MSB FINANCIAL CORP.
Form 10-Q
May 15, 2007

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2007

OR

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

For the transition period from ____________________ to ________________

Commission File Number: 001-33246

MSB FINANCIAL CORP.
(Exact name of registrant as specified in its charter)

UNITED STATES	34-1981437
(State or other jurisdiction of Incorporation or organization)	(I.R.S. Employer Identification Number)
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

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 [X]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act (Check one): Large accelerated filer [ ] Accelerated filer [ ] Non-accelerated filer [X]

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

The number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date, May 15, 2007:

$0.10 par value common stock - 5,620,625 shares outstanding

MSB FINANCIAL CORP. AND SUBSIDIARIES

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MSB FINANCIAL CORP AND SUBSIDARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Unaudited)

	March 31, 2007	June 30, 2006
	(In Thousands	

Except share and per share amounts)

Assets		
Cash and due from banks	$ 1,732	$ 1,779
Interest-bearing demand deposits with banks	3,106	4,102
Total Cash and Cash Equivalents	4,838	5,881
Trading securities	117	109
Securities held to maturity (fair value $26,963 and $26,821, respectively)	27,420	27,707
Loans Receivable, net of allowance for loan losses of $920 and $921, respectively	233,348	218,321
Investment in real estate	-	97
Premises and equipment, net	8,953	8,899
Federal Home Loan Bank of New York stock, at cost	1,692	2,821
Bank owned life insurance	3,891	4,004
Accrued interest receivable	1,401	1,350
Deferred income taxes	711	752
Other assets	323	243
Total Assets	$ 282,694	$ 270,184
Liabilities and Shareholders' Equity		
Liabilities		
Deposits	$ 208,476	$ 194,755
Advances from Federal Home Loan Bank of NY	29,090	54,181
Advance payments by borrowers for taxes and insurance	512	529
Accrued interest payable and other liabilities	1,423	1,228
Total liabilities	239,501	250,693
Commitments and Contingencies	-	-
Shareholders' Equity		
Common Stock, par value $0.10; 10,000,000 shares authorized; 5,620,625 shares issued and outstanding	561	1
Paid-In Capital	24,148	199
Unearned ESOP Shares	(1,981)	-
Retained Earnings	20,465	19,291
Total Shareholders' Equity	43,193	19,491
Total Liabilities and Shareholders' Equity	$ 282,694	$ 270,184

See notes to consolidated financial statements.

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MSB FINANCIAL CORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Nine Months Ended		Three Months	
	March 31, 2007	March 31, 2006	March 31, 2007	Ma
	(In thousands, except share and per share			
Interest Income:				
Loans receivable, including fees	$ 10,787	$ 9,363	$ 3,668	$
Securities held to maturity	895	882	308	
Other	335	119	126	
Total Interest Income	12,017	10,364	4,102	
Interest Expense				
Deposits	4,861	3,638	1,741	
Borrowings	1,725	1,085	340	
Total Interest Expense	6,586	4,723	2,081	
Net Interest Income	5,431	5,641	2,021	
Provision for Loan Losses	0	45	0	
Net Interest Income after Provision for Loan Losses	5,431	5,596	2,021	
Non-Interest Income				
Fees and service charges	247	252	79	
Income from bank owned life insurance	112	98	42	
Unrealized gain on trading securities	8	13	2	
Income from investment in real estate	1,007	32	975	
Other	62	58	22	
Total Non-Interest Income	1,436	453	1,120	
Non-Interest Expenses				
Salaries and employee benefits	2,400	2,070	854	
Directors Compensation	224	220	80	
Occupancy and equipment	920	710	321	
Service bureau fees	415	377	139	
Advertising	215	166	57	
Other	782	681	269	

Total Non-Interest Expense	4,956	4,224	1,720	
Income before Income Taxes	1,911	1,825	1,421	
Income Taxes	737	695	562	
Net Income	$ 1,174	$ 1,130	$ 859	$
Net Income per common share:				
basic	$ 0.31	$ 0.37	$ 0.16	$
diluted	$ 0.31	$ 0.37	$ 0.16	$
Weighted average number of common shares outstanding:				
basic	3,813,666	3,091,344	5,290,413	3
diluted	3,813,666	3,091,344	5,290,413	3

See notes to consolidated financial statements.

MSB FINANCIAL CORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited)

(In Thousands)	Common Stock	Paid-in Capital	Unearned ESOP Shares	Retained Earnings	T Shar
Balance - June 30, 2006	$1	$199	$0	$19,291	$
Net income for the nine months ended March 31, 2007				1,174	
Issuance of common stock, net of expenses	560	23,942			
ESOP shares earned		7	42		
Common stock acquired by ESOP			(2,023)		
Balance - March 31, 2007	$561	$24,148	($1,981)	$20,465	$

See notes to consolidated financial statements.

MSB Financial Corp and Subsidiaries
Consolidated Statements of Cash Flows
(Unaudited)

	Nine Months Ende
	2007
	(In Thous
Cash Flows from operating activities:	
Net Income	$ 1,174
Adjustments to reconcile net income to net cash provided by operating activities:	
Net amortization of loan fees and loan costs	(81)
Depreciation	393
ESOP Compensation	49
Provision for Loan Losses	-
Earnings on bank owned life insurance	(112)
Unrealized (gain) on trading securities	(8)
Realized (gain) on sale of investment in real estate	(975)
Deferred Income taxes	41
(Increase) in interest receivable	(51)
(Increase) decrease in other assets	(80)
Increase (decrease) in accrued interest payable	22
Increase in other liabilities	173
Net Cash Provided by Operating Activities	545
Cash Flows from Investing Activities:	
Activity in held to maturity securities:	
Purchase of securities	(2,000)
Proceeds from maturities, calls and principal repayments	2,287
Net increase in Loans receivable	(14,946)
Purchase of bank premises and equipment	(437)
Proceeds from sale of investment in real estate	1,062
Redemption of bank owned life insurance	225
Federal Home Loan Bank of New York stock:	
Purchases	(3,313)
Redemptions	4,442
Net Cash Used in Investing Activities	(12,680)
Cash Flows from Financing Activities:	
Increase in deposits	13,721
(Decrease) increase in short-term borrowings	(24,500)
Repayments of long-term debt	(591)
Net proceeds from issuance of stock	24,502
Stock acquired for ESOP plan	(2,023)
(Decrease) increase in advance payments by borrowers for taxes and insurance	(17)
Net Cash Provided by Financing Activities	11,092

Net (Decrease) in Cash and Cash Equivalents	(1,043)
Cash and Cash Equivalents - Beginning	5,881
Cash and Cash Equivalents - Ending	4,838
Supplementary Cash Flows Information	
Interest paid	$ 6,564
Income taxes paid	$ 764

See notes to consolidated financial statements.

MSB FINANCIAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Note 1 - Organization and Business

MSB Financial Corp. (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. 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. MSB Financial, MHC has not engaged in any significant business since its formation. So long as MSB Financial, 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. The Bank is regulated by the New Jersey Department of Banking and Insurance and the Federal Deposit Insurance Corporation. The Office of Thrift Supervision regulates MSB Financial, MHC and the Company as savings and loan holding companies.

A Registration Statement on Form S-1 (File No. 333-137294), as amended, was filed by the Company with the Securities and Exchange Commission pursuant to the Securities Act of 1933, as amended, relating to the offer for sale of up to 2,199,375 shares (subject to increase to 2,529,281 shares) of its common stock at $10.00 per share. The offering closed on January 4, 2007 and 2,529,281 shares were sold for gross proceeds of $25,292,810, including 202,342 shares sold to the Bank's newly established Employee Stock Ownership Plan ("ESOP"). Net proceeds of the offering totaled approximately $24.5 million. Concurrent with closing of the offering, the MHC received 3,091,344 shares of company stock in exchange for the 10,000 shares previously owned. The MHC is the majority stockholder of the Company owning 55% of the outstanding common stock.

Note 2 - Basis of Consolidated Financial Statement Presentation

The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiary, the Bank, and the Bank's wholly-owned subsidiary, Millington Savings Service Corp. All significant inter-company accounts and transactions have been eliminated in consolidation. These statements were prepared in accordance with instructions for Form 10-Q and, therefore, do not include information or footnotes necessary for a complete presentation of financial condition, results of operations, and cash flows in conformity with generally accepted accounting principles in the United States of America.

In the opinion of management, all adjustments, consisting of only normal recurring adjustments or accruals, which are necessary for a fair presentation of the consolidated financial statements have been made at and for the three and nine month periods ended March 31, 2007 and 2006. The results of operations for the three and nine month periods ended March 31, 2007

and 2006 are not necessarily indicative of the results which may be expected for an entire fiscal year or other interim periods.

The data in the consolidated statements of financial condition for June 30, 2006 were derived from the Company's Registration Statement on Form S-1 (File No. 333-137294). That data, along with the interim financial information presented in the consolidated statements of financial condition, income and cash flows, should be read in conjunction with the 2006 consolidated financial statements as presented in the Form S-1.

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. 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 date 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 represents management's best estimate of losses known and inherent in the portfolio that are both probable and reasonable to estimate. While management uses the most current information available to estimate losses on loans, actual losses are dependent on future events and, as such, increases in the allowance for loan losses may be necessary.

In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses. Such agencies may require the Bank to recognize additions to the allowance based on their judgments about information available to them at the time of their examinations.

Note 3 - Earnings Per Share

The 10,000 shares issued to MSB Financial, MHC in connection with the formation of the mutual holding company structure in 2004 were "replaced" with 3,091,344 shares, or 55% of the shares issued in the Company's initial public offering, upon completion of the offering on January 4, 2007. This transaction is analogous to a stock split or significant stock dividend, therefore, net income per common share for those shares has been retroactively restated for all periods presented. Earnings per share reflect the issuance of the 2,529,281 shares sold in the stock offering in addition to the shares held by MSB Financial, MHC. Basic and diluted earnings per share are equivalent as there were no contracts or securities exercisable or which could be converted into common stock.

Note 4 - Stock Based Compensation

The Company had no stock-based compensation as of, or prior to, March 31, 2007.

Note 5 - Recent Accounting Pronouncements

On December 16, 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 123R, "Share-Based Payment," which replaces SFAS No. 123, "Accounting for Stock-Based Compensation" and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees." This statement requires that all share-based payments to employees, including grants of employee stock options, be

recognized as compensation costs in the consolidated financial statements based on their fair values. The effective date of this statement was delayed until fiscal years beginning after June 15, 2005. The impact of the adoption of this standard will be dependent on the nature and extent of stock-based compensation granted in future periods.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections," which establishes, unless impracticable, retrospective application as the required method for reporting a change in accounting principle in the absence of explicit transition requirements specific to the newly adopted accounting principle. The statement provides guidance for determining whether retrospective application of a change in accounting principle is impracticable. The statement also addresses the reporting of a correction of error by restating previously issued financial statements. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. We have adopted this statement as required, and such adoption did not have a material effect on our results of operations or financial position.

In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments." SFAS No. 155 amends SFAS No. 133 and 140, and improves the financial reporting of certain hybrid financial instruments by requiring more consistent accounting that eliminates exemptions and provides a means to simplify the accounting for these instruments. Specifically, SFAS No. 155 allows financial instruments that have embedded derivatives to be accounted for as a whole (eliminating the need to bifurcate the derivative from its host) if the holder elects to account for the whole instrument on a fair value basis. SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. We are required to adopt the provisions of SFAS No. 155, as applicable, beginning on July 1, 2007. We do not believe the adoption of SFAS No. 155 will have any impact on our financial position or results of operations.

In March 2006, the FASB issued SFAS No. 156, "Accounting for Servicing of Financial Assets - An Amendment of FASB Statement No. 140." SFAS No. 156 requires that all separately recognized servicing assets and servicing liabilities be initially measured at fair value, if practicable, and permits, but does not require, the subsequent measurement of servicing assets and servicing liabilities at fair value. SFAS No. 156 is effective as of the beginning of an entity's first fiscal year that begins after September 15, 2006, which for us will be July 1, 2007. We do not believe that the adoption of SFAS No. 156 will have any effect on our financial position or results of operations.

In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109" (FIN 48), which clarifies the accounting for uncertainty in tax positions. This Interpretation requires that companies recognize in their financial statements the impact of a tax position only, if the company has determined based on the technical merits of the tax position, that the tax position would more likely than not be sustained upon an examination by the appropriate taxing authority. The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2006, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. We do not believe that the adoption of FIN 48 will have a material effect on our financial position or results of operations.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157

applies to other accounting pronouncements that require or permit fair value measurements. The new guidance is effective for financial statements issued for fiscal years beginning after November 15, 2007, and for interim periods within those fiscal years. We are currently evaluating the potential impact, if any, of the adoption of SFAS No. 157 on our consolidated financial position, results of operations and cash flows.

In September 2006, the FASB issued SFAS No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans ("SFAS 158"), which amends SFAS 87 and SFAS 106 to require recognition of the overfunded or underfunded status of pension and other postretirement benefit plans on the balance sheet. Under SFAS 158, gains and losses, prior service costs and credits, and any remaining transition amounts under SFAS 87 and SFAS 106 that have not yet been recognized through net periodic benefit cost will be recognized in accumulated other comprehensive income, net of tax effects, until they are amortized as a component of net periodic cost. The measurement date -- the date at which the benefit obligation and plan assets are measured -- is required to be the company's fiscal year end. SFAS 158 is effective for publicly-held companies for fiscal years ending after December 15, 2006, except for the measurement date provisions, which are effective for fiscal years ending after December 15, 2008. We are currently analyzing the effects of SFAS 158 but expect that its implementation will not have a material impact on our consolidated financial condition or results of operations.

On September 7, 2006, the Task Force reached a conclusion on EITF Issue No. 06-5, "Accounting for Purchases of Life Insurance - Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4, Accounting for Purchases of Life Insurance" ("EITF 06-5"). The scope of EITF 06-5 consists of six separate issues relating to accounting for life insurance policies purchased by entities protecting against the loss of "key persons." The six issues are clarifications of previously issued guidance on FASB Technical Bulletin No. 85-4. EITF 06-5 is effective for fiscal years beginning after December 15, 2006. The Company does not expect it to have a material impact on the Company's consolidated financial statements.

On September 13, 2006, the Securities and Exchange Commission issued

Staff Accounting Bulleting No. 108 ("SAB 108"). SAB 108 provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a potential current year misstatement. Prior to SAB 108, Companies might evaluate the materiality of financial-statement misstatements using either the income statement or balance sheet approach, with the income statement approach focusing on new misstatements added in the current year, and the balance sheet approach focusing on the cumulative amount of misstatement present in a company's balance sheet. Misstatements that would be material under one approach could be viewed as immaterial under another approach, and not be corrected. SAB 108 now requires that companies view financial statement misstatements as material if they are material according to either the income statement or balance sheet approach. We have analyzed SAB 108 and determined that it will not impact our reported results of operations or financial condition.

In September 2006, the FASB issued FASB Staff Position AUG AIR-1, "Accounting for Planned Major Maintenance Activities" which is effective for fiscal years beginning after December 15, 2006. This position statement eliminates the accrue-in-advance method of accounting for planned major maintenance activities. We do not expect this pronouncement to have a significant impact on the determination or reporting of our financial results.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities-Including an amendment of FASB Statement No. 115." SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be recognized in earnings at each subsequent reporting date. SFAS No. 159 is effective for financial statements issued for the fiscal years beginning after November 15, 2007, and for interim periods within those fiscal years. We are evaluating the impact that the adoption of SFAS No. 159 will have on our consolidated financial statements.

Note 6 - Retirement Plans

Periodic expenses for the Company's retirement plans, which include the Directors' Retirement Plan and the Executive Incentive Retirement Plan, were as follows:

	Nine Months Ended March 31,		Three Months Ended March 31,	
	2007	2006	2007	2006
	(In Thousands)			
Service Cost	$ 77	$ 88	$ 26	$ 29
Interest Cost	39	32	13	11
Amortization of Past Service Cost	10	35	3	11
	$126	$155	$ 42	$ 51

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Form 10-Q contains forward-looking statements, which can be identified by the use of words such as "believes," "expects," "anticipates," "estimates" or similar expressions. Forward - looking statements include:

- Statements of our goals, intentions and expectations;
- Statements regarding our business plans, prospects, growth and operating strategies;
- Statements regarding the quality of our loan and investment portfolios; and
- Estimates of our risks and future costs and benefits.

These forward-looking statements are subject to significant risks and uncertainties. Actual results may differ materially from those contemplated by the forward-looking statements due to, among others, the following factors:

- General economic conditions, either nationally or in our market area, that are worse than expected;
- Changes in the interest rate environment that reduce our interest margins or reduce the fair value of financial instruments;
- Our ability to enter into new markets and/or expand product offerings successfully and take advantage of growth opportunities;
- Increased competitive pressures among financial services companies;
- Changes in consumer spending, borrowing and savings habits;
- Legislative or regulatory changes that adversely affect our business;
- Adverse changes in the securities markets;

- Our ability to successfully manage our growth; and
- Changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, the Financial Accounting Standards Board or the Public Company Accounting Oversight Board.

No forward-looking statement can be guaranteed and we specifically disclaim any obligation to update any forward-looking statement.

Critical Accounting Policies

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 represents our best estimate of losses known and inherent in our loan portfolio that are both probable and reasonable to estimate. In determining the amount of the allowance for loan losses, we consider the losses inherent in our loan portfolio and changes in the nature and volume of our loan activities, along with general economic and real estate market conditions. We utilize a two tier approach: (1) identification of impaired loans for which specific reserves are established; and (2) establishment of general valuation allowances on the remainder of the loan portfolio. We maintain a loan review system which provides for a systematic review of the loan portfolio and the early identification of potential impaired loans. Such system takes into consideration, among other things, delinquency status, size of loan, type of collateral and the financial condition of the borrower. Specific loan loss allowances are established for identified 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.

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 March 31, 2007 and June 30, 2006

General. Total assets were $282.7 million at March 31, 2007, compared to $270.2 million at June 30, 2006 due primarily to a $15.0 million increase in loans receivable. Investment

in real estate decreased by $97,000 due to the sale of the property adjacent to the home office, site of the former Bank home office, at a $1.0 million gain. Cash and cash equivalents were $4.8 million at March 31, 2007 compared to $5.9 million at June 30, 2006. Liquidity provided by the stock offering in January 2007 was responsible for a decrease in borrowed funds; FHLB advances were $29.1 million at March 31, 2007 from $54.2 million at fiscal year end.

Loans. Loans receivable, net, rose to $233.3 million at March 31, 2007 from $218.3 million at June 30, 2006, an increase of $15.0 million. The home equity loan portfolio grew by $6.9 million or 14.0% between June 30, 2006 and March 31, 2007. The one-to-four family real estate loan portfolio grew by $4.0 million or 3.3%, as did the commercial real estate portfolio by $3.3 million or 14.1%, and the commercial loan portfolio by $3.1 million or 55.9%. The construction loan portfolio decreased by $2.4 million.

Securities. Our portfolio of securities held to maturity decreased slightly to $27.4 million at March 31, 2007 as compared to $27.7 million at June 30, 2006 due to principal repayments. There was a $2.0 million purchase and a $2.0 million maturity during the nine month period ended March 31, 2007. FHLB of New York stock decreased by $1.1 million from $2.8 million at June 30, 2006 to $1.7 million at March 31, 2007, due to a reduction in borrowing with the Federal Home Loan Bank of New York.

Deposits. Total deposits at March 31, 2007 were $208.5 million, compared to $194.8 million at June 30, 2006, an increase of $13.7 million. Certificates of deposit increased by $11.9 million, as did savings deposits by $3.8 million, whereas non-interest bearing checking balances decreased by $1.2 million and interest bearing checking balances by $761,000.

Borrowings. Total borrowings at March 31, 2007 amounted to $29.1 million, compared to $54.2 million at June 30, 2006. The decrease resulted from the use of net proceeds of $24.5 million from the stock offering in January 2007 to repay Federal Home Loan Bank borrowings.

Equity. Shareholders' equity was $43.2 million at March 31, 2007 as compared to $19.5 million at June 30, 2006, reflecting $24.5 million of net proceeds from the stock offering completed in January 2007, and net income for the nine-month period of $1.2 million, less the shares of Company common stock purchased for the Bank's Employee Stock Ownership Plan ("ESOP") of $2.0 million.

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

General. Our net income for the three months ended March 31, 2007 was $859,000, compared to net income of $397,000 for the three months ended March 31, 2006. This was primarily the result of $975,000 of income from investment in real estate resulting primarily from the sale of the land and building which included the Bank's former home office. Our net interest income for the three months ended March 31, 2007 increased $93,000 from $1.9 million to $2.0 million. Non-interest expense increased $303,000 from $1.4 million for the three months ended March 31, 2006 to $1.7 million for the three months ended March 31, 2007, primarily as a result of a $156,000 increase in salaries and employee benefits and a $78,000 increase in occupancy and equipment. The increases in salaries and employee benefits and in occupancy and equipment was largely attributable to the opening of the Martinsville branch office. Salaries and employee benefits in the current period also included $49,000 of expense related to the ESOP which was implemented in January 2007.

Our net income for the nine months ended March 31, 2007 was $1.2 million, compared to net income of $1.1 million for the nine months ended March 31, 2006. Increased net income was primarily the result of a $983,000 increase in non-interest income for 2007 primarily as a result of the sale of real estate, which was the site of our former home office. This more than offset a $732,000 increase in total non-interest expense and a $210,000 decrease in net interest income. The increase in total non-interest expense was primarily the result of an increase in salaries and employee benefits of $330,000 and in occupancy and equipment of $210,000, largely the result of the opening of the Martinsville branch. Salaries and employee benefits in the current period also included $49,000 of expense related to the ESOP which was implemented in January 2007.

Net Interest Income. Net interest income for the three months ended March 31, 2007 amounted to $2.0 million compared to $1.9 million for the three months ended March 31, 2006. A $408,000 increase in total interest income for the three months ended March 31, 2007 was substantially offset by a $315,000 increase in total interest expense.

The increase in total interest income for the three months ended March 31, 2007 resulted from a 9.1% increase in the average balance of interest-earning assets and a 11 basis point increase in the average yield thereon. Our average yield on loans receivable for the three months ended March 31, 2007 was 6.35%, compared to 6.33% for the three months ended March 31, 2006. The increase in yield on loans, combined with a $18.6 million or 8.75% increase in the average balance of loans receivable for the three months ended March 31, 2007, was responsible for the increase in interest income. The increase of $86,000 in other interest income was the result of increased balances held at the Federal Home Loan Bank as a result of the funds received in conjunction with the initial public stock offering.

The $315,000 increase in interest expense for the three months ended

March 31, 2007 from the three months ended March 31, 2006 was attributable to an increase in the amount of deposits and to higher interest rates on deposits during the period. The average cost of deposits rose by 80 basis points, and the average balance of deposits increased by $8.4 million or 4.4% between periods. Total interest expense on borrowings decreased by $138,000 from $478,000 for the three months ended March 31, 2006 to $340,000 for the three months ended March 31, 2007 as a result of a reduction in Federal Home Loan Bank advances resulting from the use of proceeds from the sale of stock in January 2007.

Net interest income for the nine months ended March 31, 2007 amounted to $5.4 million, compared to $5.6 million for nine months ended March 31, 2006. The $210,000 decrease was due to an increase in interest expense from $4.7 million for the nine months ended March 31, 2006, to $6.6 million for the nine months ended March 31, 2007. This $1.9 million increase in total interest expense more than offset a $1.7 million increase in total interest income from $10.4 million for the nine months ended March 31, 2006 to $12.0 million for the nine months ended March 31, 2007.

The increase in interest income for the nine months ended March 31, 2007 resulted from a 11.7% increase in the average balance of interest-earning assets and a 22 basis point increase in the average yield thereon. Our average yield on loans receivable for the nine months ended March 31, 2007 was 6.37%, 21 basis points greater than for the nine months ended March 31, 2006. The increase in yield on loans combined with a $23.3 million increase in the average balance of loans receivable for the nine months ended March 31, 2007 is responsible for the $1.4 million, or 15.2% increase in interest income on loans over the nine months ended March 31, 2006. The increase of $216,000 in other interest income was the result of increased balances held

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at the Federal Home Loan Bank as a result of the funds received in conjunction with the initial public stock offering.

The $1.9 million increase in interest expense for the nine months ended March 31, 2007 is attributable to higher interest rates on deposits and borrowings during the period. The average cost of deposits rose by 75 basis points, while the average balance of deposits was higher, $189.1 million for the 2006 period and $195.3 million for the 2007 period. The average balance of Federal Home Loan Bank advances for the nine months ended March 31, 2007 was $45.2 million and the average cost thereof was 5.08%. This represents a $11.1 million or 32.4% increase over the average balance of $34.2 million for the nine months ended March 31, 2006 and a 85 basis point increase over the average cost of advances for the 2006 period. Management's challenge continues to be building deposits in order to reduce reliance on borrowings. FHLB advances were reduced to $29.1 million at March 31, 2007 as a result of the $24.5 million of capital received from the initial public stock offering.

Provision for Loan Losses. We did not make a loan loss provision during the three or nine months ended March 31, 2007. Provisions of $15,000 and $45,000 were made during the same periods in 2006. The allowance for loan losses totaled $920,000 and $921,000, respectively, at March 31, 2007 and June 30, 2006, representing 0.39% and 0.42%, respectively, of total loans. The ratio of non-performing loans to total loans was 0.66%, at March 31, 2007, as compared to 0.66% at December 31, 2006, and 0.32% at June 30, 2006. There were no charge-offs or recoveries of previously charged-off loans during the three month period ended March 31, 2007. During the nine months ended March 31, 2007, there was a charge-off and recovery of $1,000 and $1,000, respectively. The allowance for loan losses reflects our estimation of the losses inherent in our loan portfolio to the extent they are both probable and reasonable to estimate.

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. During the three months ended March 31, 2007, non-interest income consisted primarily of a one-time gain from investment in real estate of $975,000, resulting from the sale of a building next to the Bank's home office, which included a U.S. post office and the former location of the Bank's home office. Overall, non-interest income rose by $973,000 from $147,000 for the three months ended March 31, 2006 to $1.1 million for the three months ended March 31, 2007. Total non-interest income increased from $453,000 for the nine months ended March 31, 2006 to $1.4 million for the nine months ended March 31, 2007 due almost entirely to the $1.0 million income from investment in real estate, $975,000 of which consisted of the gain from the sale of the land and building where the former home office was located.

Non-Interest Expenses. Total non-interest expenses grew by $303,000 or 21.4% for the three months ended March 31, 2007 to $1.7 million compared to $1.4 million for the same period in 2006.

Salaries and employee benefits expense totaled $854,000 for the three months ended March 31, 2007, a $156,000 or 22.3% increase over $698,000 for the three months ended March 31, 2006. The ESOP, which was implemented in January 2007, added $49,000 to current period salaries and employee benefits expense. Occupancy and equipment also increased from $243,000 to $321,000 (32.1%) as a result of the opening of the new branch office. Salaries and employee benefits are our main non-interest expense and represented 49.7% and 49.3% of non-interest expenses for the three months ended March 31, 2007 and 2006, respectively.

Total non-interest expenses grew by $732,000, or 17.3% during the nine months ended March 31, 2007 to $5.0 million compared to $4.2 million for the same period in 2006.

Salaries and employee benefits expense totaled $2.4 million for the nine months ended March 31, 2007, a $330,000 or 15.9% increase over $2.1 million for the nine months ended March 31, 2006. The ESOP, which as implemented in January 2007, added $49,000 to current period salaries and employee benefits expense. Occupancy and equipment increased $210,000, or 29.6%, from $710,000 for the nine months ended March 31, 2006 to $920,000 for 2007, and advertising increased $49,000 or 29.5% from 2006 to 2007.

Non-interest expense for the 2007 periods, particularly salaries and employee benefits, occupancy, equipment and advertising expenses, was impacted by the operation of the Martinsville branch office, which opened in July 2006.

Income Taxes. Income tax expense for the three months ended March 31, 2007 was $562,000 or 39.5% of income before income taxes as compared to $246,000 or 38.3% of income before income taxes for the three months ended March 31, 2006.

Income tax expense for the nine months ended March 31, 2007 was $737,000 or 38.6% of income before income taxes as compared to $695,000 or 38.1% of income before income taxes for the nine months ended March 31, 2006.

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 March 31, 2007, the Bank had outstanding commitments to originate loans of $4.8 million, construction loans in process of $5.3 million, unused lines of credit of $24.2 million and standby letters of credit of $138,000. Certificates of deposit scheduled to mature in one year or less at March 31, 2007, totaled $95.4 million.

The Bank generates cash through borrowings from the Federal Home Loan Bank to meet its day-to-day funding obligations. The Bank's borrowings from the Federal Home Loan Bank decreased from $54.2 million at June 30, 2006 to $29.1 million at March 31, 2007 as a result of $24.5 million of net proceeds from the initial public stock offering completed in January 2007. At March 31, 2007, the Bank's total deposits to loans ratio was 89.3%. At March 31, 2007, the Bank's collateralized borrowing limit with the Federal Home Loan Bank was $91.6 million, of which $12.1 million was outstanding. As of March 31, 2007, 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 well-capitalized and profitable financial organization, the Bank actively seeks to maintain its status in accordance with regulatory standards. Primarily as a result of the $24.5 million of net proceeds from the initial public stock offering completed in January 2007, the total shareholders' equity of MSB Financial Corp. increased from $19.5 million at June 30, 2006 to $43.2 million at March 31, 2007 (15.3% of assets), allowing the Bank to greatly exceed all applicable minimum regulatory capital requirements.

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 related to capital expenditure plans and commitments to purchase investment securities or mortgage-backed securities, and commitments to extend credit to meet the financing needs of our customers. At March 31, 2007, our significant off-balance sheet commitments primarily consisted of commitments to originate loans of $4.8 million, construction loans in process of $5.3 million, unused lines of credit of $24.2 million and standby letters of credit of $138,000.

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.

ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our most significant form of market risk is interest rate risk because the majority of our assets and liabilities are monetary instruments. Our assets, consisting primarily of mortgage loans, have generally longer maturities than our liabilities, consisting primarily of short-term deposits. 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.

Future interest rates or their effect on net interest income are not predictable. 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 an interest rate increase, an increased credit risk may result as the ability of many borrowers to service their debt may decrease.

Management of the Company does not believe that there has been a material adverse change in market risk during the three months ended March 31, 2007.

ITEM 4 - 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 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended) as of March 31, 2007. 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 March 31, 2007.

No change in the Company's internal controls over financial reporting (as defined in Rule 13a-15(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.

PART II - OTHER INFORMATION

ITEM 1 - LEGAL PROCEEDINGS

There were no material pending legal proceedings at March 31, 2007 to which the Company or its subsidiaries is a party other that ordinary routine litigation incidental to their respective businesses.

ITEM 1A - RISK FACTORS

This item is not yet applicable to the Company because the Company has not yet filed an annual report on Form 10-K.

ITEM 2 - UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None

ITEM 3 - DEFAULTS UPON SENIOR SECURITIES

None

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

None

ITEM 5 - OTHER INFORMATION

None

ITEM 6 - EXHIBITS

31 Certifications of the Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a-14(a)

32 Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MSB FINANCIAL CORP.

(Registrant)

Date: May 15, 2007 /s/Gary T. Jolliffe

Gary T. Jolliffe
President and Chief Executive Officer

Date: May 15, 2007 /s/Jeffrey E. Smith

Jeffrey E. Smith
Vice President and Chief Financial Officer