

Cullman Bancorp, Inc.
Form 10-Q
May 06, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly Period ended March 31, 2011

Or

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

For transition period from to

Commission File Number 000-53801

Cullman Bancorp, Inc.

(Exact Name of Registrant as Specified in Charter)

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Federal
(State of Other Jurisdiction of
Incorporation)

63-0052835
(I.R.S Employer
Identification Number)

316 Second Avenue S.W., Cullman, Alabama
(Address of Principal Executive Officer)

35055
(Zip Code)

256-734-1740

Registrant's telephone number, including area code

Not Applicable

(Former name or former address, if changed since last report)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

Indicate the number of shares outstanding of each of the Issuer's classes of common stock as of the latest practicable date.

2,561,996 of Common Stock, par value \$.01 per share, were issued and outstanding as of May 6, 2011.

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CULLMAN BANCORP, INC.

Form 10-Q Quarterly Report

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(All amounts in thousands, except share and per share data)

	March 31, 2011 (Unaudited)	December 31, 2010
ASSETS		
Cash and cash equivalents	\$ 2,062	\$ 2,368
Federal funds sold	2,959	174
Cash and cash equivalents	5,021	2,542
Securities available for sale	22,585	24,117
Loans, net of allowance of \$898 and \$854, respectively	174,477	177,317
Loans held for sale	173	320
Premises and equipment, net	10,569	10,612
Foreclosed real estate	2,276	1,997
Accrued interest receivable	1,193	1,157
Restricted equity securities	2,595	2,595
Bank owned life insurance	2,375	2,349
Other assets	919	849
Total assets	\$ 222,183	\$ 223,855
LIABILITIES AND SHAREHOLDERS EQUITY		
Deposits		
Non-interest bearing	\$ 5,265	\$ 6,188
Interest bearing	128,692	130,211
Total deposits	133,957	136,399
Federal Home Loan Bank advances	47,000	47,000
Long-term debt	816	816
Accrued interest payable and other liabilities	1,765	1,370
Total liabilities	183,538	185,585
Shareholders' equity		
Common stock, \$0.01 par value; 20,000,000 shares authorized; 2,561,996 and 2,512,750 shares outstanding, respectively, at March 31, 2011 and December 31, 2010	26	25
Additional paid-in capital	10,359	10,330
Retained earnings	29,532	29,134
Accumulated other comprehensive income (loss)	(285)	(232)
Unearned ESOP shares, at cost	(874)	(887)
Amount reclassified on ESOP shares	(113)	(100)

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Total shareholders' equity	38,645	38,270
Total liabilities and shareholders' equity	\$ 222,183	\$ 223,855

See accompanying notes to the consolidated financial statements

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CULLMAN BANCORP, INC.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(Unaudited)

(All amounts in thousands, except share and per share data)

	Three Months Ended March 31,	
	2011	2010
Interest and dividend income:		
Loans, including fees	\$ 2,768	\$ 2,759
Securities, taxable	227	227
Federal funds sold and other	6	4
Total interest income	3,001	2,990
Interest expense:		
Deposits	441	540
Federal Home Loan Bank advances and other borrowings	424	511
Total interest expense	865	1,051
Net interest income	2,136	1,939
Provision for loan losses	92	57
Net interest income after provision for loan losses	2,044	1,882
Noninterest income:		
Service charges on deposit accounts	99	110
Income on bank owned life insurance	26	26
Gain on sales of mortgage loans	57	64
Net gain on sales of securities		11
Other	14	12
Total noninterest income	196	223
Noninterest expense:		
Salaries and employee benefits	766	679
Occupancy and equipment	157	165
Data processing	132	127
Professional and supervisory fees	139	95
Office expense	34	23
Advertising	20	13
FDIC deposit insurance	32	37
Losses on foreclosed real estate	50	74
Other	84	74
Total noninterest expense	1,414	1,287
Income before income taxes	826	818
Income tax expense	303	300
Net income	\$ 523	\$ 518

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Other comprehensive income, net of tax		
Unrealized gain (loss) on securities available for sale, net of tax	\$ (53)	\$ 32
Reclassification adjustment for losses (gains) realized in income, net of tax		(7)
Other comprehensive income (loss)	(53)	25
Comprehensive income	\$ 470	\$ 543
Earnings per share: (Note 3)		
Basic	\$ 0.21	\$ 0.21
Diluted	\$ 0.21	N/A
Dividends declared per common share	\$ 0.08	

See accompanying notes to the consolidated financial statements

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CULLMAN BANCORP, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

(Unaudited)

(All amounts in thousands, except share and per share data)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (loss)	Unearned ESOP Shares	Amount Reclassified on ESOP Shares	Total
Balance at January 1, 2010	\$ 25	\$ 10,330	\$ 27,082	\$ 64	\$ (936)	\$ (51)	\$ 36,514
Net income			518				518
Net change in accumulated other comprehensive income				25			25
Balance at March 31, 2010	\$ 25	\$ 10,330	\$ 27,600	\$ 89	\$ (936)	\$ (51)	\$ 37,057
Balance at January 1, 2011	\$ 25	\$ 10,330	\$ 29,134	\$ (232)	\$ (887)	\$ (100)	\$ 38,270
Net income			523				523
Net change in accumulated other comprehensive income				(53)			(53)
ESOP shares earned					13		13
Stock-based compensation expense		30					30
Dividends (1)			(125)				(125)
Issuance of 49,249 shares of restricted stock	1	(1)					
Reclassification of common stock in ESOP subject to repurchase obligation						(13)	(13)
Balance at March 31, 2011	\$ 26	\$ 10,359	\$ 29,532	\$ (285)	\$ (874)	\$ (113)	\$ 38,645

Cash dividends of \$0.08 per share were declared on March 15, 2011 for 1,554,984 of the 2,561,996 shares at March 31, 2011. The Company was granted a dividend payment waiver from the Office of Thrift Supervision for all but 375,000 of the 1,382,012 shares of the Company's stock held by Cullman Savings Mutual Holding Company.

See accompanying notes to the consolidated financial statements

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CULLMAN BANCORP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(All amounts in thousands, except share and per share data)

	Three Months Ended March 31,	
	2011	2010
Cash Flows From Operating Activities		
Net income	\$ 523	\$ 518
Adjustments to reconcile net income to net cash from operating activities:		
Provision for loan losses	92	57
Depreciation and amortization, net	80	59
Deferred income tax benefit (expense)	(45)	21
Net gain on sale of securities		(11)
Loss on sale and impairments of foreclosed real estate	50	74
Income on bank owned life insurance	(26)	(26)
ESOP compensation expense	13	
Stock based compensation expense	30	
Gain on sale of mortgage loans	(57)	(64)
Mortgage loans originated for sale	(2,937)	(3,100)
Mortgage loans sold	3,141	3,417
Net change in operating assets and liabilities		
Accrued interest receivable	(36)	(60)
Accrued interest payable	(14)	(21)
Other	277	178
Net cash from operating activities	1,091	1,042
Cash Flows From Investing Activities		
Purchases of premises and equipment	(36)	
Purchases of securities	(1,000)	(6,497)
Proceeds from maturities, paydowns and calls of securities	2,447	4,878
Proceeds from sale of securities		250
Proceeds from sales of foreclosed real estate		124
Loan originations and payments, net	2,419	(1,184)
Net cash from (used in) investing activities	3,830	(2,429)
Cash Flows from Financing Activities		
Net change in deposits	(2,442)	6,111
Repayment of Federal Home Loan Bank advances		(96)
Net cash from (used in) financing activities	(2,442)	6,015
Change in cash and cash equivalents	2,479	4,628
Cash and cash equivalents, beginning of period	2,542	5,232
Cash and cash equivalents, end of period	\$ 5,021	\$ 9,860

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Cash paid during the period for:		
Interest paid	\$ 879	\$ 1,072
Income taxes paid	\$	\$ 19
Supplemental noncash disclosures:		
Transfers from loans to foreclosed assets	\$ 966	\$
Loans advanced for sales of foreclosed assets	\$ 627	\$

See accompanying notes to the consolidated financial statements

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CULLMAN BANCORP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(All amounts in thousands, except share and per share data)

(1) BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements of Cullman Bancorp, Inc. have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulations S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. The consolidated financial statements of Cullman Bancorp, Inc. (the Bancorp or the Company) include the accounts of its wholly owned subsidiary, Cullman Savings Bank (the Bank) and its 99% ownership of Cullman Village Apartments (collectively referred to herein as the Company, we, us, or our). Intercompany transactions and balances are eliminated in the consolidation. The Company is majority owned (53.9%) by Cullman Savings Bank, MHC. These financial statements do not include the transactions and balances of Cullman Savings Bank, MHC.

Cullman Bancorp, Inc., headquartered in Cullman, Alabama was formed to serve as the stock holding company for Cullman Savings Bank as part of the mutual-to-stock conversion of Cullman Savings Bank. On October 8, 2009, the Bank completed its conversion and reorganization from a mutual savings bank into a two-tier mutual holding company. In accordance with the plan of reorganization, Cullman Bancorp, Inc. (of which Cullman Savings Bank became a wholly-owned subsidiary) issued and sold shares of capital stock to eligible depositors of Cullman Savings Bank and others.

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting only of normal recurring accruals) necessary to present fairly the Company s financial position as of March 31, 2011 and December 31, 2010 and the results of operations and cash flows for the interim periods ended March 31, 2011 and 2010. All interim amounts have not been audited, and the results of operations for the interim periods herein are not necessarily indicative of the results of operations to be expected for the year. These consolidated financial statements should be read in conjunction with the Company s audited consolidated financial statements and notes thereto included in the Form 10-K Annual Report of Cullman Bancorp, Inc. for the year ended December 31, 2010.

(2) NEW ACCOUNTING STANDARDS

In July 2010, FASB issued an update to previously issued accounting standards with regard to disclosures about the credit quality of financing receivables and the allowance for credit losses. This update is intended to provide additional information to assist financial statement users in assessing an entity s credit risk exposures and evaluating the adequacy of its allowance for credit losses. The disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The amendments in this update encourage, but do not require, comparative disclosures for earlier reporting periods that ended before initial adoption. However, an entity should provide comparative disclosures for those reporting periods ending after initial adoption. The Company has complied with all disclosure requirements under this update.

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CULLMAN BANCORP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(All amounts in thousands, except share and per share data)

(3) EARNINGS PER SHARE (EPS)

Basic EPS is determined by dividing net earnings available to common shareholders by the weighted average number of common shares outstanding for the period. ESOP shares are considered outstanding for this calculation unless unearned. Diluted EPS is determined by dividing net earnings available to common shareholders by the weighted average number of common shares outstanding for the period, adjusted for the dilutive effect of common share equivalents. The factors used in the earnings per common share computation follow:

	Three months ended March 31, 2011	Three months ended March 31, 2010
Earnings per share		
Net Income	\$ 523	\$ 518
Less: Distributed earnings allocated to participating securities	(4)	
Less: (Undistributed income) dividends in excess of earnings allocated to participating securities	(8)	
Net earnings allocated to common stock	\$ 511	\$ 518
Weighted common shares outstanding including participating securities	2,552,147	2,512,750
Less: Participating securities	(49,249)	
Less: Average Unallocated ESOP Shares	(88,650)	(93,575)
Weighted average shares	2,414,248	2,419,175
Basic earnings per share	\$ 0.21	\$ 0.21
Net earnings allocated to common stock	\$ 511	\$ 518
Weighted average shares	2,414,248	2,419,175
Add: dilutive effects of assumed exercises of stock options		
Average shares and dilutive potential common shares	2,414,248	2,419,175
Dilutive earnings per share	\$ 0.21	\$ 0.21

Options to purchase 123,124 shares of the Company's common stock at a weighted-average exercise price of \$10.30 per share were outstanding during the three months ended March 31, 2011 but were not included in the computation of diluted EPS because their assumed exercise would be antidilutive. There were no potential dilutive common shares for the three months ended March 31, 2010.

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CULLMAN BANCORP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(All amounts in thousands, except share and per share data)

(4) SECURITIES AVAILABLE FOR SALE

The fair value of available for sale securities and the related gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) income at March 31, 2011 and December 31, 2010 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
March 31, 2011 (Unaudited)				
U.S. Government agencies	\$ 12,997	\$	\$ (552)	\$ 12,445
Municipal taxable	5,152	28	(122)	5,058
Residential mortgage-backed, GSE	2,678	103		2,781
Residential mortgage-backed, private label	796	14		810
Ultra Short mortgage mutual fund	1,414	77		1,491
Total	\$ 23,037	\$ 222	\$ (674)	\$ 22,585

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2010				
U.S. Government agencies	\$ 13,997	\$ 13	\$ (478)	\$ 13,532
Municipal taxable	5,154	23	(122)	5,055
Residential mortgage-backed, GSE	2,959	92		3,051
Residential mortgage-backed, private label	961	22		983
Ultra Short mortgage mutual fund	1,414	82		1,496
Total	\$ 24,485	\$ 232	\$ (600)	\$ 24,117

The Company's mortgage-backed securities are primarily issued by government agencies and government sponsored enterprises (GSEs) such as Fannie Mae and Ginnie Mae as denoted in the table above as GSE. At March 31, 2011 and December 31, 2010, the Company had only one private label mortgage-backed security.

Sales of available for sale securities during the three months ended March 31, 2011 and 2010 were as follows:

	Three Months Ended March 31, 2011 2010 (Unaudited)
Proceeds	\$ 250
Gross gains	11

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CULLMAN BANCORP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(All amounts in thousands, except share and per share data)

The amortized cost and fair value of the investment securities portfolio are shown below by expected maturity. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

	March 31, 2011 (Unaudited)	
	Amortized Cost	Estimated Fair Value
Due from one to five years	\$	\$
Due from five to ten years	5,004	4,871
Due after ten years	13,145	12,632
Mutual fund	1,414	1,491
Residential mortgage-backed	3,474	3,591
Total	\$ 23,037	\$ 22,585

Carrying amounts of securities pledged to secure public deposits, repurchase agreements, and Federal Home Loan Bank advances as of March 31, 2011 and December 31, 2010 were \$7,430 and \$6,320, respectively. At March 31, 2011 and December 31, 2010, there were no holdings of securities of any one issuer, other than the U.S. Government agencies, in an amount greater than 10% of shareholders' equity.

The following table shows securities with unrealized losses at March 31, 2011 and December 31, 2010, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position:

	Less than 12 months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
March 31, 2011 (Unaudited)						
U.S. Government agencies	\$ 12,445	\$ (552)	\$	\$	\$ 12,445	\$ (552)
Municipal taxable	5,058	(122)			5,058	(122)
Total temporarily impaired	\$ 17,503	\$ (674)	\$	\$	\$ 17,503	\$ (674)

	Less than 12 months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
December 31, 2010						
U.S. Government agencies	\$ 10,519	\$ (478)	\$	\$	\$ 10,519	\$ (478)
Municipal taxable	3,589	(122)			3,589	(122)
Total temporarily impaired	\$ 14,108	\$ (600)	\$	\$	\$ 14,108	\$ (600)

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There were twelve US Government agency and six municipal securities with unrealized losses at March 31, 2011. None of the unrealized losses for these securities have been recognized into net income for the three months ended March 31, 2011 because the issuer's bonds are of high credit quality, management does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes interest rates. The fair value is expected to recover as the bonds approach their maturity date or reset date.

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CULLMAN BANCORP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(All amounts in thousands, except share and per share data)

The Company evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. The Company considers the length of time and the extent to which the fair value has been less than cost and the financial condition and near-term prospects of the issuer. Additionally, the Company considers its intent to sell or whether it will be more likely than not it will be required to sell the security prior to the security's anticipated recovery in fair value. In analyzing an issuer's financial condition, the Company may consider whether the securities are issued by the federal Government agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition.

(5) LOANS

Loans at March 31, 2011 and December 31, 2010 were as follows:

	March 31, 2011 (Unaudited)	December 31, 2010
Real estate loans:		
One-to four-family	\$ 83,866	\$ 83,721
Multi-family	5,372	4,837
Commercial real estate	63,620	63,443
Construction	4,779	8,936
Total real estate loans	157,637	160,937
Commercial loans	7,491	7,371
Consumer loans	10,635	10,276
Total loans	175,763	178,584
Net deferred loan fees	(388)	(413)
Allowance for loan losses	(898)	(854)
Loans, net	\$ 174,477	\$ 177,317

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CULLMAN BANCORP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(All amounts in thousands, except share and per share data)

The following tables present the activity in the allowance for loan losses for the three months ended March 31, 2011 and the balances of the allowance for loan losses and recorded investment in loans by portfolio class based on impairment method at March 31, 2011 and December 31, 2010. The recorded investment in loans in any of the following tables does not include accrued and unpaid interest or any deferred loan fees or costs, as amounts are not significant.

March 31, 2011	Real estate							Total
	One-to-Four Family	Multi-family	Commercial	Construction	Commercial	Consumer		
Allowance for loan losses:								
Beginning balance	\$ 332	\$ 9	\$ 356	\$ 9	\$ 47	\$ 101	\$ 854	
Charge-offs	(2)		(47)				(49)	
Recoveries						1	1	
Provisions	61	1	31	(4)		3	92	
Ending balance	\$ 391	\$ 10	\$ 340	\$ 5	\$ 47	\$ 105	\$ 898	
Ending allowance attributed to loans:								
Individually evaluated for impairment	25		35		25		\$ 85	
Collectively evaluated for impairment	366	10	305	5	22	105	813	
Total ending allowance balance:	\$ 391	\$ 10	\$ 340	\$ 5	\$ 47	\$ 105	\$ 898	
Loans:								
Loans individually evaluated for impairment:	\$ 2,464	\$ 1,980	\$ 4,198	\$	\$ 109	\$ 158	\$ 8,909	
Loans collectively evaluated for impairment:	81,402	3,392	59,422	4,779	7,382	10,477	166,854	
Total ending loans balance	\$ 83,866	\$ 5,372	\$ 63,620	\$ 4,779	\$ 7,491	\$ 10,635	\$ 175,763	

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CULLMAN BANCORP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(All amounts in thousands, except share and per share data)

December 31, 2010	Real estate						Total
	One-to-Four Family	Multi-family	Commercial	Construction	Commercial	Consumer	
Allowance for loan losses:							
Ending allowance attributed to loans:							
Individually evaluated for impairment	\$	\$	\$ 95	\$	\$ 25	\$	\$ 120
Collectively evaluated for impairment	332	9	261	9	22	101	734
Total ending allowance balance:	\$ 332	\$ 9	\$ 356	\$ 9	\$ 47	\$ 101	\$ 854
Loans:							
Loans individually evaluated for impairment:	\$ 2,713	\$ 1,993	\$ 3,724	\$	\$ 112	\$ 165	\$ 8,707
Loans collectively evaluated for impairment:	81,008	2,844	59,719	8,936	7,259	10,111	169,877
Total ending loans balance	\$ 83,721	\$ 4,837	\$ 63,443	\$ 8,936	\$ 7,371	\$ 10,276	\$ 178,584

The following table presents the activity in the allowance for loan losses for the three months ended March 31, 2010:

	2010 (Unaudited)
Beginning balance	\$ 747
Provision for loan losses	57
Loans charged off	(3)
Recoveries	1
Ending balance	\$ 802

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CULLMAN BANCORP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(All amounts in thousands, except share and per share data)

The following table presents loans individually evaluated for impairment by portfolio class at March 31, 2011 and December 31, 2010, including the average recorded investment balance and interest earned for the three months ended March 31, 2011:

	March 31, 2011 (Unaudited)					December 31, 2010		
	Unpaid principal balance	Recorded investment	Related allowance	Average Recorded Investment	Interest Income Recognized	Unpaid principal balance	Recorded investment	Related allowance
With no recorded allowance:								
Real estate loans:								
One- to four-family	\$ 1,439	\$ 1,439	\$	\$ 2,077	\$ 19	\$ 2,714	\$ 2,714	\$
Multi-family	1,980	1,980		1,987	37	1,993	1,993	
Commercial	4,074	4,074		3,760	48	3,445	3,445	
Construction								
Total real estate loans	7,493	7,493		7,824	104	8,152	8,152	
Commercial	59	59		60		61	61	
Consumer loans	158	158		162	1	165	165	
Total	\$ 7,710	\$ 7,710	\$	\$ 8,046	\$ 105	\$ 8,378	\$ 8,378	\$
With recorded allowance:								
Real estate loans:								
One- to four-family	\$ 1,025	\$ 1,025	\$ 25	\$ 513	\$ 13	\$	\$	\$
Multi-family								
Commercial	124	124	35	202	1	280	280	95
Construction								10
Total real estate loans	1,149	1,149	60	715	14	280	280	95
Commercial	50	50	25	50		49	49	25
Consumer loans								
Total	\$ 1,199	\$ 1,199	\$ 85	\$ 765	\$ 14	\$ 329	\$ 329	\$ 120
Totals:								
Real estate	\$ 8,642	\$ 8,642	\$ 60	\$ 8,539	\$ 118	\$ 8,432	\$ 8,432	\$ 95
Commercial and Consumer	267	267	25	272	1	275	275	25
Total	\$ 8,909	\$ 8,909	\$ 85	\$ 8,811	\$ 119	\$ 8,707	\$ 8,707	\$ 120

The average balance of loans individually evaluated for impairment for the three months ended March 31, 2010 was \$5,060. Interest income recognized and cash basis interest income recognized during the impairment period in December 31, 2010 was \$197. Interest income recognized was equal to cash collected during the three months ended March 31, 2011.

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CULLMAN BANCORP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(All amounts in thousands, except share and per share data)

The following tables present the aging of the recorded investment in past due loans at March 31, 2011 and December 31, 2010 by portfolio class of loans:

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans	Accruing loans past due 90 days or more
March 31, 2011 (Unaudited)							
Real estate loans:							
One-to four-family	\$ 413	\$ 502	\$ 76	\$ 991	\$ 82,875	\$ 83,866	\$
Multi-family	608			608	4,764	5,372	
Commercial	570	106		676	62,944	63,620	
Construction					4,779	4,779	
Total real estate loans	1,591	608	76	2,275	155,362	157,637	
Commercial loans			50	50	7,441	7,491	
Consumer loans	6		35	41	\$ 10,594	10,635	
Total	\$ 1,597	\$ 608	\$ 161	\$ 2,366	\$ 173,397	\$ 175,763	\$

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans	Accruing loans past due 90 days or more
December 31, 2010							
Real estate loans:							
One-to four-family	\$ 654	\$ 118	\$ 61	\$ 833	\$ 82,888	\$ 83,721	\$
Multi-family	613			613	4,224	4,837	
Commercial		107	156	263	63,180	63,443	
Construction					8,936	8,936	
Total real estate loans	1,267	225	217	1,709	159,228	160,937	
Commercial loans					7,371	7,371	
Consumer loans	82	121	4	207	\$ 10,069	10,276	
Total	\$ 1,349	\$ 346	\$ 221	\$ 1,916	\$ 176,668	\$ 178,584	\$

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Nonaccrual loans at March 31, 2011 and December 31, 2010 were \$161 and \$221, respectively. These loans are disclosed by portfolio segment above in the 90 days or more past due column. Additional required disclosure by class was deemed immaterial to the financial statements. Non-performing loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

Troubled Debt Restructurings:

Troubled debt restructurings at March 31, 2011 and December 31, 2010 were \$6,441 and \$5,459, respectively. The amount of impairment allocated to loans whose loan terms have been modified in troubled debt restructurings at March 31, 2011 and December 31, 2010 was \$85 and \$35, respectively. The Company has committed to no additional amounts at March 31, 2011 to customers with outstanding loans that are classified as troubled debt restructurings.

Credit Quality Indicators:

The Company utilizes a grading system whereby all loans are assigned a grade based on the risk profile of each loan. Loan grades are determined based on an evaluation of relevant information about the ability of borrowers to service their debt such as current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. All loans, regardless of size, are analyzed and are given a grade based upon the management's assessment of the ability of borrowers to service their debts. Loans with balances greater than \$100 are evaluated on a quarterly basis and smaller loans are reviewed as necessary based on change in borrower status or payment history.

The Company uses the following definitions for loan grades:

Special Mention. Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of repayment prospects for the loan or of the institution's credit position at some future date.

Substandard. Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful. Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, 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.

Loans not meeting the criteria above are graded Pass. These loans are included within groups of homogenous pools of loans based upon portfolio segment and class for estimation of the allowance for loan losses on a collective basis. Loan relationships graded substandard and doubtful of \$100 or more are individually evaluated for impairment.

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At March 31, 2011 and December 31, 2010 and based on the most recent analysis performed, the loan grade for each loan by portfolio class is as follows:

Real estate													
One-to-four Family		Multi-family		Commercial		Construction		Commercial		Consumer		Totals	
2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
\$ 79,314	\$ 78,909	\$ 3,392	\$ 2,844	\$ 50,608	\$ 51,184	\$ 4,779	\$ 8,936	\$ 7,382	\$ 7,234	\$ 10,452	\$ 10,272	\$ 155,927	\$ 159,927
620	955			7,072	6,987							7,692	7,692
3,932	3,857	1,980	1,993	5,940	5,272			109	137	183	4	12,144	11,144
\$ 83,866	\$ 83,721	\$ 5,372	\$ 4,837	\$ 63,620	\$ 63,443	\$ 4,779	\$ 8,936	\$ 7,491	\$ 7,371	\$ 10,635	\$ 10,276	\$ 175,763	\$ 178,763

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(6) FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The fair values of securities available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs) or matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs).

The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are typically significant and result in a Level 3 classification of the inputs for determining fair value.

Nonrecurring adjustments to certain commercial and residential real estate properties classified as foreclosed real estate are measured at fair value, less costs to sell. Fair values are generally based on third party appraisals of the property, resulting in a Level 3 classification. In cases where the carrying amount exceeds the fair value, less costs to sell, an impairment loss is recognized.

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The tables below present the balances of assets and liabilities measured at fair value on a recurring and non-recurring basis by level within the hierarchy as of March 31, 2011 and December 31, 2010:

Assets and Liabilities Measured on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis are summarized below:

Fair Value Measurements

Using Significant Other Observable Inputs

(Level 2)

	March 31, 2011 (Unaudited)	December 31, 2010
Financial assets:		
U.S. Government sponsored agencies	\$ 12,445	\$ 13,532
Municipal taxable	5,058	5,055
Residential mortgage-backed, GSE	2,781	3,051
Residential mortgage-backed, private label	810	983
Ultra Short mortgage mutual fund	1,491	1,496
Total investment securities available for sale	\$ 22,585	\$ 24,117

Assets and Liabilities Measured on a Non-Recurring Basis

Assets and liabilities measured at fair value on a non-recurring basis are summarized below:

Fair Value Measurements

Using Significant Unobservable Inputs

(Level 3)

	March 31, 2011 (Unaudited)	December 31, 2010
Assets:		
Impaired loans, with specific allocations		

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Real estate loans:		
One-to four-family	\$ 1,000	\$
Multi-family		
Commercial	89	185
Construction		
Total real estate loans	1,089	185
Commercial	25	24
Total loans	\$ 1,114	\$ 209
Foreclosed real estate:		
One-to four-family	\$ 1,672	\$ 987
Multi-family		
Commercial	603	1,010
Construction		
Total foreclosed real estate	\$ 2,276	\$ 1,997

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Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had carrying amounts of \$1,114 and \$209, which consists of the unpaid principal balances of \$1,199 and \$329 less valuation allowances of \$85 and \$120 at March 31, 2011 and December 31, 2010, respectively. The impact to the provision to loan losses from the change in the valuation allowances was not material for the three months ended March 31, 2011 and an increase in the provision of \$24 for the year ended December 31, 2010.

Foreclosed real estate, which is measured at fair value less costs to sell, had a net carrying amount of \$2,276 and \$1,997 at March 31, 2011 and December 31, 2010, respectively. The net carrying amount consists of the outstanding balance net of a valuation allowance. The outstanding balance and valuation allowance of other real estate owned at March 31, 2011 and December 31, 2010 were \$2,485 and \$209, and \$2,206 and \$209, respectively. The resulting write-downs for the three months ended March 31, 2011 and for the year ended December 31, 2010 were \$0 and \$209, respectively.

Loans held for sale, which are carried at the lower of cost or fair value, had fair values in excess of cost at March 31, 2011 and December 31, 2010 and were therefore carried at cost with no fair value valuation allowance at both period ends.

The carrying amounts and estimated fair value of the Company's on-balance sheet financial instruments at March 31, 2011 and December 31, 2010 are summarized below:

	March 31, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(Unaudited)			
Financial assets				
Cash and cash equivalents	\$ 5,021	\$ 5,021	\$ 2,542	\$ 2,542
Securities available for sale	22,585	22,585	24,117	24,117
Loans, net	174,477	186,131	177,317	190,054
Loans held for sale	173	173	320	320
Accrued interest receivable	1,193	1,193	1,157	1,157
Restricted equity securities	2,595	N/A	2,595	N/A
Financial liabilities				
Deposits	133,957	135,485	136,399	137,685
Federal Home Loan Bank Advances	47,000	49,687	47,000	50,801
Long-term debt	816	816	816	816
Accrued interest payable	234	234	247	247

The methods and assumptions, not previously presented, used to estimate fair value are described as follows:

Carrying amount is the estimated fair value for cash and cash equivalents, interest bearing deposits, accrued interest receivable and payable, demand deposits, short-term debt, and variable rate loans or deposits that reprice frequently and fully. The methods for determining the fair values for securities were described previously. For fixed rate loans or deposits and for variable rate loans or deposits with infrequent repricing or repricing limits, fair value is based on discounted cash flows using current market rates applied to the estimated life and credit risk (including consideration of widening credit spreads). Fair value of debt is based on current rates for similar financing. It was not practicable to determine the fair value of restricted equity securities due to restrictions placed on transferability. The fair value of off-balance sheet items is not considered material.

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(7) STOCK BASED COMPENSATION

In December of 2010, the stockholders approved the Cullman Bancorp, Inc. 2010 Equity Incentive Plan (the "Equity Incentive Plan") for employees and directors of the Company. The Equity Incentive Plan authorizes the issuance of up to 172,373 shares of the Company's common stock, with no more than 49,249 of shares as restricted stock awards and 123,124 as stock options, either incentive stock options or non-qualified stock options. The exercise price of options granted under the Equity Incentive Plan may not be less than the fair market value on the date the stock option is granted. The compensation committee of the board of directors has sole discretion to determine the amount and to whom equity incentive awards are granted.

On January 18, 2011, the compensation committee of the board of directors approved the issuance of 123,124 options to purchase Company stock and 49,249 shares of restricted stock. Stock options and restricted stock vest over a five year period, and stock options expire ten years after issuance. Apart from the vesting schedule for both stock options and restricted stock, there are no performance-based conditions or any other material conditions applicable to the awards issued. At March 31, 2011 there were no shares available for future grants under this plan.

The following table summarizes stock option activity for the three months ended March 31, 2011:

	Options	Weighted-Average Exercise Price/Share	Weighted-Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value
Outstanding - January 1, 2011				
Granted	123,124	10.30		
Exercised				
Forfeited				
Outstanding - March 31, 2011	123,124	\$ 10.30	9.80	\$ 76,337 ⁽¹⁾
Fully vested and exercisable at March 31, 2011		\$		\$
Expected to vest in future periods	123,124			
Fully vested and expected to vest - March 31, 2011	123,124	\$ 10.30	9.80	\$ 76,337 ⁽¹⁾

(1) Based on closing price of \$10.92 per share on March 31, 2011.

Intrinsic value for stock options is defined as the difference between the current market value and the exercise price.

The fair value for each option grant is estimated on the date of grant using the Black-Scholes option pricing model that uses the following assumptions. The Company uses the U.S. Treasury yield curve in effect at the time of the grant to determine the risk-free interest rate. The expected dividend yield is estimated using the projected annual dividend level and recent stock price of the Company's common stock at the date

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of grant. Expected stock volatility is based on historical volatilities of the SNL Financial Index of Thrifts. The expected life of the options is calculated based on the simplified method as provided for under Staff Accounting Bulletin No. 110.

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The weighted-average assumptions used in the Black-Scholes option pricing model for the years indicated were as follows:

	2011
Risk-free interest rate	2.86%
Expected dividend yield	\$ 4.37
Expected stock volatility	10.29
Expected life (years)	7
Fair value	\$ 0.675

There were no options that vested during the three months ended March 31, 2011. Stock-based compensation expense for stock options was \$5 for the three months ended March 31, 2011. Total unrecognized compensation cost related to nonvested stock options was \$79 at March 31, 2011 and is expected to be recognized over a weighted-average period of 5 years.

The following table summarizes non-vested restricted stock activity for the three months ended March 31, 2011:

	2011
Balance - beginning of year	
Granted	49,249
Forfeited	
Earned and issued	
Balance - end of period	49,249

The fair value of the restricted stock awards is amortized to compensation expense over the vesting period (generally five years) and is based on the market price of the Company's common stock at the date of grant multiplied by the number of shares granted that are expected to vest. The weighted-average grant date fair value of restricted stock granted during the three months ended March 31, 2011 was \$10.30 per share or \$507. Stock-based compensation expense for restricted stock included in non-interest expense was \$25 for the three months ended March 31, 2011. Unrecognized compensation expense for nonvested restricted stock awards was \$482 and is expected to be recognized over 5 years.

(8) SUBSEQUENT EVENT

On April 27, 2011, massive storms, including tornadoes struck several areas in Alabama, including Cullman County. Management has not yet determined