non-Interest Income. This category includes fees derived from checking accounts, ATM transactions and debit card use and mortgage related fees. It also includes increases in the cash-surrender value of our bank owned life insurance. Overall, non-interest income decreased to $546,000 for the year ended June 30, 2009 compared to $568,000 for the year ended June 30, 2008, representing a decrease of $22,000 or 3.9%.

Income from fees and service charges is the largest regular component of non-interest income and totaled $329,000 and $353,000 for the years ended June 30, 2009 and 2008, respectively.

The unrealized loss on the Bank’s trading security portfolio was $45,000 and $32,000 for the years ended June 30, 2009 and 2008, respectively.

Income on bank owned life insurance was $157,000 and $158,000 for the years ended June 30, 2009 and 2008, respectively.

Other non-interest income was $105,000 and $89,000 for the years ended June 30, 2009 and 2008, respectively.

Non-Interest Expenses. Total non-interest expenses grew by $1.1 million or 15.3% during the year ended June 30, 2009 and amounted to $8.2 million and $7.1 million for the years ended June 30, 2009 and 2008, respectively.

Salaries and employee benefits expense totaled $3.6 million for the year ended June 30, 2009 and was $262,000 or 7.8% higher than the prior year. The increase in expense for the year ended June 30, 2009 primarily reflects an increase in personnel with the opening of the Bank’s Bernardsville branch in August 2008, and normal salary increases. Salaries and employee benefits are our main non-interest expense and represented 44.4% and 47.5% of non-interest expenses for the years ended June 30, 2009 and 2008, respectively. The $62,000 increase in director’s compensation was primarily due to the addition of a stock option plan in May 2008. FDIC assessment expense was $482,000 for the year ended June 30, 2009 compared to $109,000 for the year ended June 30, 2008, representing an increase of $373,000 or 342.2%. The increase in FDIC assessment expense is directly related to increased premiums and an industry-wide special assessment the Bank was charged during the year ended June 30, 2009. The increases in occupancy and equipment, advertising and other miscellaneous expense of $314,000 or 24.5%, $60,000 or 29.1%, and $94,000 or 6.9% respectively, for the year ended June 30, 2009 compared to the year ended June 30, 2008, reflect increases in expenses associated with the August 2008 opening of the Bank’s Bernardsville branch. The decrease in service bureau fees of $82,000 or 17.4% for the year ended June 30, 2009 compared to June 30, 2008 was due to the negotiation of a new service contract.

Income Taxes. Income tax expense for the year ended June 30, 2009 was $130,000 as compared to $315,000 for the year ended June 30, 2008. The reduction for the year ended June 30, 2009 reflects lower pre-tax income partially offset by an increase in the effective tax rate to 38.0% from 34.0%. The increase in the effective tax rate was due to the increase of qualified stock option expense, which is not tax deductible, and the increase as a percentage of pre-tax income of tax-exempt income from bank owned life insurance.

Average Balance Sheet. The following tables set forth certain information for the years ended June 30, 2009, 2008 and 2007. The average yields and costs are derived by dividing income or expense by the average daily balance of assets or liabilities, respectively, for the periods presented.

	Year Ended June 30,								
	2009			2008			2007		
	Average Balance	Interest Earned/Paid	Average Yield/ Cost	Average Balance	Interest Earned/ Paid	Average Yield/ Cost	Average Balance	Interest Earned/ Paid	Average Yield/ Cost
	(Dollars in thousands)								
Interest-earning assets:									
Loans[1]	$ 266,164	$ 14,837	5.57 %	$ 243,879	$ 14,974	6.14 %	$ 228,069	$ 14,527	6.37 %
Securities	30,303	1,569	5.18 %	28,178	1,383	4.91 %	27,690	1,214	4.38 %
Other interest-earning assets[2]	9,656	130	1.35 %	6,260	269	4.30 %	8,539	390	4.57 %
Total interest-earning assets	306,123	16,536	5.40 %	278,317	16,626	5.97 %	264,298	16,131	6.10 %
Non-interest-earning assets	21,289			17,008			16,555		
Total assets	$ 327,412			$ 295,325			$ 280,853		
Interest-bearing liabilities:									
NOW & money market	$ 26,175	166	0.63 %	$ 26,906	241	0.90 %	$ 29,056	279	0.96 %
Savings and club deposits	90,512	2,009	2.22 %	51,048	1,267	2.48 %	48,248	896	1.86 %
Certificates of deposit	115,210	4,154	3.61 %	129,506	6,170	4.76 %	119,364	5,552	4.65 %
Total interest-bearing deposits	231,897	6,329	2.73 %	207,460	7,678	3.70 %	196,668	6,727	3.42 %
Federal Home Loan Bank advances	40,403	1,455	3.60 %	33,035	1,364	4.13 %	41,297	2,086	5.05 %
Total interest-bearing liabilities	272,300	7,784	2.86 %	240,495	9,042	3.76 %	237,965	8,813	3.70 %
Non-interest-bearing deposits	10,101			8,540			9,804		
Other non-interest-bearing liabilities	2,916			2,300			1,879		
Total liabilities	285,317			251,335			249,648		
Stockholder's equity	42,095			43,990			31,205		
Total liabilities and stockholder's equity	$ 327,412			$ 295,325			$ 280,853		
Net interest rate spread[3]		$ 8,752	2.54 %		$ 7,584	2.21 %		$ 7,318	2.40 %
Net interest margin[4]			2.86 %			2.72 %			2.77 %
Ratio of interest-earning assets to Interest-bearing liabilities	112.42			115.73			111.07 %		

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(1) Non-accruing loans have been included, and the effect of such inclusion was not material. The allowance for loan losses is excluded, while construction loans in process and deferred fees are included.
(2) Includes Federal Home Loan Bank stock at cost and term deposits with other financial institutions.
(3) Net interest rate spread represents the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities.
(4) Net interest margin represents net interest income as a percentage of average interest-earning assets.

Rate/Volume Analysis. The following table reflects the sensitivity of our interest income and interest expense to changes in volume and in prevailing interest rates during the periods indicated. Each category reflects the: (1) changes in volume (changes in volume multiplied by old rate); (2) changes in rate (changes in rate multiplied by old volume); and (3) net change. The net change attributable to the combined impact of volume and rate has been allocated proportionally to the absolute dollar amounts of change in each.

	Year Ended June 30, 2009 vs. 2008 Increase (Decrease) Due to			**Year Ended June 30, 2008 vs. 2007 Increase (Decrease) Due to**		
	Volume	**Rate**	**Net**	**Volume**	**Rate**	**Net**
	(In thousands)					
Interest and dividend income:						
Loans	$ 1,311	(1,448)	(137)	$ 984	$ (537)	$ 447
Securities	108	78	186	21	148	169
Other interest-earning assets	102	(241)	(139)	(99)	(22)	(121)
Increase (decrease) in total interest income	1,521	(1,611)	(90)	906	(411)	495
Interest expense:						
NOW and money market accounts	(6)	(69)	(75)	(20)	(18)	(38)
Savings and club	887	(145)	742	55	316	371
Certificates of deposit	(632)	(1,384)	(2,016)	483	135	618
Total interest-bearing deposits	249	(1,598)	(1,349)	518	433	951
Federal Home Loan Bank advances	280	(189)	91	(378)	(344)	(722)
Increase in total interest expense	529	(1,787)	(1,258)	140	89	229
Change in net interest income	$ 992	176	1,168	$ 766	$ (500)	$ 266

Liquidity, Commitments and Capital Resources

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

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

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

At June 30, 2009, the Bank had outstanding commitments to originate loans of $4.1 million, construction loans in process of $5.6 million, unused lines of credit of $27.7 million (including $22.9 million for home equity lines of credit), and standby letters of credit of $195,000. Certificates of deposit scheduled to mature in one year or less at June 30, 2009, totaled $83.2 million.

The Bank had contractual obligations related to the long-term operating leases for the three branch locations that it leases (Dewy Meadow, RiverWalk and Martinsville). For additional information regarding the Bank's lease commitments as of June 30, 2009, see Note 10 to our consolidated financial statements beginning on page F-1.

The Bank generates cash through borrowings from the Federal Home Loan Bank, as needed, to meet its day-to-day funding obligations. At June 30, 2009, its total loans to deposits ratio was 101.4%. At June 30, 2009, the Bank's collateralized borrowing limit with the Federal Home Loan Bank was $86.9 million, of which $36.2 million was outstanding. As of June 30, 2009, the Bank also had a $20.0 million line of credit with a financial institution for reverse repurchase agreements (which is a form of borrowing) that it could access if necessary.

Consistent with its goals to operate a sound and profitable financial organization, the Bank actively seeks to maintain its status as a well-capitalized institution in accordance with regulatory standards. As of June 30, 2009, the Bank exceeded all applicable regulatory capital requirements. See Note 14 to our consolidated financial statements beginning at page F-1 for more information about the Bank's regulatory capital compliance.

Off-Balance Sheet Arrangements

We are a party to financial instruments with off-balance-sheet risk in the normal course of our business of investing in loans and securities as well as in the normal course of maintaining and improving Millington Savings Bank's facilities. These financial instruments include significant purchase commitments such as commitments to purchase investment securities or mortgage-backed securities and commitments to extend credit to meet the financing needs of our customers. At June 30, 2009, our significant off-balance sheet commitments consisted of commitments to originate loans of $4.1 million, construction loans in process of $5.6 million, unused lines of credit of $27.7 million (including $22.9 million for home equity lines of credit) and standby letters of credit of $195,000.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Our exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of those instruments. We use the same credit policies in making commitments and conditional obligations as we do for on-balance-sheet instruments. Since a number of commitments typically expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. For additional information regarding our outstanding lending commitments at June 30, 2009, see Note 15 to our consolidated financial statements beginning on page F-1.

Impact of Inflation

The Company’s financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. These principles require the measurement of financial position and operating results in terms of historical dollars, without considering changes in the relative purchasing power of money over time due to inflation.

Our primary assets and liabilities are monetary in nature. As a result, interest rates have a more significant impact on our performance than the effects of general levels of inflation. Interest rates, however, do not necessarily move in the same direction or with the same magnitude as the price of goods and services, since such prices are affected by inflation. In a period of rapidly rising interest rates, the liquidity and maturities of our assets and liabilities are critical to the maintenance of acceptable performance levels.

The principal effect of inflation on earnings, as distinct from levels of interest rates, is in the area of non-interest expense. Expense items such as employee compensation, employee benefits and occupancy and equipment costs may be subject to increases as a result of inflation. An additional effect of inflation is the possible increase in the dollar value of the collateral securing loans that we have made. We are unable to determine the extent, if any, to which properties securing our loans have appreciated in dollar value due to inflation.

Recent Accounting Pronouncements

Note 19 to the consolidated financial statements is incorporated herein by reference.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Management of Interest Rate Risk and Market Risk

Qualitative Analysis. Because the majority of our assets and liabilities are sensitive to changes in interest rates, a significant form of market risk for us is interest rate risk, or changes in interest rates.

We derive our income mainly from the difference or “spread” between the interest earned on loans, securities and other interest-earning assets, and interest paid on deposits, borrowings and other interest-bearing liabilities. In general, the larger the spread, the more we earn. When market rates of interest change, the interest we receive on our assets and the interest we pay on our liabilities will fluctuate. This can cause decreases in our spread and can adversely affect our income.

Several years ago market interest rates were at historically low levels. Beginning in June 2004 through June 2007, the U.S. Federal Reserve increased its target federal funds rate, raising it 17 times, from 1.00% to 5.25% during this period. The Federal Reserve subsequently reduced its target federal fund rate 3 times over the past year to 0 to 1/4% as of June 30, 2009. A normalization of the last year’s inverted yield occurred

during the past year as a result of the Federal Reserves policy. The federal funds rate and other short-term market interest rates, which we use as a guide to our deposit pricing, have decreased, while intermediate-and long-term market interest rates have remained stable, which we use as a guide to our loan pricing, have not decreased nor increased proportionately. The Bank has begun to realize a reduction in its deposit portfolio average rate more recently.

Quantitative Analysis. The following table presents Millington Savings Bank's net portfolio value as of June 30, 2009. The Bank outsources its interest rate risk modeling and the net portfolio values

shown in this table were calculated by an outside consultant, based on information provided by Millington Savings Bank.

	At June 30, 2009				
	Net Portfolio Value		**Net Portfolio Value as % of Present Value of Assets**		
				Net Portfolio Value Ratio	**Basis Point Change**
Changes in Rates	**$ Amount** (In thousands)	**$ Change**	**% Change**		
+300 bp	15,685	(12,629)	(44.60%)	4.90%	(321)bp
+200 bp	21,159	(7,156)	(25.27%)	6.42%	(170)bp
+100 bp	25,040	(3,274)	(11.56%)	7.38%	(73)bp
0 bp	28,314	0	0.00%	8.12%	0 bp
- 100 bp[(1)]	-	-	-	-%	-bp
- 200 bp[(1)]	-	-	-	-%	-bp

(1) The -100bp and -200bp scenarios are not disclosed due to the low prevailing interest rate environment

Future interest rates or their effect on net portfolio value or net interest income are not predictable. Computations of prospective effects of hypothetical interest rate changes are based on numerous assumptions, including relative levels of market interest rates, prepayments, and deposit run-offs, and should not be relied upon as indicative of actual results. Certain shortcomings are inherent in this type of computation. Although certain assets and liabilities may have similar maturity or periods of repricing, they may react at different times and in different degrees to changes in the market interest rates. The interest rate on certain types of assets and liabilities, such as demand deposits and savings accounts, may fluctuate in advance of changes in market interest rates, while rates on other types of assets and liabilities may lag behind changes in market interest rates. Certain assets, such as adjustable rate mortgages, generally have features that restrict changes in interest rates on a short-term basis and over the life of the asset. In the event of a change in interest rates, prepayments and early withdrawal levels could deviate significantly from those assumed in making calculations set forth above. Additionally, an increased credit risk may result as the ability of many borrowers to service their debt may decrease in the event of an interest rate increase.

Notwithstanding the discussion above, the quantitative interest rate analysis presented above indicates that a rapid increase or decrease in interest rates would adversely affect our net interest margin and earnings.

Item 8. Financial Statements and Supplementary Data

The Company’s financial statements are contained in this Annual Report on Form 10-K immediately following Item 15.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

Item 9A(T). Controls and Procedures

(a) **Disclosure Controls and Procedures**

An evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule l3a-l5(e) promulgated under the Securities Exchange Act of 1934, as amended) as of June 30, 2009. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective as of June 30, 2009.

(b) **Internal Control Over Financial Reporting**

1. Management's Annual Report on Internal Control Over Financial Reporting.

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a- 15(f). The Company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorization of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements prepared for external purposes in accordance with generally accepted accounting principles. Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of the changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Under supervision and with the participation of management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in Internal Control-Integrated Framework, management concluded that our internal control over financial reporting was effective as of June 30, 2009

The annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

/s/ Gary T. Jolliffe	/s/ Jeffrey E. Smith
Gary T. Jolliffe	Jeffrey E. Smith
President and Chief Executive Officer	Vice President and Chief Financial Officer

2. Report of Independent Registered Public Accounting Firm

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

3. Changes in Internal Control over Financial Reporting

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

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information that appears under the headings "Proposal I – Election of Directors," "Section 16(a) Beneficial Reporting Compliance" and "Corporate Governance" in the Registrant's definitive proxy statement for the Registrant's 2009 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission (the "Proxy Statement") is incorporated herein by reference.

The Company has adopted a Code of Ethics that applies to its CEO and CFO/Chief Accounting Officer. A copy of the Code of Ethics is posted on the Company's website atwww.millingtonsb.com/home/investor.

Item 11. Executive Compensation

The information that appears under the headings "Executive Compensation" and "Director Compensation" in the Proxy Statement is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

(a) **Security Ownership of Certain Beneficial Owners.** Information required by this item is incorporated herein by reference to the section captioned “Principal Holders of our Common Stock” in the Proxy Statement.

(b) **Security Ownership of Management.** Information required by this item is incorporated herein by reference to the section captioned “Principal Holders of our Common Stock” and “Proposal I – Election of Directors” in the Proxy Statement.

(c) **Changes in Control.** Management of the Company knows of no arrangements, including any pledge by any person of securities of the Company, the operation of which may at a subsequent date result in a change in control of the registrant.

(d) **Securities Authorized for Issuance Under Equity Compensation Plans.** Set forth below is information as of June 30, 2009 with respect to compensation plans under which equity securities of the Registrant are authorized for issuance.

Equity Compensation Plan Information

	(A) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	(B) Weighted-average Exercise Price of Outstanding Options, Warrants and Rights	(C) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (A))
Equity compensation plans approved by shareholders:			
2008 Stock Compensation and Incentive Plan	275,410	$ 10.75	0
Total	275,410	$ 10.75	0

Item 13. Certain Relationships and Related Transactions, and Director Independence

No directors, executive officers or their immediate family members were engaged, directly or indirectly, in transactions with the Company or any subsidiary during any of the three years ended June 30, 2009 that exceeded $120,000 (excluding loans with Millington Savings Bank).

Millington Savings Bank makes loans to its officers, directors and employees in the ordinary course of business. All directors and employees are offered a 50 basis point reduction on interest rates for consumer loans or primary residence mortgage loans. Such loans do not include more than the normal risk of collectability or present other unfavorable features.

Other than Mr. Jolliffe and Mr. Shriner, who are employees of the Bank, all of the directors are independent directors.

Item 14. Principal Accountant Fees and Services

The information relating to this item is incorporated herein by reference to the information contained under the section captioned "Proposal II – Ratification of Appointment of Auditors" in the Proxy Statement.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(1) The following financial statements and the independent auditors' report appear in this Annual Report on Form 10-K immediately after this Item 15:

Report of Independent Registered Public Accounting Firm
Consolidated Statements of Financial Condition as of

June 30, 2009 and 2008
Consolidated Statements of Income For the Years Ended

June 30, 2009 and 2008
Consolidated Statements of Changes in Stockholders' Equity

for the Years Ended June 30, 2009 and 2008
Consolidated Statements of Cash Flows for the Years Ended

June 30, 2009 and 2008
Notes to Consolidated Financial Statements

(2) All schedules are omitted because they are not required or applicable, or the required information is shown in the consolidated financial statements or the notes thereto.

(3) The following exhibits are filed as part of this report:

3.1	Charter of MSB Financial Corp. *
3.2	Bylaws of MSB Financial Corp. *
4	Stock Certificate of MSB Financial Corp.*
10.1	Employment Agreement with Gary T. Jolliffe*
10.2	Employment Agreement with Michael A. Shriner*
10.3	Employment Agreement with Jeffrey E. Smith*
10.4	Form of Executive Life Insurance Agreement*
10.5	Millington Savings Bank Executive Incentive Retirement Plan Agreement for President and Chief Executive Officer*

10.6	Millington Savings Bank Executive Incentive Retirement Plan Agreement for the Benefit of Senior Officers*
10.7	Millington Savings Bank Directors Consultation and Retirement Plan*
10.8	MSB Financial Corp. 2008 Stock Compensation and Incentive Plan**
21	Subsidiaries of the Registrant
23	Consent of Beard Miller Company LLP
31.1	Certification of CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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* Incorporated by reference to the Registrant's Form S-1 Registration Statement No. 333-137294

** Incorporated by reference to the Registrant's Form S-8 Registration Statement No. 333-150968

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders

MSB Financial Corp. and Subsidiaries

Millington, New Jersey

We have audited the accompanying consolidated statements of financial condition of MSB Financial Corp. and subsidiaries (the “Company”) as of June 30, 2009 and 2008, and the related consolidated statements of income, changes in stockholders’ equity, and cash flows for the years then ended. The Company’s management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of MSB Financial Corp. and subsidiaries as of June 30, 2009 and 2008, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Beard Miller Company LLP

Clark, New Jersey

September 25, 2009

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MSB Financial Corp. and Subsidiaries

Consolidated Statements of Financial Condition

	June 30, 2009	2008
	(Dollars in Thousands, except Per Share Amount)	
Cash and due from banks	$ 2,424	$ 1,480
Interest-earning demand deposits with banks	7,075	3,215
Cash and Cash Equivalents	9,499	4,695
Trading securities	37	82
Securities held to maturity (fair value of $44,642 and $28,195, respectively)	44,687	28,743
Loans receivable, net of allowance for loan losses of $1,808 and $1,025, respectively	276,058	254,290
Premises and equipment	11,018	10,759
Federal Home Loan Bank of New York stock, at cost	2,122	2,112
Bank owned life insurance	4,894	4,088
Accrued interest receivable	1,780	1,680
Deferred income taxes	1,826	1,111
Other assets	342	498
Total Assets	$ 352,263	$ 308,058
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Non-interest bearing	$ 9,972	$ 10,027
Interest bearing	262,308	215,344
Total Deposits	272,280	225,371
Advances from Federal Home Loan Bank of New York	36,218	37,068
Advance payments by borrowers for taxes and insurance	342	480
Other liabilities	2,440	1,743
Total Liabilities	311,280	264,662
Commitments and Contingencies	—	—
Stockholders' Equity		
Common stock, par value $0.10; 10,000,000 shares authorized; 5,620,625 issued; 5,310,921 and 5,564,633 shares outstanding	562	562
Paid-in capital	24,348	24,188

Retained earnings	20,863	21,026
Unearned ESOP shares	(1,602)	(1,770)
Treasury stock, at cost, 309,704 and 55,992 shares, respectively	(3,169)	(609)
Accumulated other comprehensive loss	(19)	(1)
Total Stockholders' Equity	40,983	43,396
Total Liabilities and Stockholders' Equity	$ 352,263	$ 308,058

See notes to consolidated financial statements.

MSB Financial Corp. and Subsidiaries

Consolidated Statements of Income

	Years Ended June 30,	
	2009	2008
	(In Thousands, Except Per Share Amounts)	
Interest Income		
Loans receivable, including fees	$ 14,837	$ 14,974
Securities held to maturity	1,569	1,383
Other	130	269
Total Interest Income	16,536	16,626
Interest Expense		
Deposits	6,329	7,678
Borrowings	1,486	1,364
	7,815	9,042
Less: Capitalized interest	(31)	-
Total Interest Expense	7,784	9,042
Net Interest Income	8,752	7,584
Provision for Loan Losses	783	135
Net Interest Income after Provision for Loan Losses	7,969	7,449
Non-Interest Income		
Fees and service charges	329	353
Income from Bank Owned Life Insurance	157	158
Unrealized loss on trading securities	(45)	(32)
Other	105	89
Total Non-Interest Income	546	568
Non-Interest Expenses		
Salaries and employee benefits	3,632	3,370
Directors compensation	351	289
Occupancy and equipment	1,594	1,280
Service bureau fees	390	472
Advertising	266	206
FDIC assessment	482	109
Other	1,458	1,364
Total Non-Interest Expenses	8,173	7,090