Cullman Bancorp, Inc.
Form 10-Q
May 07, 2010
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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, 2010

Or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITEIS 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)

Federal	**63-0052835**
(State of Other Jurisdiction of Incorporation)	**(I.R.S Employer Identification Number)**
316 Second Avenue S.W., Cullman, Alabama	**35055**
(Address of Principal Executive Officer)	**(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 x 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 file	¨	Smaller reporting company	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

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

2,512,750 of Common Stock, par value $.01 per share, were issued and outstanding as of May 7, 2010

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CULLMAN BANCORP, INC.

Form 10-Q Quarterly Report

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Part I

ITEM 1. FINANCIAL STATEMENTS

CULLMAN BANCORP, INC.

Consolidated Balance Sheets

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

	March 31, 2010 (Unaudited)	December 31, 2009
ASSETS		
Cash and cash equivalents	$ 2,137	$ 2,174
Federal funds sold	7,723	3,058
Cash and cash equivalents	9,860	5,232
Securities available for sale	19,500	18,080
Loans, net of allowance of $802 and $747	173,895	172,747
Loans held for sale	192	445
Premises and equipment, net	10,243	10,324
Foreclosed real estate	733	931
Accrued interest receivable	1,087	1,027
Restricted equity securities	2,711	2,711
Bank owned life insurance	2,268	2,242
Other assets	847	840
Total assets	$ 221,336	$ 214,579
LIABILITIES AND SHAREHOLDERS EQUITY		
Deposits		
Non-interest bearing	$ 2,234	$ 1,726
Interest bearing	128,996	123,393
Total deposits	131,230	125,119
Federal Home Loan Bank advances	51,011	51,107
Long-term debt	833	833
Accrued interest payable and other liabilities	1,205	1,006
Total liabilities	184,279	178,065
Shareholders equity		
Common stock, $0.01 par value; 20,000,000 shares authorized; 2,512,750 shares outstanding at March 31, 2010 and December 31, 2009	25	25
Additional paid-in capital	10,330	10,330
Retained earnings	27,600	27,082
Accumulated other comprehensive income	89	64
Unearned ESOP shares, at cost	(936)	(936)
Amount reclassified on ESOP shares	(51)	(51)

Total shareholders equity	37,057	36,514
Total liabilities and shareholders equity	$ 221,336	$ 214,579

See accompanying notes to the consolidated financial statements

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CULLMAN BANCORP, INC.

CONSOLIDATED STATEMENT OF OPERATIONS

(Unaudited)

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

	Three Months Ended March 31,	
	2010	2009
Interest and dividend income:		
Loans, including fees	$ 2,759	$ 2,730
Securities, taxable	227	281
Federal funds sold and other	4	2
Total interest income	2,990	3,013
Interest expense:		
Deposits	540	910
Federal Home Loan Bank advances and other borrowings	511	541
Total interest expense	1,051	1,451
Net interest income	1,939	1,562
Provision for loan losses	57	125
Net interest income after provision for loan losses	1,882	1,437
Noninterest income:		
Service charges on deposit accounts	110	116
Income on bank owned life insurance	26	25
Gain on sales of mortgage loans	64	76
Net gain (loss) on sales of securities	11	(2)
Impairment loss on securities		(725)
Other	12	19
Total noninterest income	223	(491)
Noninterest expense:		
Salaries and employee benefits	679	635
Occupancy and equipment	165	180
Data processing	127	128
Professional and supervisory fees	95	45
Office expense	23	30
Advertising	13	20
FDIC deposit insurance	37	37
Other	148	73
Total noninterest expense	1,287	1,148
Income (loss) before income taxes	818	(202)
Income tax expense	300	140

Net income (loss)	$ 518	$ (342)
Earnings per share:		
Basic and diluted (Note 3)	$ 0.21	N/A

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
Comprehensive income:							
Net income			518				518
Unrealized holding gains net of tax, $19				32			32
Reclassification adjustment for gains realized in income, net of tax $4				(7)			(7)
Total comprehensive income							543
Balance at March 31, 2010	$ 25	$ 10,330	$ 27,600	$ 89	$ (936)	$ (51)	$ 37,057
Balance at January 1, 2009	$		26,501	(56)			26,445
Comprehensive income:							
Net loss			(342)				(342)
Unrealized holding gains net of tax, $83				(255)			(255)
Reclassification adjustment for gains realized in net income, net of tax benefit $1				115			115
Total comprehensive income							(482)
Balance at March 31, 2009	$	$	$ 26,159	$ (196)	$	$	$ 25,963

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, 2010	Three Months Ended March 31, 2009
Cash Flows From Operating Activities		
Net income (loss)	$ 518	$ (342)
Adjustments to reconcile net income (loss) net cash from operating activities:		
Provision for loan losses	57	125
Depreciation and amortization, net	59	40
Deferred income tax benefit (expense)	21	(19)
Net (gain) loss on sale of securities	(11)	2
Loss from other-than-temporary impairment on securities		725
Loss on sale of other real estate	74	2
Income on bank owned life insurance	(26)	(25)
Gain on sale of mortgage loans	(64)	(76)
Mortgage loans originated for sale	(3,100)	(3,998)
Mortgage loans sold	3,417	3,893
Net change in operating assets and liabilities		
Accrued interest receivable	(60)	97
Accrued interest payable	(21)	(43)
Other	178	(94)
Net cash from operating activities	1,042	287
Cash Flows From Investing Activities		
Purchases of securities	(6,497)	(1,000)
Proceeds from maturities, paydowns and calls of securities	4,878	2,973
Proceeds from sale of securities	250	250
Proceeds from sales of foreclosed real estate	124	
Proceeds from redemption of bank owned life insurance		114
Loan originations and payments, net	(1,184)	(1,513)
Net cash from (used in) investing activities	(2,429)	824
Cash Flows from Financing Activities		
Net change in deposits	6,111	646
Repayment of Federal Home Loan Bank advances	(96)	(3,203)
Net cash from (used in) financing activities	6,015	(2,557)
Change in cash and cash equivalents	4,628	(1,446)
Cash and cash equivalents, beginning of period	5,232	8,926
Cash and cash equivalents, end of period	$ 9,860	$ 7,480

Cash paid during the period for:		
Interest paid	$ 1,072	$ 1,494
Income taxes paid	$ 19	$
Supplemental noncash disclosures:		
Transfers from loans to foreclosed assets	$	$ 171

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) 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 (55%) 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 following the reorganization and stock offering 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 stock 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.

Since the entities are under common control, the reorganization was accounted for at historical cost and presented as if the transaction occurred at the beginning of the latest period shown. A total of 1,080,483 shares were sold in the conversion at $10 per share, raising $10.8 million of gross proceeds. Approximately $900 of conversion expenses were offset against the gross proceeds. Cullman Bancorp, Inc. s common stock began trading on the over-the-counter market under the symbol CULL on October 9, 2009. In addition, the Bank contributed $100 in cash and 50,255 shares of common stock to a charitable foundation that the Bank established in connection with the reorganization. The contribution of cash and shares of common stock totaled $603. The shares sold to the public and contributed to the charitable foundation represent 45% of Cullman Bancorp s outstanding shares. Cullman Savings Bank, MHC owns 55% or 1,382,013 shares.

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, 2010 and December 31, 2009 and the results of operations and cash flows for the interim periods ended March 31, 2010 and 2009. 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, 2009. Balances shown on the consolidated financial statements for periods prior to October 8, 2009 represent the balances of Cullman Savings Bank only.

(2) NEW ACCOUNTING STANDARDS

In January 2010, the FASB issued an update to previously issued accounting standards for fair value measurements and disclosures. This update enhances disclosures for recurring and nonrecurring fair value measurements. An entity will be required to disclose the amounts of significant transfers in and out of Levels 1 and 2 and a description of the reasons for the transfers. Additionally, within the reconciliation of assets and liabilities measured at fair value using Level 3 inputs, a reporting entity should present separately information about purchases, sales, issuances, and settlements at their gross amounts instead of net. This amendment also provided clarification on the level of disaggregation of each class of assets and liabilities measured at fair value and the level of disclosure required for inputs and valuation techniques used to measure fair value for both recurring and nonrecurring assets and liabilities that fall in either Level 2 or Level 3. This amendment is effective for interim and annual reporting periods beginning after December 31, 2009, except for the disclosures related to the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The Company adopted the disclosure standards required for periods beginning after December 31, 2009. The effects of adopting this guidance were not significant to the financial statements. The effects of adopting the amended standards effective for fiscal years beginning after

December 15, 2010 are not expected to be significant to the 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)

(3) EARNINGS PER SHARE

Basic earnings per common share 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 earnings per common share 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. Diluted earnings per common share is equal to basic earnings per common share for the three month period ended March 31, 2010 as there were no potentially dilutive common shares. The factors used in the earnings per common share computation follow:

		Three months ended March 31, 2010
Basic		
Net income	$	518
Weighted average common shares		2,512,750
Less: Average unallocated ESOP shares		(93,575)
Average shares		2,419,175
Basic earnings per common share	$	0.21

There were no potential dilutive common shares for the period presented. There were no common shares outstanding during the three months ended March 31, 2009.

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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 AND RESTRICTED EQUITY SECURITIES

The fair value of available for sale securities and the related gross unrealized gains and losses recognized in accumulated other comprehensive income at March 31, 2010 and December 31, 2009 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
March 31, 2010 (Unaudited)				
U.S. Government sponsored agencies	$ 10,996	$ 34	$ (70)	$ 10,960
Municipal - taxable	1,253		(26)	1,227
Residential mortgage-backed, GSE	3,833	129		3,962
Residential mortgage-backed, private label	1,390		(4)	1,386
Ultra Short mortgage mutual fund	1,887	78		1,965
Total	$ 19,359	$ 241	$ (100)	$ 19,500

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2009				
U.S. Government sponsored agencies	$ 9,745	$ 15	$ (50)	$ 9,710
Municipal - taxable	506		(22)	484
Residential mortgage-backed, GSE	4,068	126		4,194
Residential mortgage-backed, private label	1,531		(50)	1,481
Ultra Short mortgage mutual fund	2,126	85		2,211
Total	$ 17,976	$ 226	$ (122)	$ 18,080

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, 2010 and December 31, 2009, the Company had only one private label mortgage-backed security.

Sales of available for sale securities during the three months ended March 31, 2010 and 2009 were as follows:

	Three Months Ended March 31, 2010	2009
	(Unaudited)	
Proceeds	$ 250	$ 250
Gross gains	11	
Gross losses		(2)

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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, 2010 (Unaudited)		December 31, 2009	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due from one to five years	$	$	$	$
Due from five to ten years			2,500	2,505
Due after ten years	12,249	12,187	7,751	7,689
Mutual fund	1,887	1,965	2,126	2,211
Residential mortgage-backed	5,223	5,348	5,599	5,675
Total	$ 19,359	$ 19,500	$ 17,976	$ 18,080

Carrying amounts of securities pledged to secure public deposits, repurchase agreements, and Federal Home Loan Bank advances as of March 31, 2010 and December 31, 2009 were $9,720 and $8,000, respectively. At March 31, 2010 and December 31, 2009, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of shareholders equity.

Securities with unrealized losses at March 31, 2010 and December 31, 2009, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, were as follows:

	Less than 12 months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
March 31, 2010 (Unaudited)						
U.S. Government sponsered agencies	$ 5,927	$ (70)	$	$	$ 5,927	$ (70)
Municipal - taxable	1,227	(26)			1,227	(26)
Residential mortgage-backed, private label	1,386	(4)			1,386	(4)
Total	$ 8,540	$ (100)	$	$	$ 8,540	$ (100)
December 31, 2009						
U.S. Government sponsered agencies	$ 5,696	$ (50)	$	$	$ 5,696	$ (50)
Municipal - taxable	484	(22)			484	(22)
Residential mortgage-backed, private label			1,481	(50)	1,481	(50)
Total	$ 6,180	$ (72)	$ 1,481	$ (50)	$ 7,661	$ (122)

Unrealized losses on securities backed by the US Government sponsored agencies have not been recognized into net income because the issuer s bonds are of high credit quality, management does not intend to sell and it is not more likely than not that management would be required to sell these securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates. The fair value is expected to recover as the bonds approach their maturity date or reset date. The private label mortgage-backed security carries an AAA credit rating and consists of fully amortizing ARMs of 1-4 family, owner occupied homes. Management does not intend this security and it is not more likely than not that management would be required to sell it prior to their anticipated recovery, and the decline in fair value is largely due to the overall lack of liquidity in the market. The fair value is expected to recover as liquidity in the market improves.

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(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 sponsored agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer s financial condition.

The Company s mutual fund consists of investment in shares of Shay Ultra Short Mortgage Fund. As required by accounting standards, when a decline in fair value below cost is deemed to be other-than-temporary, the unrealized loss must be recognized as a charge to earnings. The Company considered the length of time this mutual fund had been impaired, the unpredictability for recovery to cost, and losses on sales of shares of the mutual fund during the three months ended March 31, 2009 in determining the amount of any other-than-temporary impairment charge. The Company sold $250 of shares of the mutual fund during the three months ended March 31, 2009 and had the intent to continue selling shares of the mutual fund. Therefore, the unrealized losses for other-than-temporary impairment were recorded in earnings during the three months ended March 31, 2009 at a pretax amount of $114. The Company will continue to sell shares of the mutual fund in the future and will, therefore, recognize any future other-than-temporary impairments into earnings.

Restricted Equity Securities

At March 31, 2010 and December 31, 2009, restricted equity securities consisted of shares of Federal Home Loan Bank (FHLB) Stock, which is carried at cost, less any impairment charges, and classified as restricted equity securities. Similar to available for sale securities, the Company periodically evaluates these shares of stock for impairment based on ultimate recovery of par value.

On May 1, 2009, Silverton Bank, N.A. was closed by the Office of the Comptroller of the Currency (OCC) and the Federal Deposit Insurance Corporation (FDIC) and was placed into receivership. The Company concluded that its investments in common stock of Silverton Bank s Holding Company, Silverton Financial Services, Inc. were impaired and accordingly recorded an estimated other-than-temporary impairment charge of $611 for the three months ended March 31, 2009, which is reported in impairment loss on securities.

(5) LOANS

The components of loans receivable at March 31, 2010 and December 31, 2009 were as follows:

	March 31, 2010 (Unaudited)	December 31, 2009
Real estate loans:		
One- to four-family	$ 83,513	$ 81,436
Multi-family	5,729	5,780
Commercial real estate	61,056	60,602
Construction	5,168	6,235
Total real estate loans	155,466	154,053
Commercial loans	7,382	7,506

Consumer loans	12,371	12,479
Total loans	175,219	174,038
Net deferred loan fees	(522)	(544)
Allowance for loan losses	(802)	(747)
Loans, net	$ 173,895	$ 172,747

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CULLMAN BANCORP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

Activity in the allowance for loan losses for the three months ended was as follows:

	Three months ended March 31, (Unaudited) 2010	2009
Beginning balance	$ 747	$ 472
Provision for loan losses	57	125
Loans charged off	(3)	
Recoveries	1	2
Ending balance	$ 802	$ 599

Individually impaired loans at March 31, 2010 and December 31, 2009 were as follows:

	March 31, 2010 (Unaudited)	December 31, 2009
Loans with no allocated allowance for loan losses	$ 4,187	$ 2,924
Loans with allocated allowance for loan losses	861	815
Total	$ 5,048	$ 3,739
Amount of allowance for loan losses allocated	$ 147	$ 96
Average of individually impaired loans during the period	$ 5,060	$ 3,783

Interest income recognized and cash basis interest income during the impairment period in the three months ended March 31, 2010 and the year ended December 31, 2009 was considered immaterial.

Non-performing loans at March 31, 2010 and December 31, 2009 were as follows:

	March 31, 2010 (Unaudited)	December 31, 2009
Loans past due 90 days and still on accrual	$	$
Non-accrual loans	1,387	
Total non-performing loans	1,387	
Troubled debt restructurings		

Total non-performing loans and troubled debt restructurings	$	1,387	$	

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.

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CULLMAN BANCORP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

(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 other real estate owned (OREO) are measured at the lower of carrying amount or 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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CULLMAN BANCORP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

The tables below present the balances of assets and liabilities measured at fair value on a recurring basis by level within the hierarchy as of March 31, 2010 and December 31, 2009:

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, 2010 (Unaudited)	**December 31, 2009**
Financial assets:		
U.S. Government sponsored agencies	$ 10,960	$ 9,710
Municipal - taxable	1,227	484
Residential mortgage-backed, GSE	3,962	4,194
Residential mortgage-backed, private label	1,386	1,481
Ultra Short mortgage mutual fund	1,965	2,211
Total investment securities available for sale	$ 19,500	$ 18,080

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, 2010 (Unaudited)	December 31, 2009
Assets:		
Impaired loans, with specific allocations	$ 714	$ 719
Other real estate owned	733	931

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of $861 and $815, with a valuation allowance of $147 and $96 at March 31, 2010 and December 31, 2009, respectively. The resulting addition to the provision for loan losses from these impairments was $51 and $27 for the three months ended March 31, 2010 and for the year ended December 31, 2009.

Other real estate owned, which is measured at the lower of carrying or fair value less costs to sell, had a net carrying amount of $733 and $931 at March 31, 2010 and December 31, 2009, respectively. The net carrying amount is made up of the outstanding balance net of a valuation allowance. The outstanding balance and valuation allowance of other real estate owned at March 31, 2010 and December 31, 2009 were $751and $18, and $992 and $61, respectively. The resulting write-downs for the three months ended March 31, 2010 and for the year ended December 31, 2009 were $18 and $61, respectively.

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CULLMAN BANCORP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

Many of the Bank s assets and liabilities are short-term financial instruments whose carrying amounts reported in the balance sheet approximate fair value. These items include cash and cash equivalents, accrued interest receivable and payable balances, variable rate loan and deposits that re-price frequently and fully. The estimated fair values of the Bank s remaining on-balance sheet financial instruments at March 31, 2010 and December 31, 2009 are summarized below:

	March 31, 2010 (Unaudited)		December 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Securities available for sale	$ 19,500	$ 19,500	$ 18,080	$ 18,080
Loans, net	173,895	183,924	172,747	182,434
Loans held for sale	192	192	445	445
Restricted equity securities	2,711	N/A	2,711	N/A
Financial liabilities				
Deposits	131,230	132,525	125,119	130,979
Federal Home Loan Bank Advances	51,011	53,894	51,107	53,992
Long-term debt	833	833	833	833

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF CULLMAN BANCORP, INC.

This Quarterly Report contains forward-looking statements, which can be identified by the use of such words as estimate, project, believe, intend, anticipate, plan, seek, expect and similar expressions. These forward-looking statements include:

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

These forward-looking statements are based on our current beliefs and expectations and are inherently subject to significant business, economic, and competitive uncertainties and contingencies, many of which are beyond our control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change. We are under no duty to and do not take any obligation to update any forward-looking statements after the date of this Quarterly Report.

The following factors, among others, could cause the actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements:

- our ability to manage our operations during the current United States economic recession;
- our ability to manage the risk from the growth of our commercial real estate lending;
- significant increases in our loan losses, exceeding our allowance;
- changes in the interest rate environment that reduce our margins or reduce the fair value of financial instruments and inflation;
- adverse changes in the financial industry, securities, credit and national and local real estate markets (including real estate values);
- general economic conditions, either nationally or in our market area;
- changes in consumer spending, borrowing and savings habits, including lack of consumer confidence in financial institutions;
- potential increases in deposit assessments;
- significantly increased competition among depository and other financial institutions;

- changes in accounting policies and practices, as may be adopted by the bank regulatory agencies and the authoritative accounting and auditing bodies;

- legislative or regulatory changes, including increased banking assessments, that adversely affect our business and earnings; and

- changes in our organization, compensation and benefit plans.

Because of these and a wide variety of other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements.

Critical Accounting Policies

There are no material changes to the critical accounting policies disclosed in Form 10-K Annual Report of Cullman Bancorp, Inc. for the year ended December 31, 2009.

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Comparison of Financial Condition at March 31, 2010 and December 31, 2009

Our total assets increased to $221.3 million at March 31, 2010 from $214.6 million at December 31, 2009. The increase was primarily attributable to an increase in cash and cash equivalents of $4.6 million, or 88.5%, to $9.9 million at March 31, 2010 and an increase in securities available for sale of $1.4 million, or 7.9%, to $19.5 million. Increases in cash and cash equivalents and securities available for sale were brought about by increases in deposits of $6.1 million, or 4.9%, to $131.2 million at March 31, 2010 from $125.1 million at December 31, 2009.

The $6.1 million increase in deposits reflected a $5.6 million increase in interest bearing deposits and a $508,000 increase in non-interest bearing deposits. The increase in interest bearing deposits resulted from an increase of $3.2 million, or 4.4%, of total Certificates of Deposit to $75.8 million from $72.7 million at December 31, 2009 and an increase in savings and money market accounts of $4.0 million, or 18.1%, from $22.1 million to $26.1 million at March 31, 2010. Total equity increased to $37.1 million at March 31, 2010 from $36.5 million at December 31, 2009. The net increase of $543,000, or 1.5%, was primarily attributable to net income of $518,000 for the three months ended March 31, 2010 and an increase in accumulated other comprehensive income of $25,000.

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Average Balance and Yields

The following tables set forth average balance sheets, average yields and rates, and certain other information at and for the periods indicated. No tax-equivalent yield adjustments were made, as the effect thereof was not material. All average balances are daily average balances. Non-accrual loans were included in the computation of average balances, but have been reflected in the tables as loans carrying a zero yield. The yields set forth below include the effect of net deferred costs, discounts and premiums that are amortized or accreted to income.

	For The Three Months Ended March 31					
	2010			2009		
	Average Balance	Interest and Dividends	Yield Cost	Average Balance	Interest and Dividends	Yield Cost
	(Dollars in thousands)					
Assets:						
Interest-earning assets:						
Loans	$ 173,686	$ 2,759	6.44%	$ 166,517	$ 2,730	6.65%
Securities available for sale	19,344	227	4.75	22,178	281	5.14
Other interest-earning assets	8,757	4	0.19	7,465	2	0.11
Total interest-earning assets	201,786	2,990	6.01	196,160	3,013	6.23
Noninterest earning assets	15,405			17,987		
Total average assets	$ 217,191			$ 214,147		
Liabilities and equity:						
Interest-bearing liabilities:						
NOW and demand deposits	$ 27,359	44	0.65	$ 32,542	$ 97	1.21
Regular savings and other deposits	13,860	32	0.94	11,052	51	1.87
Money market deposits	10,917	29	1.08	10,958	39	1.44
Certificates of deposit	73,973	435	2.38	78,846	723	3.72
Total interest-bearing deposits	126,109	540	1.74	133,398	910	2.77
FHLB advances	51,065	508	4.04	52,059	537	4.18
Other borrowings	833	3	1.30	860	4	1.86
Total interest-bearing liabilities	178,007	1,051	2.39	186,317	1,451	3.16
Noninterest-bearing demand deposits	6,461			10		
Other noninterest-bearing liabilities	168			1,026		
Total liabilities	184,636			187,353		
Equity	32,555			26,794		
Total liabilities and equity	$ 217,191			$ 214,147		
Net interest income		$ 1,939			$ 1,562	
Interest rate spread			3.61%			3.07%
Net interest margin			3.90%			3.23%
Average interest-earning assets to average interest-bearing liabilities	1.13 X			1.05 X		

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Comparison of Operating Results for the Three Months Ended March 31, 2010 and 2009

General. We recorded net income of $518,000 for the three months ended March 31, 2010 compared to a net loss of $342,000 for the three months ended March 31, 2009. The increase in net income was primarily attributable to an other-than-temporary impairment loss of $725,000 recognized during the three months ended March 31, 2009 on securities available-for-sale and a decrease in interest expense of $400,000 during the three months ended March 31, 2010.

Interest Income. Interest income decreased slightly by $23,000 for the three months ended March 31, 2010 from $3.0 million for the three months ended March 31, 2009, reflecting a 22 basis point decrease in the average yield on interest-earning assets. The decrease in market interest rates contributed to the downward re-pricing of a portion of our existing assets and lower rates for new assets.

Interest income on loans increased to $2.8 million for the three months ended March 31, 2010 from $2.7 million for the three months ended March 31, 2009, reflecting the increase in the average balance of our loans to $173.7 million from $166.5 million, which more than offset the decrease in the average yield on loans to 6.44% from 6.65%. The lower average yield on our loan portfolio reflected the impact of decreases in market interest rates on our adjustable-rate loan products, as well as decreased rates on newly originated loans with interest rates based on lower market interest rates.

Interest income on investment securities decreased to $227,000 for the three months ended March 31, 2010 from $281,000 for the three months ended March 31, 2009, reflecting a decrease in the average balance of such securities to $19.3 million from $22.2 million, as well as a decrease in the average yield on such securities to 4.75% from 5.14%.

Interest Expense. Interest expense decreased $400,000, or 27.59%, to $1.1 million for the three months ended March 31, 2010 from $1.5 million for the three months ended March 31, 2009. The decrease reflected a decrease in the average rate paid on deposits and borrowings to 2.39% in the 2010 period from 3.16% in the 2009 period, as well as a decrease in the average balance of such deposits and borrowings to $178.0 million for the 2010 period from $186.3 million for the 2009 period.

Interest expense on certificates of deposit decreased to $435,000 for the three months ended March 31, 2010 from $723,000 for the three months ended March 31, 2009, reflecting a decrease in the average balance of such certificates to $74.0 million from $78.8 million as well as a decrease in the average cost of such certificates to 2.38% from 3.72%. The decrease in the average cost of such certificates reflected the re-pricing in response to interest rate cuts initiated by the Federal Reserve Board during 2009 and the lower market interest rates resulting from such cuts.

Interest expense on NOW and demand deposits, along with savings deposits and money market deposits decreased to $105,000 for the three months ended March 31, 2010 from $187,000 for the three months ended March 31, 2009, reflecting a decrease of $2.4 million in the average balance of such deposits as well as a decrease in the average cost of such deposits to 0.82% from 1.39% for the same periods ended.

Interest expense on borrowings, primarily advances from the Federal Home Loan Bank, decreased to $511,000 for the three months ended March 31, 2010 from $541,000 for the three months ended March 31, 2009, as the average rate paid on such borrowings decreased to 3.99% from 4.15% and the average balance of such borrowings decreased to $51.9 million from $52.9 million.

Net Interest Income. Net interest income increased to $1.9 million for the three months ended March 31, 2010 from $1.6 million for the three months ended March 31, 2009. The increase reflected an increase in our interest rate spread to 3.61% from 3.07%. The ratio of our interest-earning assets to average interest-bearing liabilities increased to 1.13X for the three months ended March 31, 2010 from 1.05X for the three months ended March 31, 2009. Our net interest margin also increased to 3.90% from 3.23%. The increases in our interest rate spread and net interest margin reflected the continued re-pricing of our deposits at lower rates in the decreasing interest rate environment.

Provision for Loan Losses. We recorded a provision for loan losses of $57,000 for the three months ended March 31, 2010 compared to $125,000 for the three months ended March 31, 2009. The allowance for loan losses was $802,000 or 0.46% of total loans at March 31, 2010 compared to $599,000, or 0.36% of total loans at March 31, 2009. Total nonperforming loans were $1.4 million at March 31, 2010 compared to $562,000 at March 31, 2009. While we used the same methodology in assessing the allowances for both periods, we increased the impact of qualitative factors in the 2009 period to reflect further deterioration in the economy. This resulted in a higher provision and allowance for loan losses during that period. To the best of our knowledge, we have recorded all losses that are both probable and reasonably estimable for the three months ended March 31, 2010 and 2009.

Noninterest Income. Noninterest income increased to $223,000 for the three months ended March 31, 2010 from ($491,000) for the three months ended March 31, 2009. The increase in noninterest income was due to $725,000 of pretax other-than-temporary impairment losses on available-for-sale securities in the 2009 period compared to no such losses in the 2010 period.

Noninterest Expense. Noninterest expense increased slightly to $1.3 million for the three months ended March 31, 2010 from $1.1 million for the three months ended March 31, 2009. The increases were in salaries and employee benefits of $44,000, professional and supervisory fees of $50,000, and other expenses of $75,000, offset partially by decreases in occupancy and equipment expenses, office and advertising expenses. The primary contributing factor to the increase in other noninterest expense came from losses on the sale of foreclosed real estate of $74,000 during the three months ended March 31, 2010 compared with $2,000 during the three months ended March 31, 2009.

Income Tax Expense. The provision for income taxes was $300,000 for the three months ended March 31, 2010 compared to $140,000 for the three months ended March 31, 2009. Our effective tax rate was 36.7% for the three months ended March 31, 2010 compared to 69.3% for the three months ended March 31, 2009. The higher effective tax rate for the three months ended March 31, 2009 was not meaningful due to other-than-temporary impairment losses on available-for-sale securities. This resulted in income tax expense even though we had a pre-tax loss. Impairment losses on equity securities are considered capital losses, and can only be used as a tax deduction for federal income tax purposes to the extent of capital gains.

ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Disclosures of quantitative and qualitative market risk are not required by smaller reporting companies, such as the Company.

ITEM 4. CONTROLS AND PROCEDURES

Not applicable.

ITEM 4T. CONTROLS AND PROCEDURES

An evaluation was performed under the supervision and with the participation of the Company s management, including the President and Chief Executive Officer and the Senior Vice President 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 and Exchange Act of 1934, as amended) as of March 31, 2010. Based on that evaluation, the Company s management, including the President and Chief Executive Officer and the Senior Vice President and Chief Financial Officer, concluded that the Company s disclosure controls and procedures were effective.

During the quarter ended March 31, 2010, there have been no changes in the Company s internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

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PART II

ITEM 1. LEGAL PROCEEDINGS

The Company and its subsidiaries are subject to various legal actions that are considered ordinary routine litigation incidental to the business of the Company, and no claim for money damages exceeds ten percent of the Company s consolidated assets. In the opinion of management, based on currently available information, the resolution of these legal actions is not expected to have a material adverse effect on the Company s results of operations.

ITEM 1A. RISK FACTORS

Disclosures of risk factors are not required by smaller reporting companies, such as the Company.

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

Not applicable.

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

The exhibits required by Item 601 of Regulation S-K are included with this Form 10-Q and are listed on the Index to Exhibits immediately following the Signatures.

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SIGNATURES

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

Cullman Bancorp, Inc.

Date: May 7, 2010

/s/ John A. Riley III
John A. Riley III
President & Chief Executive Officer

/s/ Michael Duke
Michael Duke
Senior Vice President and Chief Financial Officer

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INDEX TO EXHIBITS

Exhibit number	Description
31.1	Certification of John A. Riley III, President and Chief Executive Officer, Pursuant to Rule 13a-14(a) and Rule 15d-14(a).
31.2	Certification of Michael Duke, Chief Financial Officer, Pursuant to Rule 13a-14(a) and Rule 15d-14(a).
32	Certification of John A. Riley III, President and Chief Executive Officer, and Michael Duke, Chief Financial Officer, Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.