

Ottawa Savings Bancorp, Inc.

Form 10-Q

November 14, 2008

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-Q**

(mark one)

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

For the quarterly period ended September 30, 2008

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 000-51367

**OTTAWA SAVINGS BANCORP, INC.**

(Exact name of registrant as specified in its charter)

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**United States**  
 (State or other jurisdiction of  
 incorporation or organization)

**20-3074627**  
 (I.R.S. Employer

Identification Number)

**925 LaSalle Street**

**Ottawa, Illinois 61350**

(Address of principal executive offices)

**(815) 433-2525**

(Registrant's telephone number, including area code)

**Not Applicable**

(Former name, former address and former fiscal year,

if changed since last report)

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

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

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer  (Do not check if a smaller reporting company)

Smaller Reporting Company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

**Class**  
 Common Stock, \$0.01 par value

**Outstanding as of November 14, 2008**  
 2,124,791

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**OTTAWA SAVINGS BANCORP, INC.**

**FORM 10-Q**

**For the quarterly period ended September 30, 2008**

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**Table of Contents****OTTAWA SAVINGS BANCORP, INC.****Consolidated Balance Sheets****September 30, 2008 and December 31, 2007**

(Unaudited)

	<b>September 30, 2008</b>	<b>December 31, 2007</b>
<b>Assets</b>		
Cash and due from banks	\$ 2,394,033	\$ 2,469,629
Interest bearing deposits	2,405,039	5,115,608
<b>Total cash and cash equivalents</b>	<b>4,799,072</b>	<b>7,585,237</b>
Securities held to maturity (fair value of \$860,230 and \$961,861 at September 30, 2008 and December 31, 2007, respectively)	869,679	976,394
Securities available for sale	28,608,193	25,834,721
Non-marketable equity securities	2,534,952	2,534,952
Loans, net of allowance for loan losses of \$530,926 and \$605,450 at September 30, 2008 and December 31, 2007, respectively	157,185,999	157,702,260
Premises and equipment, net	7,559,804	7,755,284
Accrued interest receivable	1,075,242	1,055,328
Mortgage servicing rights	108,523	104,077
Foreclosed real estate		108,159
Deferred tax asset	1,053,119	1,032,798
Cash value of life insurance	1,451,630	1,405,380
Other assets	1,183,396	1,219,086
<b>Total assets</b>	<b>\$ 206,429,609</b>	<b>\$ 207,313,676</b>
<b>Liabilities and Stockholders Equity</b>		
<b>Liabilities</b>		
<b>Deposits:</b>		
Non-interest bearing	\$ 1,946,873	\$ 2,626,967
Interest bearing	180,352,726	180,454,652
<b>Total deposits</b>	<b>182,299,599</b>	<b>183,081,619</b>
Accrued interest payable	374,577	132,746
Other liabilities	1,998,818	2,142,025
<b>Total liabilities</b>	<b>184,672,994</b>	<b>185,356,390</b>
<b>Commitments and contingencies</b>		
Redeemable common stock held by ESOP plan	200,330	171,709
<b>Stockholders Equity</b>		
Common Stock, \$.01 par value 12,000,000 shares authorized; 2,224,911 shares issued	22,249	22,249
Additional paid-in-capital	8,658,160	8,607,615
Retained earnings	15,314,128	14,670,844
Unallocated ESOP shares	(572,355)	(610,512)
Unearned MRP shares	(404,893)	(479,982)
Accumulated other comprehensive loss	(99,984)	(24,928)

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	22,917,305	22,185,286
Less:		
Treasury shares at cost, 100,120 shares at September 30, 2008 and 21,000 shares at December 31, 2007	(1,160,690)	(228,000)
Maximum cash obligation related to ESOP shares	(200,330)	(171,709)
<b>Total Stockholders Equity</b>	<b>21,556,285</b>	<b>21,785,577</b>
<b>Total liabilities and stockholders equity</b>	<b>\$ 206,429,609</b>	<b>\$ 207,313,676</b>

See accompanying notes to these unaudited consolidated financial statements.

**Table of Contents****OTTAWA SAVINGS BANCORP, INC.****Consolidated Statements of Income****Three and Nine Months Ended September 30, 2008 and 2007**

(Unaudited)

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>Interest and dividend income:</b>				
Interest and fees on loans	\$ 2,506,505	\$ 2,598,251	\$ 7,574,847	\$ 7,427,938
<b>Securities:</b>				
Mortgage-backed and related securities	284,237	264,942	759,930	806,176
U.S. agency securities	101,686	193,762	253,757	606,493
Dividends on non-marketable equity securities		16,384		58,531
Interest-bearing deposits	11,436	27,829	101,309	212,054
<b>Total interest and dividend income</b>	<b>2,903,864</b>	<b>3,101,168</b>	<b>8,689,843</b>	<b>9,111,192</b>
<b>Interest expense:</b>				
Deposits	1,625,527	1,968,201	5,226,137	5,783,033
Other borrowings	433	8,542	433	8,542
<b>Total interest expense</b>	<b>1,625,960</b>	<b>1,976,743</b>	<b>5,226,570</b>	<b>5,791,575</b>
<b>Net interest income</b>	<b>1,277,904</b>	<b>1,124,425</b>	<b>3,463,273</b>	<b>3,319,617</b>
Provision for loan losses		22,117	33,435	(2,020,503)
<b>Net interest income after provision for loan losses</b>	<b>1,277,904</b>	<b>1,102,308</b>	<b>3,429,838</b>	<b>5,340,120</b>
<b>Other income:</b>				
Gain (loss) on sale of securities available for sale	6,750	(372)	65,629	(261)
Gain on sale of loans	8,620	11,812	48,139	29,075
Origination of mortgage servicing rights, net of amortization	(1,265)	1,314	4,446	661
Gain (loss) on sale of foreclosed real estate	318		(8,350)	
Loss on sale of repossessed assets	(16,655)		(26,812)	
Customer service fees	67,476	65,978	187,443	174,323
Income on bank owned life insurance	15,051		46,250	
Other	8,579	14,003	35,458	28,558
<b>Total other income</b>	<b>88,874</b>	<b>92,735</b>	<b>352,203</b>	<b>232,356</b>
<b>Other expenses:</b>				
Salaries and employee benefits	427,138	424,228	1,296,881	1,254,394
Directors fees	21,078	21,161	63,236	63,482
Occupancy	123,689	119,903	364,370	360,436
Deposit insurance premium	27,924	5,307	38,318	15,977
Legal and professional services	56,823	55,089	194,244	158,304
Data processing	58,459	65,440	216,626	192,892
Other	116,655	135,779	411,195	388,867

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<b>Total other expenses</b>	831,766	826,907	2,584,870	2,434,352
<b>Income before income taxes</b>	535,012	368,136	1,197,171	3,138,124
Income tax expense	189,178	120,064	424,678	1,158,042
<b>Net income</b>	\$ 345,834	\$ 248,072	\$ 772,493	\$ 1,980,082
<b>Basic earnings per share</b>	\$ 0.17	\$ 0.12	\$ 0.38	\$ 0.94
<b>Diluted earnings per share</b>	\$ 0.17	\$ 0.12	\$ 0.37	\$ 0.94
<b>Dividends per share</b>	\$ 0.05	\$ 0.05	\$ 0.15	\$ 0.15

See accompanying notes to these unaudited consolidated financial statements.

**Table of Contents****OTTAWA SAVINGS BANCORP, INC.****Consolidated Statements of Comprehensive Income (Loss)****Three and Nine Months Ended September 30, 2008 and 2007**

(Unaudited)

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Comprehensive income (loss):				
Net income	\$ 345,834	\$ 248,072	\$ 772,493	\$ 1,980,082
Other comprehensive income, net of tax:				
Unrealized gain (loss) on securities available for sale arising during period, net of income taxes	76,152	343,467	(31,741)	99,287
Less: Reclassification adjustment for gains (losses) included in net income, net of tax expense	4,455	(246)	43,315	(172)
Comprehensive income	\$ 417,531	\$ 591,785	\$ 697,437	\$ 2,079,541

See accompanying notes to these unaudited consolidated financial statements.



**Table of Contents****OTTAWA SAVINGS BANCORP, INC.****Consolidated Statements of Cash Flows****Nine Months Ended September 30, 2008 and 2007**

(Unaudited)

	<b>2008</b>	<b>2007</b>
<b>Cash Flows from Operating Activities</b>		
Net income	\$ 772,493	\$ 1,980,082
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	197,951	202,993
Provision for loan losses	33,435	(2,020,503)
Provision for deferred income taxes	18,344	347,662
Net amortization of premiums and discounts on securities	13,070	10,605
(Gain) loss on sale of available for sale securities	(65,629)	261
Origination of mortgage loans held for sale	(2,163,931)	(2,245,657)
Proceeds from sale of mortgage loans held for sale	2,212,070	2,274,732
Gain on sale of loans, net	(48,139)	(29,075)
Origination of mortgage servicing rights, net of amortization	(4,446)	(661)
Loss on sale of foreclosed real estate	8,350	
Loss on sale of repossessed assets	26,812	
ESOP compensation expense	43,245	48,035
MRP compensation expense	75,089	74,770
Compensation expense on stock options	45,457	44,854
Change in assets and liabilities:		
Increase in accrued interest receivable	(19,914)	(163,847)
Increase in cash value of life insurance	(46,250)	
Decrease (increase) in other assets	7,890	(51,712)
Increase (decrease) in accrued interest payable and other liabilities	98,624	(430,036)
<b>Net cash provided by operating activities</b>	<b>1,204,521</b>	<b>42,503</b>
<b>Cash Flows from Investing Activities</b>		
Securities available for sale:		
Purchases	(11,101,223)	(5,466,691)
Sales, calls, maturities and paydowns	8,268,403	11,124,363
Securities held to maturity:		
Maturities and paydowns	104,901	175,576
Net decrease (increase) in loans	274,819	(11,788,197)
Proceeds from sale of foreclosed real estate	222,716	
Proceeds from sale of repossessed assets	86,088	12,500
Purchase of premises and equipment	(2,471)	(133,683)
Purchase of non-marketable equity securities		(137,970)
<b>Net cash used in investing activities</b>	<b>(2,146,767)</b>	<b>(6,214,102)</b>
<b>Cash Flows from Financing Activities</b>		
Net (decrease) increase in deposits	(782,020)	947,676
Cash dividends paid	(129,209)	(138,707)
Purchase of treasury stock	(932,690)	
<b>Net cash (used in) provided by financing activities</b>	<b>(1,843,919)</b>	<b>808,969</b>

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<b>Net decrease in cash and cash equivalents</b>	(2,786,165)	(5,362,630)
Cash and cash equivalents:		
<b>Beginning</b>	<b>7,585,237</b>	<b>10,414,312</b>
Ending	\$ 4,799,072	\$ 5,051,682

See accompanying notes to these unaudited consolidated financial statements.

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**OTTAWA SAVINGS BANCORP, INC.**

**Consolidated Statements of Cash Flows**

**Nine Months Ended September 30, 2008 and 2007**

(Unaudited)

	<b>2008</b>	<b>2007</b>
<b>Supplemental Disclosures of Cash Flow Information</b>		
Cash payments for:		
Interest paid to depositors	\$ 4,984,306	\$ 5,766,834
Interest paid on other borrowings	433	8,542
Income taxes, net of refunds received	550,296	718,750
<b>Supplemental Schedule of Noncash Investing and Financing Activities</b>		
Real estate acquired through or in lieu of foreclosure	251,497	56,831
Other assets acquired in settlement of loans	85,100	58,000
Sale of foreclosed real estate through loan origination	128,590	
Liability due to the recording of ESOP put options	28,621	39,585

See accompanying notes to these unaudited consolidated financial statements.

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**OTTAWA SAVINGS BANCORP, INC.**

**Notes to Unaudited Consolidated Financial Statements**

**NOTE 1 NATURE OF BUSINESS**

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

**NOTE 2 BASIS OF PRESENTATION**

The consolidated financial statements presented in this quarterly report include the accounts of the Company and the Bank. The consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and predominant practices followed by the financial services industry, and are unaudited. In the opinion of the Company's management, all adjustments, consisting of normal recurring adjustments, which the Company considers necessary to fairly state the Company's financial position and the results of operations and cash flows have been recorded. The interim financial statements should be read in conjunction with the audited financial statements and accompanying notes of the Company for the year ended December 31, 2007. Certain amounts in the accompanying financial statements and footnotes for 2007 have been reclassified with no effect on net income to be consistent with the 2008 classifications. The results of the Company's operations for any interim period are not necessarily indicative of the results of the Company's operations for any other interim period or for a full fiscal year.

**NOTE 3 USE OF ESTIMATES**

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

At September 30, 2008, there were no material changes in the Company's significant accounting policies or critical accounting estimates from those disclosed in the Form 10-KSB filed with the Securities and Exchange Commission in March 2008.

**NOTE 4 CRITICAL ACCOUNTING POLICIES**

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

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

**Table of Contents****OTTAWA SAVINGS BANCORP, INC.****Notes to Unaudited Consolidated Financial Statements**

(continued)

**NOTE 5 EARNINGS PER SHARE**

Basic earnings per share is based on net income divided by the weighted average number of shares outstanding during the period, including allocated and committed-to-be-released ESOP shares and vested MRP shares. Diluted earnings per share show the dilutive effect, if any, of additional common shares issuable under stock options and awards.

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Net income available to common stockholders	\$ 345,834	\$ 248,072	\$ 772,493	\$ 1,980,082
Basic potential common shares:				
Weighted average shares outstanding	2,124,791	2,224,911	2,152,402	2,224,911
Weighted average unallocated Employee Stock Ownership Plan shares	(58,074)	(63,162)	(59,338)	(64,421)
Weighted average unvested MRP shares	(36,197)	(43,608)	(36,197)	(43,608)
Basic weighted average shares outstanding	2,030,520	2,118,141	2,056,867	2,116,882
Dilutive potential common shares:				
Weighted average unrecognized compensation on MRP shares	8,105		7,098	
Weighted average RRP options outstanding				
Dilutive weighted average shares outstanding	2,038,626	2,118,141	2,063,966	2,116,882
Basic earnings per share	\$ 0.17	\$ 0.12	\$ 0.38	\$ 0.94
Diluted earnings per share	\$ 0.17	\$ 0.12	\$ 0.37	\$ 0.94

**NOTE 6 EMPLOYEE STOCK OWNERSHIP PLAN**

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

Shares purchased by the ESOP with the loan proceeds are held in a suspense account and are allocated to ESOP participants on a pro rata basis as principal and interest payments are made by the ESOP to the Company. The loan is secured by shares purchased with the loan proceeds and will be repaid by the ESOP with funds from the Company's discretionary contributions to the ESOP and earnings on the ESOP assets. Annual principal and interest payments of approximately \$77,000 are to be made by the ESOP.

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

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A terminated participant or the beneficiary of a deceased participant who received a distribution of employer stock from the ESOP has the right to require the Company to purchase such shares at their fair market value any time within 60 days of the distribution date. If this right is not exercised, an additional 60 day exercise period is available in the year following the year in which the distribution is made and begins after a new valuation of the stock has been determined and communicated to the participant or beneficiary. At September 30, 2008, 19,079 shares at a fair value of \$10.50 have been classified as mezzanine capital.

**Table of Contents****OTTAWA SAVINGS BANCORP, INC.****Notes to Unaudited Consolidated Financial Statements**

(continued)

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

	September 30, 2008	December 31, 2007
Shares allocated	19,079	15,263
Unallocated shares	57,235	61,051
<b>Total ESOP shares</b>	<b>76,314</b>	<b>76,314</b>
Fair value of unallocated shares	\$ 600,968	\$ 686,824

**NOTE 7 INVESTMENT SECURITIES**

The following table reflects securities with gross unrealized losses at September 30, 2008:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>Securities Available for Sale</b>						
Mortgage-backed securities	\$ 10,039,980	\$ (58,135)	\$ 6,434,975	\$ (165,674)	\$ 16,474,955	\$ (223,809)
<b>Securities Held to Maturity</b>						
Mortgage-backed securities	\$ 56,885	\$ (126)	\$ 496,512	\$ (12,558)	\$ 553,397	\$ (12,684)

The unrealized losses at September 30, 2008, relate principally to interest rates relative to the market. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analysts' reports. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available for sale, no declines are deemed to be other than temporary.

**NOTE 8 ASSET QUALITY**

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

	At September 30, 2008	At December 31, 2007
Impaired loans without a valuation allowance	\$ 1,084,000	\$
Impaired loans with a valuation allowance	1,353	53,787

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Total impaired loans	\$	1,085,353	\$	53,787
Valuation allowance related to impaired loans	\$	1,353	\$	53,787
Total non-accrual loans	\$	3,979,507	\$	2,551,092
Total loans past due ninety days or more and still accruing	\$	179,984	\$	352,923



**Table of Contents****OTTAWA SAVINGS BANCORP, INC.****Notes to Unaudited Consolidated Financial Statements****(continued)**

On the basis of management's review of its assets at September 30, 2008 and December 31, 2007, we classified \$2,341,000 and \$729,000, respectively, of our assets as special mention, \$3,147,000 and \$1,216,000, respectively, of our assets as substandard, and \$1,400 and \$1,600, respectively, of our assets as doubtful.

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

Following is a summary of activity in the allowance for loan losses for the nine months ended September 30, 2008 and 2007.

	<b>2008</b>	<b>2007</b>
Balance at beginning of year	\$ 605,450	\$ 419,685
Provision charged (credited) to income	33,435	(2,020,503)
Loans charged off	(109,391)	(42,103)
Recoveries of loans previously charged off	1,432	2,092,031
Balance at end of period	\$ 530,926	\$ 449,110

**NOTE 9 STOCK COMPENSATION**

The total stock-based compensation expense was approximately \$121,000 and \$120,000, for the nine months ended September 30, 2008 and 2007, respectively. In accordance with Statement of Financial Accounting Standards (SFAS) No. 123(R), *Share-Based Payment*, compensation expense is recognized on a straight-line basis over the grantees' vesting period or to the grantees' retirement eligible date, if earlier. For the nine months ended September 30, 2008 and 2007, the Company did not grant additional options or shares under the Management Recognition Plan.

**NOTE 10 RECENT ACCOUNTING DEVELOPMENTS**

In December 2007, FASB issued SFAS No. 141(revised), *Business Combinations*. The Statement establishes principles and requirements for how an acquirer recognizes and measures tangible assets acquired, liabilities assumed, goodwill and any noncontrolling interests and identifies related disclosure requirements for business combinations. Measurement requirements will result in all assets, liabilities, contingencies and contingent consideration being recorded at fair value on the acquisition date, with limited exceptions. Acquisition costs and restructuring costs will generally be expensed as incurred. This Statement is effective for the Company for business combinations in which the acquisition date is on or after January 1, 2009. The Company does not expect the adoption of this Statement will have a material impact on its financial position or results of operations and cash flows.

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**OTTAWA SAVINGS BANCORP, INC.**

**Notes to Unaudited Consolidated Financial Statements**

**(continued)**

**NOTE 11 FAIR VALUE DISCLOSURE**

Effective January 1, 2008, the Company adopted FASB Statement No. 157, *Fair Value Measurements* ( SFAS No. 157 ). SFAS No. 157 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Under SFAS No. 157, fair value measurements are not adjusted for transaction costs. SFAS No. 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement inputs) and the lowest priority to unobservable inputs (Level 3 measurement inputs). The three levels of the fair value hierarchy under SFAS No. 157 are described below:

Basis of Fair Value Measurement:

Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets.

Level 2 Significant other observable inputs other than Level 1 prices such as quoted prices in markets that are not active, quoted prices for similar assets, or other inputs that are observable, either directly or indirectly, for substantially the full term of the asset.

Level 3 Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

Following is a description of valuation methodologies used for assets and liabilities recorded at fair value.

**Securities Available for Sale**

Securities classified as available for sale are recorded at fair value on a recurring basis utilizing Level 2 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bonds terms and conditions, among other things.

**Loans Held for Sale**

The loans held for sale are recorded at the lower of cost or market value on a non-recurring basis using Level 2 inputs. The fair value of loans held for sale is based on the contractual value of the loans committed to be sold. As of September 30, 2008, there were no loans held for sale.

**Foreclosed Assets**

Foreclosed assets are adjusted to fair value upon transfer of the loans to foreclosed assets. Foreclosed assets are carried at the lower of cost or fair value. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the foreclosed asset as non-recurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the foreclosed asset as non-recurring Level 3.

Impaired Loans

Impaired loans are evaluated and adjusted to fair value at the time the loan is identified as impaired. Impaired loans are carried at the lower of cost or fair value. Fair value is measured based on the value of the collateral securing these loans and is classified as non-recurring Level 3 in the fair value hierarchy. Collateral may be real estate and/or business assets, including equipment, inventory and/or accounts receivable, and its fair value is generally determined based on real estate appraisals or other independent evaluations by qualified professionals. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on the same factors identified above.

**Table of Contents****OTTAWA SAVINGS BANCORP, INC.****Notes to Unaudited Consolidated Financial Statements**

(continued)

The table below presents the recorded amount of assets and liabilities measured at fair value on a recurring basis at September 30, 2008.

	Level 1	Level 2	Level 3	Total Fair Value
Securities available for sale	\$	\$ 28,608,193	\$	\$ 28,608,193

The table below presents the recorded amount of assets and liabilities measured at fair value on a non-recurring basis at September 30, 2008.

	Level 1	Level 2	Level 3	Total Fair Value
Foreclosed assets	\$	\$ 35,500	\$	\$ 35,500
Impaired loans			1,084,000	1,084,000

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

Management's discussion and analysis of the financial condition and results of operations is intended to assist in understanding the financial condition and results of operations of Ottawa Savings Bancorp, Inc. The information contained in this section should be read in conjunction with the Unaudited Consolidated Financial Statements and footnotes appearing in Part I, Item 1 of this document.

**FORWARD-LOOKING INFORMATION**

Statements contained in this report that are not historical facts may constitute forward-looking statements (within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended), which involve significant risks and uncertainties. The Company intends such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and is including this statement for purposes of invoking these safe harbor provisions. Forward-looking statements, which are based on certain assumptions and describe future plans, strategies and expectations of the Company, are generally identifiable by the use of the words believe, expect, intend, anticipate, estimate, project, plan, or similar expressions. The Company's predictions of results or the actual effect of future plans or strategies is inherently uncertain and actual results may differ from those predicted. The Company undertakes no obligation to update these forward-looking statements in the future. The Company cautions readers of this report that a number of important factors could cause the Company's actual results subsequent to September 30, 2008, to differ materially from those expressed in forward-looking statements. Factors that could cause actual results to differ from those predicted and could affect the future prospects of the Company include, but are not limited to, fluctuations in market rates of interest and loan and deposit pricing, changes in the securities or financial market, a deterioration of general economic conditions either nationally or in our market areas, delays in obtaining the necessary regulatory approvals, our ability to consummate proposed transactions in a timely manner, legislative or regulatory changes that adversely affect our business, adverse developments or changes in the composition of our loan or investment portfolios, significant increases in competition, changes in real estate values, difficulties in identifying attractive acquisition opportunities or strategic partners to complement our Company's approach and the products and services the Company offers, the possible dilutive effect of potential acquisitions or expansion, and our ability to raise new capital as needed and the timing, amount and type of such capital raises. These risks and uncertainties should be considered in evaluating forward-looking statements.

**GENERAL**

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

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During the period from March 2000 until April 2004, as part of our investment activities, the Bank purchased loan participations from Commercial Loan Corporation of Oak Brook, Illinois ( CLC ). In April 2004, the Bank was informed by its regulators, the FDIC and Illinois Office of Banks and Real Estate ( OBRE ), that CLC had misappropriated funds from loans it was servicing for others. At that time, the Bank had 39 outstanding loan participations with CLC in the aggregate amount of approximately \$15.0 million. In May 2004, CLC filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code. In December 2004, CLC's remaining assets were transferred to the CLC Creditors Trust.

In December 2004, we received a payment of \$5.6 million in cash and loans from the CLC Creditors Trust. As of September 30, 2008, all of the remaining loans are performing according to their terms. Although we have retained certain unsecured claims against the CLC Creditors Trust, we have charged-off the remaining \$9.5 million of our investment in the CLC loan participations. During 2005, 2006, and 2007, the Company received and recorded as recoveries, distributions of \$190,000, \$1.3 million, and \$2.4 million, respectively, from the CLC Creditors Trust on previously charged-off loan participations with CLC. These settlements were recorded as recoveries to the allowance for loan losses.

**COMPARISON OF FINANCIAL CONDITION AT SEPTEMBER 30, 2008 AND DECEMBER 31, 2007**

The Company's total assets decreased \$884,000, or 0.43%, to \$206.4 million at September 30, 2008, from \$207.3 million at December 31, 2007. The decrease reflects a decrease in cash and cash equivalents of \$2.8 million, a decrease in loans of \$516,000, a decrease in premises and equipment of \$195,000 due primarily to depreciation, and a decrease in foreclosed real estate of \$108,000. The decreases are offset by an increase in securities available for sale of \$2.8 million.

Cash and cash equivalents decreased \$2.8 million, or 36.73%, to \$4.8 million at September 30, 2008, from \$7.6 million at December 31, 2007. The decrease in cash and cash equivalents is primarily due to the purchase of securities available for sale.

Securities available for sale increased \$2.8 million, or 10.74%, to \$28.6 million at September 30, 2008, from \$25.8 million at December 31, 2007. The increase was primarily the result of \$11.1 million in purchases, offset by sales, maturities, and principal pay-downs of \$8.3 million and an \$113,000 decrease in market values of the available for sale securities.

Loans decreased \$516,000, or 0.33%, to \$157.2 million at September 30, 2008, from \$157.7 million at December 31, 2007. The slight decrease in loans was primarily due to pay-offs and principal reductions on non-residential real estate, multi-family real estate, and construction loans, offset by the increase in 1-4 family loans and commercial loans due to origination efforts, and line of credit advances.

Total deposits decreased \$782,000, or 0.43%, to \$182.3 million at September 30, 2008, from \$183.1 million at December 31, 2007. The decrease reflects decreases in savings accounts, certificates of deposit, and checking accounts, offset by increases in money market accounts.

Accrued interest payable increased \$242,000, or 182.18% to \$375,000 at September 30, 2008, from \$133,000 at December 31, 2007. The increase is due to an increase in certificates of deposit with terms of less than one year, which pay interest at maturity.

Other liabilities decreased \$143,000, or 6.69%, to \$2.0 million at September 30, 2008, from \$2.1 million at December 31, 2007. The decrease was primarily due to decreases in deferred director compensation investment accounts payable of \$51,000, and escrow payable of \$81,000, decreases in federal taxes payable of \$136,000 due to lower pre-tax income, decreases in accrued property taxes payable of \$40,000, and the absence of the \$50,000 accrual for employee incentives. The decrease in accrued property taxes payable is primarily due to monthly accruals and TIF refunds during the fourth quarter of 2007, which have not occurred yet as of September 30, 2008. The decreases were offset by increases in SERP expenses of \$93,000, exam and accounting expenses payable of \$58,000, and accrued retirement benefits payable of \$76,000. The increase in retirement benefits payable is due to continued but decreased accruals for the defined benefit plan, which was terminated effective April 1, 2007, in anticipation of overall costs associated with withdrawing from the defined benefit plan and the absence of quarterly payments to fund the defined benefit plan.

Equity decreased \$229,000, or 1.05%, to \$21.6 million at September 30, 2008, from \$21.8 million at December 31, 2007. The decrease in equity reflects net income for the nine months ended September 30, 2008, of approximately \$772,000, offset by decrease in other comprehensive income of \$75,000, net of taxes, due to decreases in the market value of the available for sale securities portfolio, dividends of \$129,000 paid to stockholders and the purchase of 79,120 treasury shares for \$933,000. The remaining changes to equity include increases of \$164,000 from the allocation and amortization of ESOP shares, MRP shares, and RRP options, offset by a decrease to equity of \$29,000 to increase the cash obligation related to redeemable common stock held by the ESOP.



**Table of Contents****COMPARISON OF RESULTS OF OPERATION FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007**

*Net Income.* The Company had net income of \$346,000 for the three months ended September 30, 2008, compared to net income of \$248,000 for the three months ended September 30, 2007.

*Net Interest Income.* The following table summarizes interest and dividend income and interest expense for the three months ended September 30, 2008 and 2007.

	Three Months Ended September 30,			
	2008	2007	\$ change	% change
(Dollars in thousands)				
<b>Interest and dividend income:</b>				
Interest and fees on loans	\$ 2,507	\$ 2,598	\$ (91)	(3.50)%
<b>Securities:</b>				
Mortgage-backed and related securities	284	265	19	7.17
U.S. agency securities	102	194	(92)	(47.42)
Non-marketable equity securities		16	(16)	(100.00)
Interest-bearing deposits	11	28	(17)	(60.71)
<b>Total interest and dividend income</b>	<b>2,904</b>	<b>3,101</b>	<b>(197)</b>	<b>(6.35)</b>
<b>Interest expense:</b>				
Deposits	1,626	1,968	(342)	(17.38)
Other borrowings		9	(9)	(100.00)
<b>Total interest expense</b>	<b>1,626</b>	<b>1,977</b>	<b>(351)</b>	<b>(17.75)</b>
<b>Net interest income</b>	<b>\$ 1,278</b>	<b>\$ 1,124</b>	<b>\$ 154</b>	<b>13.70%</b>

The following table summarizes average balances and annualized average yield or cost of funds for the three months ended September 30, 2008 and 2007.

	Three Months Ended September 30,					
	2008			2007		
	AVERAGE BALANCE	INTEREST	AVERAGE YIELD/ COST	AVERAGE BALANCE	INTEREST	AVERAGE YIELD/ COST
(Dollars in thousands)						
<b>Interest-earning assets</b>						
Securities, net	\$ 30,841	\$ 386	5.01%	\$ 35,075	\$ 459	5.23%
Loans receivable, net (1)	156,972	2,507	6.39%	153,260	2,598	6.78%
Non-marketable equity securities	2,535			2,535	16	2.59%
Other investments	3,611	11	1.27%	2,781	28	4.00%
<b>Total interest-earning assets</b>	<b>193,959</b>	<b>2,904</b>	<b>5.99%</b>	<b>193,651</b>	<b>3,101</b>	<b>6.41%</b>
<b>Interest-bearing liabilities</b>						
Money Market accounts	\$ 12,860	\$ 74	2.29%	\$ 8,514	\$ 52	2.47%
Passbook accounts	10,833	14	0.50%	10,893	14	0.51%
Certificates of Deposit accounts	148,363	1,525	4.11%	153,751	1,889	4.91%
Checking	8,865	13	0.59%	9,144	13	0.59%
Advances from Federal Home Loan Bank	111			609	9	5.61%



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Total interest-bearing liabilities	181,032	1,626	3.59%	182,911	1,977	4.32%
<b>NET INTEREST INCOME</b>		\$ 1,278			\$ 1,124	
<b>NET INTEREST RATE SPREAD (2)</b>			2.40%			2.08%
<b>NET INTEREST MARGIN (3)</b>			2.63%			2.32%
<b>RATIO OF AVERAGE INTEREST-EARNING ASSETS TO AVERAGE INTEREST-BEARING LIABILITIES</b>			107.14%			105.87%

- (1) Net of loans in process, deferred loan costs (fees), and allowance for loan losses.
- (2) The net interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average cost of interest-bearing liabilities.
- (3) The net interest margin represents annualized net interest income as a percent of average interest-earning assets.

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The following table summarizes the changes in net interest income due to rate and volume for the three months ended September 30, 2008 and 2007. The column Net is segmented into the changes attributable to variations in volume and the changes attributable to changes in interest rates. The variations attributable to simultaneous volume and rate changes have been proportionately allocated to rate and volume.

	<b>Three Months Ended September 30, 2008 compared to 2007</b>		
	<b>Increase (decrease) due to</b>		
	<b>VOLUME</b>	<b>RATE</b>	<b>NET</b>
	<b>(Dollars in Thousands)</b>		
<b>Interest and dividends earned on</b>			
Securities, net	\$ (53)	\$ (20)	\$ (73)
Loans receivable, net	59	(150)	(91)
Non-marketable equity securities		(16)	(16)
Other investments	2	(19)	(17)
<b>Total interest-earning assets</b>	<b>\$ 8</b>	<b>\$ (205)</b>	<b>\$ (197)</b>
<b>Interest expense on</b>			
Money Market accounts	\$ 25	\$ (3)	\$ 22
Passbook accounts			
Certificates of Deposit accounts	(55)	(309)	(364)
Checking			
Advances from Federal Home Loan Bank	(2)	(7)	(9)
<b>Total interest-bearing liabilities</b>	<b>(32)</b>	<b>(319)</b>	<b>(351)</b>
<b>Change in net interest income</b>	<b>\$ 40</b>	<b>\$ 114</b>	<b>\$ 154</b>

Net interest income increased \$154,000, or 13.70%, for the three months ended September 30, 2008, compared to the three months ended September 30, 2007. Interest and dividend income decreased \$197,000, or 6.35%, to \$2.9 million for the three months ended September 30, 2008, from \$3.1 million for the three months ended September 30, 2007 due to a decrease in the average yield on interest earning assets to 5.99% from 6.41%, due to decreased market rates, offset by a slight increase of \$308,000 in average interest earning assets to \$194.0 million from \$193.7 million for the three months ended September 30, 2008, compared to the same period in 2007. Interest expense decreased \$351,000, or 17.75%, due to a decrease in the average cost of interest bearing liabilities to 3.59% from 4.32% due to a declining interest rate environment, and a decrease of \$1.9 million in average interest bearing liabilities for the three months ended September 30, 2008, compared to the same period in 2007.

*Provision for Loan Losses.* Management recorded no loan loss provision for the three months ended September 30, 2008, compared to a provision of \$22,000 for the three months ended September 30, 2007. Based on a general review of the loans that were in the loan portfolio at September 30, 2008, management believes that the allowance is maintained at a level that represents its best estimate of inherent losses in the loan portfolio that were both probable and reasonably estimable.

*Other Income.* The following table summarizes other income for the three months ended September 30, 2008 and 2007.

	<b>Three Months Ended September 30,</b>			
	<b>2008</b>	<b>2007</b>	<b>\$ change</b>	<b>% change</b>
	<b>(Dollars in thousands)</b>			
<b>Other income:</b>				
Gain (loss) on sale of securities available for sale	\$ 7	\$	\$ 7	100.00%
Gain on sale of loans	9	12	(3)	(25.00)
Amortization of mortgage servicing rights, net of originations	(1)	1	(2)	(200.00)
Loss on sale of repossessed assets	(17)		(17)	(100.00)

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Customer service fees	67	66	1	1.52
Income on bank owned life insurance	15		15	100.00
Other	9	14	(5)	(35.71)
<b>Total other income</b>	<b>\$ 89</b>	<b>\$ 93</b>	<b>\$ (4)</b>	<b>(4.30)%</b>

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The decrease in total other income was primarily due to losses on the sale of four repossessed vehicles during the three months ended September 2008 as compared to none for the same period in 2007. The decrease was offset by gains on the sale of available for sale securities and income on bank owned life insurance that was purchased in the fourth quarter of 2007.

*Other Expenses.* The following table summarizes other expenses for the three months ended September 30, 2008 and 2007.

	Three Months Ended September 30,			
	2008	2007	\$ change	% change
(Dollars in thousands)				
<b>Other expenses:</b>				
Salaries and employee benefits	\$ 427	\$ 424	\$ 3	0.71%
Directors fees	21	21		
Occupancy	124	120	4	3.33
Deposit insurance premium	28	5	23	460.00
Legal and professional services	57	55	2	3.64
Data processing	58	66	(8)	(12.12)
Other	117	136	(19)	(13.97)
<b>Total other expenses</b>	<b>\$ 832</b>	<b>\$ 827</b>	<b>\$ 5</b>	<b>0.60%</b>

The increase in other expenses was primarily due to an increase in deposit insurance premiums of \$23,000 due to the depletion of our one-time credit from the FDIC, offset by decreases in other miscellaneous expenses of \$19,000. The decrease in other miscellaneous expenses includes decreases in ATM fees of \$10,000 as a result of changing processors, and decreases in bank service charges of \$4,000 primarily as a result of a refund for incorrect billing during 2008. The Company incurred \$4,000 in expenses on foreclosed real estate during the three months ended September 30, 2008 and none during the same period in 2007.

*Income Taxes.* Income tax expense was \$189,000 for the three months ended September 30, 2008, compared to \$120,000 for the same period in 2007. The difference in income tax expense for the periods is a direct result of the differences in pre-tax income for the applicable periods. The effective tax rates for the three months ended September 30, 2008 and 2007 were 35.36% and 32.61%, respectively.

**COMPARISON OF RESULTS OF OPERATION FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007**

*Net Income.* The Company had net income of \$772,000 for the nine months ended September 30, 2008, compared to net income of \$2.0 million for the nine months ended September 30, 2007.

*Net Interest Income.* The following table summarizes interest and dividend income and interest expense for the nine months ended September 30, 2008 and 2007.

	Nine Months Ended September 30,			
	2008	2007	\$ change	% change
(Dollars in thousands)				
<b>Interest and dividend income:</b>				
Interest and fees on loans	\$ 7,575	\$ 7,428	\$ 147	1.98%
<b>Securities:</b>				
Mortgage-backed and related securities	760	806	(46)	(5.71)
U.S. agency securities	254	606	(352)	(58.09)
Non-marketable equity securities		59	(59)	(100.00)
Interest-bearing deposits	101	212	(111)	(52.36)
<b>Total interest and dividend income</b>	<b>8,690</b>	<b>9,111</b>	<b>(421)</b>	<b>(4.62)</b>
<b>Interest expense:</b>				

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Deposits	5,226	5,783	(557)	(9.63)
Other borrowings		9	(9)	(100.00)
<b>Total interest expense</b>	5,226	5,792	(566)	(9.77)
<b>Net interest income</b>	\$ 3,464	\$ 3,319	\$ 145	4.37%

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The following table summarizes average balances and annualized average yield or cost of funds for the nine months ended September 30, 2008 and 2007.

	Nine Months Ended September 30,					
	2008			2007		
	AVERAGE BALANCE	INTEREST	AVERAGE YIELD/ COST (Dollars in thousands)	AVERAGE BALANCE	INTEREST	AVERAGE YIELD/ COST
<b>Interest-earning assets</b>						
Securities, net	\$ 27,873	\$ 1,014	4.85%	\$ 37,671	\$ 1,412	5.00%
Loans receivable, net (1)	158,100	7,575	6.39%	149,501	7,428	6.62%
Non-marketable equity securities	2,535			2,535	59	3.08%
Other investments	6,812	101	1.98%	5,201	212	5.40%
<b>Total interest-earning assets</b>	<b>195,320</b>	<b>8,690</b>	<b>5.93%</b>	<b>194,908</b>	<b>9,111</b>	<b>6.23%</b>
<b>Interest-bearing liabilities</b>						
Money Market accounts	\$ 11,204	\$ 185	2.20%	\$ 8,506	\$ 155	2.43%
Passbook accounts	11,195	42	0.50%	11,183	42	0.50%
Certificates of Deposit accounts	150,300	4,960	4.40%	154,360	5,545	4.79%
Checking	9,100	39	0.58%	9,769	41	0.56%
Advances from Federal Home Loan Bank	37			205	9	5.56%
<b>Total interest-bearing liabilities</b>	<b>181,836</b>	<b>5,226</b>	<b>3.83%</b>	<b>184,023</b>	<b>5,792</b>	<b>4.20%</b>
<b>NET INTEREST INCOME</b>		<b>\$ 3,464</b>			<b>\$ 3,319</b>	
<b>NET INTEREST RATE SPREAD (2)</b>			<b>2.10%</b>			<b>2.03%</b>
<b>NET INTEREST MARGIN (3)</b>			<b>2.36%</b>			<b>2.27%</b>
<b>RATIO OF AVERAGE INTEREST-EARNING ASSETS TO AVERAGE INTEREST-BEARING LIABILITIES</b>						
			<b>107.42%</b>			<b>105.92%</b>

(1) Net of loans in process, deferred loan costs (fees), and allowance for loan losses.

(2) The net interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average cost of interest-bearing liabilities.

(3) The net interest margin represents annualized net interest income as a percent of average interest-earning assets.

The following table summarizes the changes in net interest income due to rate and volume for the nine months ended September 30, 2008 and 2007. The column Net is segmented into the changes attributable to variations in volume and the changes attributable to changes in interest rates. The variations attributable to simultaneous volume and rate changes have been proportionately allocated to rate and volume.

	Nine Months Ended September 30, 2008 compared to 2007		
	Increase (decrease) due to VOLUME	Increase (decrease) due to RATE	NET
	(Dollars in Thousands)		
Interest and dividends earned on Securities, net	\$ (356)	\$ (42)	\$ (398)

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Loans receivable, net	412	(265)	147
Non-marketable equity securities		(59)	(59)
Other investments	24	(135)	(111)
Total interest-earning assets	\$ 80	\$ (501)	\$ (421)
Interest expense on			
Money Market accounts	\$ 44	\$ (14)	\$ 30
Certificates of Deposit accounts	(134)	(451)	(585)
Checking	(3)	1	(2)
Advances from Federal Home Loan Bank	(2)	(7)	(9)
Total interest-bearing liabilities	(95)	(471)	(566)
Change in net interest income	\$ 175	\$ (30)	\$ 145

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Net interest income increased \$145,000, or 4.37%, to \$3.5 million for the nine months ended September 30, 2008, from \$3.3 million for the nine months ended September 30, 2007. Interest and dividend income decreased \$421,000, or 4.62%, to \$8.7 million for the nine months ended September 30, 2008, from \$9.1 million for the nine months ended September 30, 2007 due to a decrease in the average yield on interest earning assets to 5.93% from 6.23% due to decreased market rates, offset by an increase of \$412,000 in average interest earning assets to \$195.3 million from \$194.9 million for the nine months ended September 30, 2008, compared to the same period in 2007. Interest expense decreased \$566,000, or 9.77%, due to a decrease in the average cost of interest bearing liabilities to 3.83% from 4.20% due to a declining interest rate environment, and a decrease of \$2.2 million in average interest bearing liabilities for the nine months ended September 30, 2008, compared to the same period in 2007.

*Provision for Loan Losses.* Management recorded a loan loss provision of \$33,000 for the nine months ended September 30, 2008, compared to a negative provision of \$2.0 million for the nine months ended September 30, 2007. The negative loss provision recorded in 2007 compared to 2008 was primarily due to recoveries from the CLC Creditors Trust on previously charged off loans. Based on a general review of the loans that were in the loan portfolio at September 30, 2008, management believes that the allowance is maintained at a level that represents its best estimate of inherent losses in the loan portfolio that were both probable and reasonably estimable.

*Other Income.* The following table summarizes other income for the nine months ended September 30, 2008 and 2007.

	Nine Months Ended September 30,			
	2008	2007	\$ change	% change
(Dollars in thousands)				
<b>Other income:</b>				
Gain (loss) on sale of securities available for sale	\$ 66	\$	\$ 66	100.00%
Gain on sale of loans	48	29	19	65.52
Amortization of mortgage servicing rights, net of originations	4	1	3	300.00
Loss on sale of foreclosed real estate	(8)		(8)	(100.00)
Loss on sale of repossessed assets	(27)		(27)	(100.00)
Customer service fees	187	174	13	7.47
Income on bank owned life insurance	46		46	100.00
Other	36	28	8	28.57
<b>Total other income</b>	<b>\$ 352</b>	<b>\$ 232</b>	<b>\$ 120</b>	<b>51.72%</b>

The increase in total other income was primarily due to gains on the sale of available for sale securities, income on bank owned life insurance that was purchased in the fourth quarter of 2007, and increased activity in the origination and sale of loans originated for sale. The increase was offset by losses on the sale of foreclosed real estate and repossessed assets.

*Other Expenses.* The following table summarizes other expenses for the nine months ended September 30, 2008 and 2007.

	Nine Months Ended September 30,			
	2008	2007	\$ change	% change
(Dollars in thousands)				
<b>Other expenses:</b>				
Salaries and employee benefits	\$ 1,297	\$ 1,254	\$ 43	3.43%
Directors fees	63	64	(1)	(1.56)
Occupancy	365	360	5	1.39
Deposit insurance premium	38	16	22	137.50
Legal and professional services	194	158	36	22.78
Data processing	217	193	24	12.44
Other	411	389	22	5.66
<b>Total other expenses</b>	<b>\$ 2,585</b>	<b>\$ 2,434</b>	<b>\$ 151</b>	<b>6.20%</b>





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The increase in salaries and employee benefits is primarily due to increases in the Company's retirement expenses. The increase in deposit insurance premiums is primarily due to the depletion of our one-time credit from the FDIC. Legal and professional costs increased primarily due to increased costs incurred in maintaining compliance with various state and federal regulations.

*Income Taxes.* Income tax expense was \$425,000 for the nine months ended September 30, 2008, compared to \$1.2 million for the same period in 2007. The difference in income tax expense for the periods is a direct result of the differences in pre-tax income for the applicable periods. The effective tax rates for the nine months ended September 30, 2008 and 2007 were 35.47% and 36.90%, respectively.

## **LIQUIDITY AND CAPITAL RESOURCES**

*Liquidity.* Liquidity management for the Bank is measured and monitored on both a short and long-term basis, allowing management to better understand and react to emerging balance sheet trends. After assessing actual and projected cash flow needs, management seeks to obtain funding at the most economical cost to the Bank. Our primary sources of funds are deposits, amortization, prepayments and maturities of outstanding loans and mortgage-backed and related securities, and other short term investments, and funds provided from operations. While scheduled payments from amortization of loans and mortgage-backed related securities and maturing investment securities and short-term investments are relatively predictable sources of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions and competition. We invest excess funds in short-term interest-earning assets, which enable us to meet lending requirements.

At September 30, 2008 the Bank had outstanding commitments to originate \$1.7 million in loans, unfunded lines of credit of \$7.8 million, unfunded commitments on construction loans of \$1.4 million, and unfunded standby letters of credit of \$148,000. In addition, as of September 30, 2008, the total amount of certificates of deposit that were scheduled to mature in the following 12 months was \$131.7 million. The Bank believes that it has adequate resources to fund all of its commitments and that it can adjust the rate on certificates of deposit to retain deposits in changing interest rate environments. If the Bank requires funds beyond its internal funding capabilities, advances from the Federal Home Loan Bank of Chicago are available as an additional source of funds. As of September 30, 2008, the Bank had \$46.9 million of available credit from the Federal Home Loan Bank of Chicago, based on 20 times the amount of our capital stock in the FHLB. There were no Federal Home Loan Bank advances outstanding at September 30, 2008.

*Capital.* The Bank is required to maintain regulatory capital sufficient to meet Tier 1 leverage, Tier 1 risk-based and total risk-based capital ratios of at least 4.0%, 4.0% and 8.0%, respectively. The Bank exceeded each of its capital requirements with ratios at September 30, 2008 of 9.93%, 16.81% and 17.24%, respectively, compared to ratios at December 31, 2007 of 10.02%, 16.66% and 17.15%, respectively.

## **OFF-BALANCE SHEET ARRANGEMENTS**

In the normal course of operations, we engage in a variety of financial transactions that, in accordance with generally accepted accounting principles, are not recorded in our financial statements. These transactions involve, to varying degrees, elements of credit, interest rate and liquidity risk. Such transactions are used primarily to manage customers' requests for funding and take the form of loan commitments and lines of credit.

For the nine months ended September 30, 2008, we did not engage in any off-balance sheet transactions reasonably likely to have a material effect on our financial condition, results of operations or cash flows.

## **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

This Item is not applicable as the Company is a smaller reporting company.

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**ITEM 4T. CONTROLS AND PROCEDURES**

*Controls and Procedures*

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

In addition, there have been no changes in the Company's internal control over financial reporting during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**Part II Other Information**

**ITEM 1 LEGAL PROCEEDINGS**

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

**ITEM 1A RISK FACTORS**

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part 1, Item 1. Description of Business Risk Factors in our Annual Report on Form 10-KSB for the year ended December 31, 2007, which could materially affect our business, financial condition or future results. As of September 30, 2008, the risk factors of the Company have not changed materially except as described below, from those reported in the Company's Annual Report on Form 10-KSB. However, the risks described in our Annual Report on Form 10-KSB are not the only risks that we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

**The impact on the Company of recently enacted legislation, in particular, the Emergency Economic Stabilization Act of 2008 and its implementing regulations, and actions by the FDIC, cannot be predicted at this time.**

On October 3, 2008, President Bush signed into law the Emergency Economic Stabilization Act of 2008 (EESA). The legislation was the result of a proposal by the United States Treasury Department (Treasury) Secretary Henry Paulson to the U.S. Congress in response to the financial crises affecting the banking system and financial markets. EESA increases the amount of deposits insured by the FDIC to \$250,000. On October 14, 2008, the FDIC announced a new program—the Temporary Liquidity Guarantee Program that provides unlimited deposit insurance on funds in noninterest-bearing transaction deposit accounts not otherwise covered by the existing deposit insurance limit of \$250,000. The increased insurance coverage is effective through December 30, 2009, unless otherwise extended by the FDIC. All eligible institutions will be covered under the program until the opt-out deadline of December 5, 2008 without incurring any costs. After the initial period, participating institutions will be assessed a 10 basis point surcharge on the additional insured deposits. The Company will participate in this program. We may be required to pay significantly higher FDIC premiums in addition to participation in the Temporary Liquidity Guarantee Program because market developments have significantly depleted the insurance fund of the FDIC and reduced the ratio of reserves to insured deposits. Additionally, the behavior of depositors in regard to the level of FDIC insurance is unpredictable and could cause the Bank's existing customers to change the amount of deposits held at the Bank, and could cause new customers to open deposit accounts at the Bank. The level and composition of the Bank's deposit portfolio directly impacts the Bank's funding cost and net interest margin.

On October 14, 2008, Treasury announced the TARP Capital Purchase Program, pursuant to which Treasury will purchase up to \$250 billion of senior preferred stock on standardized terms in banks. The first \$125 billion of this program was allocated to nine major financial institutions. Applications to participate in TARP were required to be filed by November 14, 2008 for the remaining \$125 billion. The Company has not filed an application to participate in TARP, and does not expect this decision to have an adverse affect on its business, financial condition or future results.

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ITEM 2 UNREGISTERED SALES OF SECURITIES AND USE OF PROCEEDS

Not applicable.

ITEM 3 DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

ITEM 5 OTHER INFORMATION

Not applicable.

ITEM 6 EXHIBITS

<b>Exhibit No.</b>	<b>Description</b>
3.1	Certificate of Incorporation of Ottawa Savings Bancorp, Inc. (incorporated by reference to Exhibit 3.1 to Company's Registration Statement on Form SB-2, No. 333-123455, filed on May 3, 2005, as amended)
3.2	Bylaws of Ottawa Savings Bancorp, Inc. (incorporated by reference to Exhibit 3.2 to Company's Registration Statement on Form SB-2, No. 333-123455, filed on May 3, 2005, as amended)
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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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.

OTTAWA SAVINGS BANCORP, INC.

Registrant

Date: November 14, 2008

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

Date: November 14, 2008

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