Ottawa Savings Bancorp, Inc.
Form 10QSB
May 15, 2006
Table of Contents

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-QSB

(mark one)

x **QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2006

or

¨ **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT**
For the transition period from ______to______

Commission File Number 000-51367

OTTAWA SAVINGS BANCORP, INC.

(Exact name of small business issuer specified in its charter)

United States	**20-3074627**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**

925 LaSalle Street

Ottawa, Illinois 61350

(Address of principal executive offices)

(815) 433-2525

(Issuer s telephone number)

Not Applicable

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

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 ¨

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

State the number of shares outstanding of each of the issuer s classes of common equity, as of the latest practicable date:

Class	**Outstanding as of May 12, 2006**
Common Stock, $0.01 par value	2,224,911 *

* As of May 12, 2006, 1,223,701 shares were owned by Ottawa Savings Bancorp, MHC, the company s mutual holding company.
Transitional Small Business Disclosure Format (check one): Yes ¨ No x

Table of Contents

OTTAWA SAVINGS BANCORP, INC.

FORM 10-QSB

For the quarterly period ended March 31, 2006

INDEX

Table of Contents

OTTAWA SAVINGS BANCORP, INC.

Consolidated Balance Sheets

March 31, 2006 and December 31, 2005

(Unaudited)

	March 31, 2006	December 31, 2005
Assets		
Cash and due from banks	$ 7,942,167	$ 5,039,518
Securities held to maturity (fair value of $1,338,555 and $1,392,860 at March 31, 2006 and December 31, 2005, respectively)	1,350,341	1,404,850
Securities available for sale	35,697,896	37,920,403
Federal Home Loan Bank stock, at cost	4,037,808	4,037,808
Loans, net of allowance for loan losses of $367,742 and $390,994 at March 31, 2006 and December 31, 2005, respectively)	123,343,476	124,938,714
Loans held for sale	190,755	
Premises and equipment, net	7,988,622	8,041,537
Accrued interest receivable	744,532	801,633
Mortgage servicing rights	108,624	114,813
Income tax refund receivable	1,230,032	1,230,032
Deferred tax asset	1,305,086	1,740,867
Other assets	541,142	592,763
Total assets	$ 184,480,481	$ 185,862,938
Liabilities and Stockholders Equity		
Liabilities		
Deposits:		
Non-interest bearing	$ 2,596,626	$ 2,339,108
Interest bearing	160,185,042	162,541,840
Total deposits	162,781,668	164,880,948
Accrued interest payable	190,645	77,000
Other liabilities	1,592,714	1,671,405
Total liabilities	164,565,027	166,629,353
Stockholders Equity		
Common Stock, $.01 par value 12,000,000 shares authorized; 2,224,911 shares issued and outstanding	22,249	22,249
Additional Paid-in-Capital	8,522,984	8,522,984
Retained earnings	12,796,931	11,848,059
Unallocated ESOP shares	(712,264)	(712,264)
Accumulated other comprehensive (loss)	(714,446)	(447,443)
Total Stockholders Equity	19,915,454	19,233,585
Total liabilities and stockholders equity	$ 184,480,481	$ 185,862,938

See accompanying notes to these unaudited consolidated financial statements

Table of Contents

OTTAWA SAVINGS BANCORP, INC.

Consolidated Statements of Operations

Three Months Ended March 31, 2006 and 2005

(Unaudited)

	Three Months Ended March 31, 2006	2005
Interest and dividend income:		
Interest and fees on loans	$ 1,929,719	$ 1,697,108
Securities:		
Mortgage-backed and related securities	268,414	246,090
U.S. Government and agency securities	167,132	121,811
Dividends	30,393	78,264
Interest-bearing deposits	28,602	28,681
Total interest and dividend income	2,424,260	2,171,954
Interest expense:		
Deposits	1,318,290	1,078,823
Total interest expense	1,318,290	1,078,823
Net interest income	1,105,970	1,093,131
Provision for loan losses	(1,307,778)	22,500
Net interest income after provision for loan losses	2,413,748	1,070,631
Other income:		
Gain (loss) on sale of loans, net origination and amortization of servicing rights	(4,427)	1,808
Customer service fees	34,012	24,678
Other	7,547	2,540
Total other income	37,132	29,026
Other expenses:		
Salaries and employee benefits	433,251	369,272
Directors fees	21,292	21,900
Occupancy	117,784	75,894
Deposit insurance premium	5,276	5,344
Legal and professional services	87,938	182,105
Data processing	60,476	49,600
Advertising	17,313	15,760
Other	133,655	90,644
Total other expenses	876,985	810,519
Income before income taxes	1,573,895	289,138
Income tax expense	574,962	110,584

Net income	$	998,933	$	178,554
Basic and fully diluted earnings per share	$	0.46	$	*
Dividends per share	$	0.05	$	*

* Not applicable since the initial public offering was completed on July 11, 2005.

See accompanying notes to these unaudited consolidated financial statements

Table of Contents

OTTAWA SAVINGS BANCORP, INC.

Consolidated Statements of Comprehensive Income (Loss)

Three Months Ended March 31, 2006 and 2005

(Unaudited)

	2006	2005
Comprehensive (loss):		
Net income	$ 998,933	$ 178,554
Other comprehensive (loss), net of tax:		
Unrealized (losses) on securities available for sale arising during period, net of tax benefits of $(137,547) and $(173,255) for 2006 and 2005, respectively.	(267,003)	(336,318)
Comprehensive income (loss)	$ 731,930	$ (157,764)

See accompanying notes to these unaudited consolidated financial statements

Table of Contents

OTTAWA SAVINGS BANCORP, INC.

Consolidated Statements of Cash Flows

Three Months Ended March 31, 2006 and 2005

(Unaudited)

	2006	2005
Cash Flows from Operating Activities		
Net income	$ 998,933	$ 178,554
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	65,317	30,163
Provision for loan losses	(1,307,778)	22,500
Provision for deferred income taxes	573,328	106,320
Net amortization of premiums and discounts on securities	2,344	4,264
Federal Home Loan Bank stock dividend		(78,200)
Origination of loans to be sold to Freddie Mac	(432,097)	(624,434)
Proceeds received on sale of loans to Freddie Mac	243,043	245,586
(Gain) loss on sale of loans, net origination and amortization of servicing rights	4,427	(1,808)
Change in assets and liabilities:		
(Increase) decrease in accrued interest receivable	57,101	(47,184)
Decrease in other assets and tax refund receivable	51,621	87,184
Increase (decrease) in accrued interest payable and other liabilities	34,954	(3,602)
Net cash provided by (used in) operating activities	291,193	(80,657)
Cash Flows from Investing Activities		
Securities available for sale:		
Purchases		(11,843,745)
Sales, calls, maturities and paydowns	1,815,613	2,738,582
Securities held to maturity:		
Maturities and paydowns	54,509	100,374
Net decrease in loans	2,903,077	4,136,381
Proceeds from sale of OREO		89,983
Purchase of property and equipment	(12,402)	(842,323)
Sale of Federal Home Loan Bank stock		78,200
Net cash provided by (used in) investing activities	4,760,797	(5,542,548)
Cash Flows from Financing Activities		
Net increase (decrease) in deposits	(2,099,280)	4,141,969
Dividends paid	(50,061)	
Net cash provided by (used in) financing activities	(2,149,341)	4,141,969
Net increase (decrease) in cash and due from banks	2,902,649	(1,481,236)
Cash and due from banks:		
Beginning	5,039,518	5,019,738
Ending	$ 7,942,167	$ 3,538,502

Supplemental Disclosures of Cash Flow Information

Cash payments for:		
Interest paid to depositors	$ 1,204,645	$ 1,073,487
Income taxes, net of refunds received	1,634	(268,292)
Supplemental Schedule of Noncash Investing and Financing Activities		
Real estate acquired through or in lieu of foreclosure		60,000
Sale of OREO through loan origination		120,000

See accompanying notes to these unaudited consolidated financial statements

OTTAWA SAVINGS BANCORP, INC.

Notes to Unaudited Consolidated Financial Statements

NOTE 1 NATURE OF BUSINESS

Ottawa Savings Bancorp, Inc. (the Company) is the federally chartered savings and loan holding company of Ottawa Savings Bank (the Bank) and was formed upon completion of the Bank s reorganization from a mutual to stock form of organization on July 11, 2005.

The Bank is a community and customer oriented savings bank. The Bank s business has historically consisted of attracting deposits from the general public and using those funds to originate one- to four-family residential loans, consumer loans and other loans. The Bank completed its plan of conversion on July 11, 2005 (see Note 5), and upon which the Bank converted from an Illinois-chartered mutual savings bank to a federally-chartered mutual savings bank. The Bank completed its reorganization on that same date, pursuant to which the Bank converted from a federally-chartered mutual savings bank to a federally-chartered stock savings bank, all of the outstanding stock of which was issued to Ottawa Savings Bancorp, Inc. As part of the reorganization, Ottawa Savings Bancorp, Inc. issued 1,001,210 shares to the public and 1,223,701 shares to Ottawa Savings Bancorp, MHC.

NOTE 2 BASIS OF PRESENTATION

The consolidated financial statements presented in this quarterly report include the accounts of the Company and the Bank. The consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and predominant practices followed by the financial services industry, and are unaudited. In the opinion of the Company s management, all adjustments, consisting of normal recurring adjustments, which the Company considers necessary to fairly state the Company s financial position and the results of operations and cash flows have been recorded. Certain amounts in the March 31, 2005 consolidated financial statements have been reclassified to conform to the 2006 presentation. Such reclassifications have no impact on previously reported net income (loss) or stockholders equity. The interim financial statements should be read in conjunction with the audited financial statements and accompanying notes of the Company for the year ended December 31, 2005. The results of the Company s operations for any interim period are not necessarily indicative of the results of the Company s operations for any other interim period or for a full fiscal year.

NOTE 3 USE OF ESTIMATES

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect amounts reported in the consolidated financial statements. Changes in these estimates and assumptions are considered reasonably possible and may have a material impact on the consolidated financial statements and thus actual results could differ from the amounts reported and disclosed herein.

At March 31, 2006, there were no material changes in the Company s significant accounting policies or critical accounting estimates from those disclosed in the form 10-KSB filed with the Securities and Exchange Commission in March 2006.

NOTE 4 CRITICAL ACCOUNTING POLICIES

We consider accounting policies involving significant judgments and assumptions by management that have, or could have, a material impact on the carrying value of certain assets or income to be critical accounting policies. We consider the allowance for loan losses, market value of investment securities available for sale and the liability for postretirement benefits to be our critical accounting policies.

Table of Contents

OTTAWA SAVINGS BANCORP, INC.

Notes to Unaudited Consolidated Financial Statements

(continued)

Allowance for Loan Losses. The allowance for loan losses is an amount necessary to absorb known or inherent losses that are both probable and reasonably estimable and is established through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. The allowance for loan losses is evaluated on a regular basis by management and is based upon management s periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect each borrower s ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

Market value of investment securities available for sale. Market values for investment securities are provided monthly by a third party service provider. Management is also responsible for evaluating all investments with unrealized losses on a regular basis to determine whether investments with unrealized losses should be written down to realizable amounts. Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) our intent and ability to retain our investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Liability for post retirement benefits. The liability for post retirement benefits was estimated based upon an actuarial report obtained by Company management from an experienced, third party actuary. Assumptions used by the actuary in the calculation include discount rates, current and future health care costs, life expectancies, and employee years of service.

NOTE 5 ADOPTION OF PLAN OF CONVERSION

On January 20, 2005, the Board of Directors of the Bank unanimously adopted a plan of conversion, under which the Bank would be converted from an Illinois chartered mutual savings bank to a Federally chartered mutual savings bank. Pursuant to the Bank s plan of reorganization, the Bank converted from a Federally chartered mutual savings bank to a Federally chartered stock savings bank. All of the common stock of the Bank following the reorganization is held by Ottawa Savings Bancorp, Inc. The members of the Bank approved the plan of conversion at a meeting held on May 5, 2005. The members of the Bank approved the plan of reorganization at a meeting held on June 28, 2005.

In adopting the plan, the Board of Directors of the Bank determined that the conversion was advisable and in the best interests of its members and the Bank and that the conversion would not have any adverse impact on the reserves and net worth of the Bank.

The conversion was completed on July 11, 2005 when the Company issued 1,001,210 shares of common stock to the public resulting in $10,012,100 of gross proceeds. An additional 1,223,701 shares were issued to the mutual holding company formed as part of the reorganization, Ottawa Savings Bancorp, MHC. Costs to complete the stock offering of $1,469,411 were deducted from the gross proceeds of the offering.

Table of Contents

OTTAWA SAVINGS BANCORP, INC.

Notes to Unaudited Consolidated Financial Statements

(continued)

NOTE 6 EARNINGS PER SHARE

Basic and diluted income per share (EPS) represents income available to common stockholders divided by the weighted average number of common shares outstanding. ESOP shares which are committed to be released are considered outstanding for basic and diluted income per share.

	Three months ended March 31, 2006	2005
Net income available to common stockholders	$ 998,933	$ *
Basic potential common shares:		
Weighted average shares outstanding	2,224,911	*
Weighted average unallocated Employee Stock Ownership Plan shares	(71,226)	*
Basic weighted average shares outstanding	2,153,685	*
Dilutive potential common shares		*
Dilutive weighted average shares outstanding	2,153,685	*
Basic and diluted income per share	$ 0.46	$ *

* Income per share for the three months ended March 31, 2005 is not applicable since the initial public offering was completed on July 11, 2005.

NOTE 7 EMPLOYEE STOCK OWNERSHIP PLAN

On July 11, 2005, the Company adopted an employee stock ownership plan (ESOP) for the benefit of substantially all employees. The ESOP borrowed $763,140 from the Company and used those funds to acquire 76,314 shares of the Company s stock in the initial public offering at a price of $10.00 per share.

Shares purchased by the ESOP with the loan proceeds are held in a suspense account and are allocated to ESOP participants on a pro rata basis as principal and interest payments are made by the ESOP to the Company. The loan is secured by shares purchased with the loan proceeds and will be repaid by the ESOP with funds from the Company s discretionary contributions to the ESOP and earnings on the ESOP assets. Annual principal payments of approximately $50,876, plus interest at 6.25%, are to be made by the ESOP.

As shares are released from collateral, the Company will report compensation expense equal to the current market price of the shares and the shares will become outstanding for earnings-per-share (EPS) computations. Dividends on allocated ESOP shares reduce retained earnings; dividends on unallocated ESOP shares reduce accrued interest.

The following table reflects the status of the shares held by the plan

	March 31, 2006	2005
Shares allocated	5,088	*

Unallocated shares	71,226	*
Total ESOP shares	76,314	*
Fair value of unallocated shares	$ 819,099	$ *

* Not applicable since the plan was not adopted until July 11, 2005

Table of Contents

OTTAWA SAVINGS BANCORP, INC.

Notes to Unaudited Consolidated Financial Statements

(continued)

NOTE 8 INVESTMENT SECURITIES

Securities with gross unrealized losses at March 31, 2006

	< 12 Months		> 12 Months		Total	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
Available for Sale						
U.S. Treasury and Agency Securities	$ 43,279	$ 1,645,396	$ 262,205	$ 12,885,976	$ 305,484	$ 14,531,372
Mortgage-Backed Securities	200,864	7,307,616	600,378	12,515,359	801,242	19,822,975
Total	$ 244,143	$ 8,953,012	$ 862,583	$ 25,401,335	$ 1,106,726	$ 34,354,347
Held to Maturity						
Mortgage-Backed Securities	$ 405	$ 40,584	$ 17,461	$ 825,697	$ 17,866	$ 866,281
Total	$ 405	$ 40,584	$ 17,461	$ 825,697	$ 17,866	$ 866,281

The unrealized losses at March 31, 2006 relate principally to interest rates relative to the market. In analyzing an issuer s financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analysts reports. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available for sale, no declines are deemed to be other than temporary.

NOTE 9 ASSET QUALITY

The following is a summary of information pertaining to impaired and non-accrual loans:

	At March 31, 2006	At December 31, 2005
Impaired loans with a valuation allowance	9,114	49,845
Total impaired loans	$ 9,114	$ 49,845
Valuation allowance related to impaired loans	$ 1,367	$ 7,477
Total non-accrual loans	$ 645,655	$ 1,607,465
Total loans past due ninety days or more and still accruing	$	$ 96,594

On the basis of management s review of its assets, at March 31, 2006 and December 31, 2005 we had classified $206,556 and $1,061,305, respectively, of our assets as special mention and $35,954, and $183,046, respectively, of our assets as substandard. None of our assets were classified as doubtful or loss.

The loan portfolio is reviewed on a regular basis to determine whether any loans require classification in accordance with applicable regulations. Not all non-performing assets are classified assets.

Table of Contents

OTTAWA SAVINGS BANCORP, INC.

Notes to Unaudited Consolidated Financial Statements

(continued)

Following is a summary of activity in the allowance for loan losses for the three months ended March 31, 2006

Balance at beginning of period	$ 390,994
Provision credited to income	(1,307,778)
Loans charged off	(25,636)
Recoveries of loans previously charged off	1,310,162
Balance at end of period	$ 367,742

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS

FORWARD-LOOKING INFORMATION

Statements contained in this report that are not historical facts may constitute forward-looking statements (within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended), which involve significant risks and uncertainties. The Company intends such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and is including this statement for purposes of invoking these safe harbor provisions. Forward-looking statements, which are based on certain assumptions and describe future plans, strategies and expectations of the Company, are generally identifiable by the use of the words believe, expect, intend, anticipate, estimate, project, plan, or similar expressions. The Company s predict results or the actual effect of future plans or strategies is inherently uncertain and actual results may differ from those predicted. The Company undertakes no obligation to update these forward-looking statements in the future. The Company cautions readers of this report that a number of important factors could cause the Company s actual results subsequent to March 31, 2006 to differ materially from those expressed in forward-looking statements. Factors that could cause actual results to differ from those predicted and could affect the future prospects of the Company include, but are not limited to, fluctuations in market rates of interest and loan and deposit pricing, changes in the securities or financial market, a deterioration of general economic conditions either nationally or in our market areas, delays in obtaining the necessary regulatory approvals, our ability to consummate proposed transactions in a timely manner, legislative or regulatory changes that adversely affect our business, adverse developments or changes in the composition of our loan or investment portfolios, significant increases in competition, changes in real estate values, difficulties in identifying attractive acquisition opportunities or strategic partners to complement our Company s approach and the products and services the Company offers, the possible dilutive effect of potential acquisitions or expansion, and our ability to raise new capital as needed and the timing, amount and type of such capital raises. These risks and uncertainties should be considered in evaluating forward-looking statements.

GENERAL

During the period from March 2000 until April 2004, as part of our investment activities, the Bank purchased loan participations from Commercial Loan Corporation of Oak Brook, Illinois (CLC). In April 2004, the Bank was informed by its regulators, the FDIC and Illinois Office of Banks and Real Estate (OBRE), that CLC had misappropriated funds from loans it was servicing for others. At that time, the Bank had 39 outstanding loan participations with CLC in the aggregate amount of approximately $15 million. In May 2004, CLC filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code. In December 2004, CLC s remaining assets were transferred to the CLC Creditors Trust.

Table of Contents

In December 2004, the Bank received a payment of $5.6 million in cash and loans from the CLC Creditors Trust. This payment included $784,000 in residential condominium loans, $2.5 million in commercial real estate loans, $518,000 in commercial lines of credit, $153,000 in residential real estate loans and $1.6 million in cash. Although the Bank has retained certain unsecured claims against the CLC Creditors Trust, the Bank has written off the remaining $9.5 million of the Bank s investment in the CLC loan participations. The Bank s financial results reflect these losses in the years in which they occurred. In October 2005 and March 2006, the Company received net settlements of $190,000 and $1.3 million, respectively, from the CLC Creditors Trust on previously charged-off loan participations with CLC. Any future recoveries of amounts previously charged off will be recorded as a recovery to the allowance for loan loss.

COMPARISON OF FINANCIAL CONDITION AT MARCH 31, 2006 AND DECEMBER 31, 2005

The Company s total assets decreased $1.4 million, or .7%, to $184.5 million at March 31, 2006, from $185.9 million at December 31, 2005. The decrease reflected a decrease in securities available for sale of $2.2 million and a decrease in loans of $1.6 million, offset by an increase in cash and cash equivalents of $2.9 million.

Cash and cash equivalents increased $2.9 million to $7.9 million at March 31, 2006 from $5.0 million at December 31, 2005, and these funds were reinvested in loans subsequent to March 31, 2006 in accordance with the Company s policy of maximizing its return on assets.

Securities available for sale decreased $2.2 million, or 5.9%, to $35.7 million at March 31, 2006 from $37.9 million at December 31, 2005. The decrease was the result of maturities and repayments.

Loans decreased $1.6 million, or 1.3%, to $123.3 million at March 31, 2006, from $124.9 million at December 31, 2005. The decrease in loans was the result of lesser than normal origination and purchase activity in our loan portfolio, along with normal seasonal fluctuations.

Total deposits decreased $2.1 million, or 1.3%, to $162.8 million at March 31, 2006, from $164.9 million at December 31, 2005. The decrease reflects normal activity in our deposit accounts, offset by what management feels is a temporary loss of deposits due to local competition in a rising rate environment.

Equity increased $682,000, or 3.6%, to $19.9 million at March 31, 2006, from $19.2 million at December 31, 2005. This increase in equity reflects net income for the three months ended March 31, 2006 of $999,000 offset by a decrease in other comprehensive income of $267,000 for the same period, which was due to the change in value of the available for sale securities portfolio triggered by an increase in interest rates.

COMPARISON OF RESULTS OF OPERATION FOR THE THREE MONTHS ENDED MARCH 31, 2006 AND 2005

Net Income. The Company had net income of $999,000 for the three months ended March 31, 2006, compared to net income of $179,000 for the three months ended March 31, 2005. The increase in net income was primarily the result of a $1.3 million recovery of CLC loan losses, offset by an increase of $464,000 in income tax expense.

Interest and Dividend Income. Interest and dividend income increased $252,000, or 11.6%, to $2.4 million for the three months ended March 31, 2006. This increase in interest and dividend income was primarily due to an increase in the average yield on interest earning assets to 5.72% from 5.55%, and an increase of $12.8 million in average interest earning assets to $169.4 million from $156.6 million for the three months ended March 31, 2006 compared to the same period in 2005.

Interest Expense. Interest expense increased $239,000, or 22.2%, to $1.3 million for the three months ended March 31, 2006, from $1.1 million for the three months ended March 31, 2005. This increase in interest expense reflects an increase of $3.7 million in average deposits, and an increase in the cost of deposits to 3.29% from 2.76% for the three months ended March 31, 2006 compared to the same period in 2005.

Net Interest Income. Net interest income increased $13,000, or 1.2%, to $1.1 million for the three months ended March 31, 2006, from $1.1 million for the three months ended March 31, 2005.

Provision for Loan Losses. Management recorded a negative loss provision of $1.3 million for the three months ended March 31, 2006, compared to a loss provision of $22,500 for the three months ended March 31, 2005.

Table of Contents

Based on a general review of the loans that were in the loan portfolio at March 31, 2006 and 2005, management believes that the allowance is maintained at a level that represents its best estimate of inherent losses in the loan portfolio that were both probable and reasonably estimable.

Other Income. Other income increased $8,000, or 27.9%, to $37,000 for the three months ended March 31, 2006, from $29,000 for the three months ended March 31, 2005. The increase was primarily the result of an increase in customer service fees.

Other Expenses. Other expenses increased $66,000, or 8.2%, to $877,000 for the three months ended March 31, 2006 from $811,000 for the three months ended March 31, 2005. The increases were primarily due to increases in compensation and benefits of $64,000, occupancy expense of $42,000 and other expenses of $43,000, partially offset by a decrease in professional and legal fees of $94,000. For the three month period ended March 31, 2006, salaries and employee benefits increased $64,000 to $433,000 from $369,000 for the three month period ended March 31, 2005. The increases in salaries and employee benefits was the result of the Company accruing for its employee incentive plan, increased employee insurance costs and increases in the cost of the Defined Benefit Retirement Plan. The increase in occupancy expense is the result of increased real estate taxes, and depreciation. The decrease in the legal and professional expense is primarily the result of decreased expenses for audit, accounting and compliance attributable to the stock conversion. The increase in other expenses was primarily due to a $20,000 increase in supervisory fees.

Income Taxes Income tax expense was $575,000 for the three months ended March 31, 2006, compared to an income tax expense of $111,000 for the same period in 2005. The income tax expense is a direct result of the pre tax income for the applicable period. The effective tax rates for the three months ended March 31, 2006 and 2005 were 36.5% and 38.2%, respectively.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity. Liquidity management for the Bank is measured and monitored on both a short- and long-term basis, allowing management to better understand and react to emerging balance sheet trends. After assessing actual and projected cash flow needs, management seeks to obtain funding at the most economical cost to the Bank. Our primary sources of funds are deposits, amortization, prepayments and maturities of outstanding loans and mortgage-backed and related securities, and other short term investments, and funds provided from operations. While scheduled payments from amortization of loans and mortgage-backed related securities and maturing investment securities and short term investments are relatively predictable sources of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions and competition. We invest excess funds in short-term interest-earning assets, which enable us to meet lending requirements. We utilize Federal Home Loan Bank advances as needed. There were no Federal Home Loan Bank advances at March 31, 2006 or at December 31, 2005.

At March 31, 2006 the Bank had outstanding commitments to originate $5.3 million in loans, unfunded lines of credit of $7.6 million, unfunded commitments on construction loans of $4.5 million, and unfunded standby letters of credit of $3.1 million. In addition, as of March 31, 2006, the total amount of certificates of deposit that were scheduled to mature in the following 12 months was $72.2 million. The Bank believes that it has adequate resources to fund all of its commitments and that it can adjust the rate on certificates of deposit to retain deposits in changing interest rate environments. If the Bank requires funds beyond its internal funding capabilities, advances from the Federal Home Loan Bank of Chicago are available as an additional source of funds. As of March 31, 2006 the Bank had $55.6 million of available credit from the Federal Home Loan Bank of Chicago.

From December 31, 2005 through March 31, 2006, we received proceeds of $1.9 million from maturities, calls and paydowns of available for sale and held to maturity securities. These proceeds were primarily used to fund the decrease in deposits.

Capital. The Bank is required to maintain regulatory capital sufficient to meet Tier 1 leverage, Tier 1 risk-based and total risk-based capital ratios of at least 4.0%, 4.0% and 8.0%, respectively. The Bank exceeded each of its capital requirements with ratios at March 31, 2006 of 10.09%, 19.87% and 20.27%, respectively, and with ratios at December 31, 2005 of 9.23%, 17.59%, and 18.00%, respectively.

Table of Contents

ITEM 3. CONTROLS AND PROCEDURES

Controls and Procedures

As of the end of the period covered by this report, the Company carried out an evaluation under the supervision and with the participation of the Company s principal executive officer and principal financial officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedures. Based on this evaluation, the Company s principal executive officer and principal financial officer concluded that the Company s disclosure controls and procedures are effective in timely alerting them to material information to be included in the Company s periodic SEC reports. It should be noted that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

In addition, there have been no changes in the Company s internal control over financial reporting 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.

Part II Other Information

ITEM 1 - LEGAL PROCEEDING

The Company is not involved in any pending legal proceedings other than routine legal proceedings occurring in the ordinary course of business that, in the aggregate, are believed by management to be immaterial to the financial condition and results of operations of the Company.

ITEM 2 - UNREGISTERED SALES OF SECURITIES AND USE OF PROCEEDS

Not applicable

ITEM 3 - DEFAULTS UPON SENIOR SECURITIES

Not applicable

ITEM 4 - SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable

ITEM 5 - OTHER INFORMATION

Not applicable

Table of Contents

ITEM 6 - EXHIBITS

Exhibit No.	Description
3.1	Certificate of Incorporation of Ottawa Savings Bancorp, Inc. (incorporated by reference to Exhibit 3.1 to company s Registration Statement on Form SB-2, No. 333-123455, filed on March 18, 2005, as amended)
3.2	Bylaws of Ottawa Savings Bancorp, Inc. (incorporated by reference to Exhibit 3.2 to company s Registration Statement on Form SB-2, No. 333-123455, filed on March 18, 2005, as amended)
10.1	Ottawa Savings Bank Employee Stock Ownership Plan and Trust Agreement, (incorporated by reference to Exhibit 10.1 to Company s Registration Statement on Form SB-2, No. 333-123455, filed on March 18, 2005, as amended)
10.2	ESOP Loan Documents, (incorporated by reference to Exhibit 10.2 to Company s Registration Statement on Form SB-2, No. 333-123455, filed on March 18, 2005, as amended)
10.3	Form of Ottawa Savings Bancorp, Inc. and Ottawa Saving Bank Employment Agreement, (incorporated by reference to Exhibit 10.3 to Company s Registration Statement on Form SB-2, No. 333-123455, filed on March 18, 2005, as amended)
10.4	Form of Ottawa Savings Bancorp, Inc. and Ottawa Saving Bank Employment Agreement, (incorporated by reference to Exhibit 10.4 to Company s Registration Statement on Form SB-2, No. 333-123455, filed on March 18, 2005, as amended)
10.5	Form of Ottawa Savings Bancorp, Inc. and Ottawa Saving Bank Employment Agreement, (incorporated by reference to Exhibit 10.5 to Company s Registration Statement on Form SB-2, No. 333-123455, filed on March 18, 2005, as amended)
10.6	Ottawa Savings Bancorp, Inc. Director Emeritus Plan, (incorporated by reference to Exhibit 10.6 to Company s Registration Statement on Form SB-2, No. 333-123455, file on March 18, 2005, as amended)
10.7	Ottawa Savings Bank Employees Savings and Profit Sharing Plan and Trust, (incorporated by reference to Exhibit 10.7 to Company s Registration Statement on Form SB-2, No. 333-123455, filed on March 18, 2005, as amended).
10.8	Ottawa Savings Bank Change in Control Severance Compensation Plan, (incorporated by reference to Exhibit 10.8 to Company s Registration Statement on Form SB-2, No. 333-123455, filed on March 18, 2005, as amended)
10.9	Ottawa Savings Bank, Inc. Voluntary Deferred Compensation Plan (incorporated by reference to Exhibit 10.9 to Company s Registration Statement on Form SB-2, No. 333-123455, filed on May 16, 2005)
10.10	Amendment to Ottawa Savings Bank, Inc. Voluntary Deferred Compensation Plan for Directors, (incorporated by reference to Exhibit 10.10 to Company s Registration Statement on Form SB-2, No. 333-123455, filed on May 16, 2005, as amended)
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Table of Contents

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on it behalf by the undersigned, thereunto duly authorized.

OTTAWA SAVINGS BANCORP, INC.
Registrant

Date: May 12, 2006

/s/ Gary L. Ocepek
Gary L. Ocepek
President and Chief Executive Officer
(Principal Executive Officer)

Date: May 12, 2006

/s/ Jon L. Kranov
Jon L. Kranov
Senior Vice President and Chief Financial Officer
(Principal Accounting and Financial Officer)