DSA FINANCIAL CORP
Form 10QSB
May 15, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-QSB

(Mark One)

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

For the quarterly period ended MARCH 31, 2006

OR

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

For the transition period from ____________ to _______________

Commission File No. 0-50864

DSA FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

DELAWARE	20-1661802
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

118 WALNUT STREET, LAWRENCEBURG, INDIANA 47025
(Address of principal executive office)

Registrant's telephone number, including area code: (812) 537-0940

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes |X| No |_|

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes |_| No |X|

As of May 11, 2006, the latest practicable date, 1,686,662 shares of the registrant's common stock, $.01 par value, were issued and outstanding.

Transitional Small Business Disclosure Format: Yes |_| No |X|

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DSA FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(In thousands, except share data)

ASSETS	MARCH 31, 2006 (Unaudited)	JUNE 20
Cash and due from banks	$ 1,363	$
Interest-bearing deposits in other financial institutions	2,192	
Cash and cash equivalents	3,555	
Certificates of deposit in other financial institutions	--	
Investment securities designated as available for sale - at market	4,406	
Mortgage-backed securities designated as available for sale - at market	501	
Loans receivable - net	85,408	7
Loans held for sale - at lower of cost or market	100	
Real estate acquired through foreclosure	--	
Office premises and equipment - at depreciated cost	1,727	

Stock in Federal Home Loan Bank - at cost	1,150	
Accrued interest receivable on loans	402	
Accrued interest receivable on investments	38	
Cash surrender value of life insurance	2,817	
Prepaid expenses and other assets	421	
Prepaid income taxes	15	
Deferred income taxes	362	
Total assets	$ 100,902	$ 9
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits	$ 75,293	$ 6
Borrowings from the Federal Home Loan Bank	7,000	
Advances by borrowers for taxes and insurance	208	
Accounts payable on mortgage loans serviced for others	143	
Accrued interest payable	16	
Other liabilities	1,069	
Total liabilities	83,729	7
Stockholders' equity		
Preferred stock - 1,000,000 and 10,000 shares of $0.01 par value authorized as of June 30, 2005 and March 31, 2006, respectively; no shares issued	--	
Common stock - 5,000,000 and 2,500,000 shares of $0.01 par value authorized as of June 30, 2005 and March 31, 2006, respectively; 1,644,242 shares issued and outstanding	16	
Additional paid-in capital	10,307	1
Retained earnings, restricted	7,668	
Accumulated comprehensive income (loss), net of related tax effects	(95)	
Shares acquired by stock benefit plans	(723)	
Total stockholders' equity	17,173	1
Total liabilities and stockholders' equity	$ 100,902	$ 9

DSA FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF EARNINGS

(Unaudited)
(In thousands, except per share data)

	FOR THE THREE MONTHS ENDED MARCH 31, 2006	2005
Interest income		
Loans	$ 1,351	$ 1,081
Mortgage-backed securities	5	9

Investment securities	40	38
Interest-bearing deposits and other	32	29
Total interest income	1,428	1,157
Interest expense		
Deposits	581	299
Borrowings	75	54
Total interest expense	656	353
Net interest income	772	804
Provision for losses on loans	31	18
Net interest income after provision for losses on loans	741	786
Other income		
Gain on sale of loans	17	15
Gain (loss) on sale of investment and mortgage-backed securities	--	--
Gain on sale of real estate acquired through foreclosure	28	13
Cash surrender value of life insurance	26	18
Other operating	50	52
Total other income	121	98
General, administrative and other expense		
Employee compensation and benefits	323	304
Occupancy and equipment	40	46
Data processing	33	33
Other operating	122	132
Total general, administrative and other expense	518	515
Earnings before income taxes	344	369
Income taxes		
Current	182	82
Deferred	(51)	57
Total income taxes	131	139
NET EARNINGS	$ 213	$ 230
EARNINGS PER SHARE Basic and diluted	$ .14	$ .15
DIVIDENDS PER SHARE	$ .1050	$ .1035

DSA FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)
(In thousands)

	FOR THE THREE MONTHS ENDED MARCH 31, 2006	2005	FOR 20
Net earnings	$ 213	$ 230	$
Other comprehensive income (loss), net of tax:			
Unrealized holding gains (losses) on securities during the period, net of taxes (benefits) of $(7), $(27), $(42) and $34 during the respective periods	(10)	(36)	
Reclassification adjustment for realized (gains) losses included in earnings, net of taxes (benefits) of $68 and $(1) for the nine months ended March 31, 2006 and 2005, respectively	--	--	
Comprehensive income	$ 203	$ 194	$
Accumulated comprehensive loss	$ (95)	$ (79)	$

DSA FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the nine months ended March 31,
(Unaudited)
(In thousands)

	2006
Cash flows from operating activities:	
Net earnings for the period	$ 682
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:	
Amortization of discounts and premiums on loans, investments and mortgage-backed securities - net	(4)
Amortization of deferred loan origination fees	(8)
Amortization of mortgage servicing rights	53
Provision for losses on loans	62
Depreciation and amortization	61
Increase in cash surrender value of life insurance	(72)

Amortization expense of stock benefit plan	80
Gain on sale of real estate acquired through foreclosure	(19)
(Gain) loss on sale of investment and mortgage-backed securities designated as available for sale	(159)
Origination of loans for sale in the secondary market	(2,131)
Proceeds from sale of loans in the secondary market	2,047
Gain on sale of loans	(16)
Federal Home Loan Bank stock dividends	--
Increase (decrease) in cash due to changes in:	
Accrued interest receivable on loans	(65)
Accrued interest receivable on investments	(11)
Prepaid expenses and other assets	69
Accounts payable on mortgage loans serviced for others	76
Accrued interest payable	--
Other liabilities	(45)
Income taxes	
Current	89
Deferred	(112)
Net cash provided by operating activities	577
Cash flows provided by (used in) investing activities:	
Purchase of investment securities designated as available for sale	(150)
Proceeds from sale of investment securities designated as available for sale	203
Proceeds from maturity and principal repayments of investment securities	10
Principal repayments on mortgage-backed securities	319
Principal repayments on loans	16,261
Loan disbursements	(25,585)
Purchase of office premises and equipment	(153)
Purchase of cash surrender value of life insurance	(900)
Redemption of cash surrender value of life insurance	24
(Increase) decrease in certificates of deposit in other financial institutions	831
Proceeds from sale of real estate acquired through foreclosure	351
Capital improvements to real estate acquired through foreclosure	(4)
Net cash used in investing activities	(8,793)
Net cash used in operating and investing activities (balance carried forward)	(8,216)

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DSA FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

For the nine months ended March 31,
(Unaudited)
(In thousands)

	2006
Net cash used in operating and investing activities	

(balance brought forward)	$ (8,216)
Cash flows provided by financing activities:	
Net increase (decrease) in deposit accounts	8,402
Repayment of Federal Home Loan Bank borrowings	(4,000)
Proceeds from Federal Home Loan Bank borrowings	4,000
Advances by borrowers for taxes and insurance	--
Proceeds from issuance of common stock	--
Dividends paid on common stock	(674)
Net cash provided by financing activities	7,728
Net decrease in cash and cash equivalents	(488)
Cash and cash equivalents at beginning of period	4,043
Cash and cash equivalents at end of period	$ 3,555
Supplemental disclosure of cash flow information: Cash paid during the period for:	
Income taxes	$ 407
Interest on deposits and borrowings	$ 1,732
Supplemental disclosure of noncash investing activities:	
Unrealized gains (losses) on securities designated as available for sale, net of related tax effects	$ (57)
Recognition of mortgage servicing rights in accordance with SFAS No. 140	$ 16
Transfers from loans to real estate acquired through foreclosure	$ 278
Loans originated upon sale of real estate acquired through foreclosure	$ 37

DSA FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended March 31, 2006 and 2005

1. BASIS OF PRESENTATION

The Board of Directors of Dearborn Mutual Holding Company (the "M.H.C.") adopted a Plan of Conversion (the "Plan") on December 30, 2003. Pursuant to the Plan, which was completed effective July 28, 2004, the M.H.C. converted from the mutual holding company form of organization to the fully public form. The M.H.C., the mutual holding company parent of Dearborn Financial Corporation, merged into Dearborn Savings Association F.A. ("Dearborn Savings" or the "Association"), and as a result the M.H.C. no longer exists. Pursuant to the Plan, Dearborn Financial Corporation, which owned 100% of Dearborn Savings, was succeeded by a new Delaware corporation named DSA Financial Corporation ("DSA Financial" or the "Corporation"). As part of the conversion, the M.H.C.'s ownership interest, as formerly evidenced by 250,000 shares of Dearborn Financial Corporation common stock, was sold in a subscription and community offering and to a newly-formed Employee Stock Ownership Plan. Shares of existing stockholders of Dearborn Financial Corporation were exchanged for shares of DSA Financial, pursuant to an exchange ratio of 3.3926-to-one. The offering resulted in proceeds, net of costs related to the offering, of $7.2 million. Following the completion of the Plan, DSA Financial had 1,644,242 total shares issued. Following the completion of the conversion, effective July 28, 2004, all of the capital stock of Dearborn Savings is held by DSA Financial.

The accompanying unaudited consolidated financial statements were prepared in accordance with instructions for Form 10-QSB and, therefore, do not include information or footnotes necessary for a complete presentation of financial position, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America. Accordingly, these financial statements should be read in conjunction with the financial statements and notes thereto of the Corporation for the year ended June 30, 2005. However, in the opinion of management, all adjustments (consisting of only normal recurring accruals) which are necessary for a fair presentation of the financial statements have been included. The results of operations for the three- and nine-month periods ended March 31, 2006, are not necessarily indicative of the results which may be expected for the entire fiscal year.

2. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Corporation and the Association. All intercompany transactions and balances have been eliminated.

3. EARNINGS PER SHARE

Basic earnings per share is computed based upon the weighted-average common shares outstanding during the period, less shares in the ESOP that are unallocated and not committed to be released, and were restated for the effects of the Corporation's reorganization and related stock offering. Weighted-average common shares deemed outstanding, which gives effect to a reduction for 60,130 unallocated shares held by the ESOP, totaled 1,584,112 for each of the three- and nine-month periods ended March 31, 2006. Weighted-average common shares deemed outstanding, which gives effect to a reduction for 67,876 unallocated shares held by the ESOP, totaled 1,576,366 for each of the three- and nine-month periods ended March 31, 2005.

The Corporation had no dilutive or potentially dilutive securities at March 31, 2006 and 2005.

At the Annual Meeting of Stockholders held on November 10, 2005, the Corporation's shareholders approved the DSA Financial Corporation 2005 Stock-Based Incentive Plan. On April 20, 2006, the Corporation awarded 42,420 shares of restricted stock to directors and certain officers and employees of the Corporation. These awards will vest over a five year period beginning on the date of the award.

DSA FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three and nine months ended March 31, 2006 and 2005

4. EFFECTS OF RECENT ACCOUNTING PRONOUNCEMENTS

In December 2004, the Financial Accounting Standards Board (the "FASB") issued a revision to Statement of Financial Accounting Standards ("SFAS") No. 123 which establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services, primarily on accounting for transactions in which an entity obtains employee services in share-based transactions. This Statement, SFAS No. 123(R) "Share-Based Payment," requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award, with limited exceptions. That cost will be recognized over the period during which an employee is required to provide services in exchange for the award - the requisite service period. No compensation cost is recognized for equity instruments for which employees do not render the requisite service. Employee share purchase plans will not result in recognition of compensation cost if certain conditions are met.

Initially, the cost of employee services received in exchange for an award of liability instruments will be measured based on current fair value; the fair value of that award will be remeasured subsequently at each reporting date through the settlement date. Changes in fair value during the requisite service period will be recognized as compensation cost over that period. The grant-date fair value of employee share options and similar instruments will be estimated using option-pricing models adjusted for the unique characteristics of those instruments (unless observable market prices for the same or similar instruments are available). If an equity award is modified after the grant date, incremental compensation cost will be recognized in an amount equal to the excess of the fair value of the modified award over the fair value of the original award immediately before the modification.

Excess tax benefits, as defined by SFAS 123(R) will be recognized as an addition to additional paid-in capital. Cash retained as a result of those excess tax benefits will be presented in the statement of cash flows as financing cash inflows. The write-off of deferred tax assets relating to unrealized tax benefits associated with recognized compensation cost will be recognized as income tax expense unless there are excess tax benefits from previous awards remaining in additional paid-in capital to which it can be offset.

Compensation cost is required to be recognized in the first annual or interim period that begins after December 15, 2005, or January 1, 2006 as to the Corporation. The Corporation currently has a stock option plan that is subject to the provisions of SFAS No. 123(R). However, at the time of this filing, no stock options have been granted.

In March 2006, the FASB issued SFAS No. 156, "Accounting for Servicing of Financial Assets - an amendment of SFAS No. 140," to simplify the accounting for separately recognized servicing assets and servicing liabilities. Specifically, SFAS No. 156 amends SFAS No. 140 to require an entity to take the following steps:

- Separately recognize financial assets as servicing assets or servicing liabilities, each time it undertakes an obligation to service a financial asset by entering into certain kinds of servicing contracts;

- Initially measure all separately recognized servicing assets and liabilities at fair value, if practicable; and

- Separately present servicing assets and liabilities subsequently measured at fair value in the statement of financial condition and additional disclosures for all separately recognized servicing assets and servicing liabilities.

4. EFFECTS OF RECENT ACCOUNTING PRONOUNCEMENTS (continued)

Additionally, SFAS No. 156 permits, but does not require, an entity to choose either the amortization method or the fair value measurement method for measuring each class of separately recognized servicing assets and servicing liabilities. SFAS No. 156 also permits a servicer that uses derivative financial instruments to offset risks on servicing to use fair value measurement when reporting both the derivative financial instrument and related servicing asset or liability.

SFAS No. 156 applies to all separately recognized servicing assets and liabilities acquired or issued after the beginning of an entity's fiscal year that begins after September 15, 2006, or July 1, 2007 as to the Corporation, with earlier application permitted. The Corporation is currently evaluating SFAS No. 156, but does not expect it to have a material effect on the Corporation's financial condition or results of operations.

DSA FINANCIAL CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD LOOKING STATEMENTS

This document contains certain "forward-looking statements" which may be identified by the use of words such as "believe," "expect," "anticipate," "should," "planned," "estimated" and "potential." Examples of forward-looking statements include, but are not limited to, estimates with respect to our financial condition, results of operations and business that are subject to various factors which could cause actual results to differ materially from these estimates and most other statements that are not historical in nature. These factors include, but are not limited to, general and local economic conditions, changes in interest rates, deposit flows, demand for mortgage and other loans, real estate values, and competition; changes in accounting principles, policies, or guidelines; changes in legislation or regulation; and other economic, competitive, governmental, regulatory, and technological factors affecting our operations, pricing products and services.

CRITICAL ACCOUNTING POLICIES

There were no material changes to the Corporation's critical accounting policies since that disclosed in the Corporation's Form 10-KSB as of June 30, 2005.

DISCUSSION OF FINANCIAL CONDITION CHANGES FROM JUNE 30, 2005 TO MARCH 31, 2006

ASSETS. Total assets increased $8.4 million, or 9.1%, to $100.9 million at March 31, 2006, from $92.5 million at June 30, 2005. The increase in assets resulted from a $9.1 million increase in loans, net, including loans held for sale, to $85.5 million at March 31, 2006 from $76.4 million at June 30, 2005, and a $948,000 increase in cash surrender value of life insurance, to $2.8 million at March 31, 2006 from $1.9 million at June 30, 2005, partially offset by an $829,000 decrease in certificates of deposit in other financial institutions, to $ -0- at March 31, 2006 from $829,000 at June 30, 2005. The increase in cash surrender value of life insurance reflects a $900,000 purchase of policies on certain directors of the Corporation. The decrease in certificates of deposit resulted primarily from maturities. Management elected to fund loan originations with proceeds from these maturities. The increase in loans reflected increases of $4.8 million in one- to four-family residential real estate, $278,000 in multi-family residential real estate and $3.4 million in nonresidential real estate and land loans. Throughout fiscal 2005 and through the first two quarters of fiscal 2006, we had opted to retain a majority of our recently originated fixed-rate, one- to four-family residential real estate loans in our portfolio due to our strong capital position. However, we have recently begun to sell a greater percentage of our current loan production. In addition, we maintain construction loans, nonresidential real estate and land loans in our portfolio because they are originated at favorable rates of interest compared to one- to four-family residential real estate loans and assist us in managing interest rate risk.

LIABILITIES. Total liabilities increased $8.4 million, or 11.2%, to $83.7 million at March 31, 2006 from $75.3 million at June 30, 2005. The increase in liabilities primarily reflects an $8.4 million, or 12.6%, increase in deposits, to $75.3 million at March 31, 2006 from $66.9 million at June 30, 2005. The increase in deposits consisted of an increase of $11.5 million in certificates of deposit, partially offset by a decrease of $3.1 million in passbook accounts. The growth in certificates of deposit included $5.0 million of public funds, as well as growth related to the higher interest rates offered during the period.

STOCKHOLDERS' EQUITY. Stockholders' equity decreased $60,000, or 0.3%, to $17.2 million at March 31, 2006, reflecting a $148,000 increase in the unrealized losses on securities available for sale coupled with dividends paid of $674,000, which were partially offset by net earnings of $682,000 and a decrease of $57,000 in shares acquired by stock benefit plans. The $148,000 increase in unrealized losses resulted primarily from the sale of an investment in December, 2005 that reflected an unrealized gain of $89,000 at June 30, 2005.

COMPARISON OF OPERATING RESULTS FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2006 AND 2005

GENERAL. Net earnings decreased $17,000, or 7.4%, to $213,000 for the three months ended March 31, 2006, from $230,000 for the three months ended March 31, 2005. The decrease resulted primarily from a $32,000 decrease in net interest income and a $13,000 increase in the provision for losses on loans, partially offset by an increase of $23,000 in other income.

INTEREST INCOME. Interest income was $1.4 million for the three months ended March 31, 2006, an increase of $271,000, or 23.4%, over the $1.2 million recorded for the three months ended March 31, 2005. Material changes occurred primarily in interest income on loans.

Interest income on loans increased $270,000, or 25.0%, to $1.4 million for the three months ended March 31, 2006 from $1.1 million for the three months ended March 31, 2005. The increase was due primarily to a $13.4 million, or 18.9%, increase in the average balance of loans outstanding, and an increase of 31 basis points in the average yield, to 6.39% for the three months ended March 31, 2006, from 6.08% for the three months ended March 31, 2005.

INTEREST EXPENSE. Interest expense increased $303,000, or 85.8%, to $656,000 for the three months ended March 31, 2006 from $353,000 for the three months ended March 31, 2005. The increase in interest expense resulted from a $282,000 increase in interest expense on deposits and a $21,000 increase in interest expense on borrowed money.

Interest expense on deposits increased $282,000, or 94.3%, to $581,000 for the three months ended March 31, 2006 from $299,000 for the three months ended March 31, 2005. The increase was due to a 120 basis point increase in the average rate paid on deposits to 3.02% for the three months ended March 31, 2006 from 1.82% for the same period in 2005, and an increase in the average balance of deposits outstanding of $11.3 million, or 17.2%. The average balance of certificates of deposit increased $15.4 million, or 43.8%, and the average rate paid increased 130 basis points, to 3.80% for the three months ended March 31, 2006 from 2.50% for the three months ended March 31, 2005. The average balance of passbook accounts decreased by $3.2 million, or 17.9%, while the average cost of passbook accounts increased by 84 basis points to 2.28% for the period. The increase in the cost of deposits was due to the increase in interest rates in the overall economy during the period. The interest rates offered on deposits by Dearborn Savings were increased to match rates offered by competitors to maintain deposit share.

Interest expense on borrowings increased $21,000, or 38.9%, to $75,000 for the three months ended March 31, 2006 from $54,000 for the three months ended March 31, 2005. The increase was due to a 40 basis point increase in the average rate paid on borrowings to 4.72% for the three months ended March 31, 2006 from 4.32% for the same period in 2005, and an increase in the average balance of borrowings outstanding of $1.4 million, or 27.1%. Management increased borrowings between periods primarily to fund loan growth.

NET INTEREST INCOME. The foregoing changes in our interest income and our interest expense resulted in a $32,000, or 4.0%, decrease in net interest income, to $772,000 for the three months ended March 31, 2006, from $804,000 for the three months ended March 31, 2005. Our interest rate spread decreased to 3.04% in the 2006 quarter from 3.76% in the 2005 quarter and our net interest margin decreased to 3.35% during the 2006 quarter from 4.00% during the 2005 quarter, while average net interest-earning assets decreased to $8.9 million for the three months ended March 31, 2006 from $9.6 million for the three months ended March 31, 2005.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS (CONTINUED)

COMPARISON OF OPERATING RESULTS FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2006 AND 2005 (continued)

PROVISION FOR LOSSES ON LOANS. We establish provisions for losses on loans, which are charged to operations, at a level necessary to absorb known and inherent losses that are both probable and reasonably estimable at the date of the financial statements. Management made provisions of $31,000 and $18,000 for the three months ended March 31, 2006 and 2005, respectively. We used the same methodology and generally similar assumptions in assessing the allowance for both periods. The allowance for loan losses was $415,000, or 0.47%, of gross loans outstanding at March 31, 2006, as compared with $362,000, or 0.45%, of gross loans outstanding at June 30, 2005. The level of the allowance is based on estimates, and ultimate losses may vary from the estimates.

Determining the amount of the allowance for loan losses necessarily involves a high degree of judgment. Management reviews the level of the allowance on a quarterly basis, at a minimum, and establishes the provision for losses on loans based on the composition of the loan portfolio, delinquency levels, loss experience, economic conditions, and other factors related to the collectibility of the loan portfolio. Nonperforming loans totaled $397,000, or 0.46% of total loans at March 31, 2006, compared to $174,000, or 0.23% of total loans at March 31, 2005. Nonperforming loans consisted solely of one- to four-family residential loans at March 31, 2006. Management expects no losses on these nonperforming loans. The provision for losses on loans for the three months ended March 31, 2006 was predicated primarily upon growth in the portfolio of loans secured by nonresidential real estate and loans secured by one- to four-family residential real estate.

Although we believe that we use the best information available to establish the allowance for loan losses, future additions to the allowance may be necessary based on estimates that are susceptible to change as a result of changes in economic conditions and other factors. In addition, the Office of Thrift Supervision, as an integral part of its examination process, periodically reviews our allowance for loan losses. The Office of Thrift Supervision may require us to recognize adjustments to the allowance based on its judgment regarding the adequacy of our allowance for loan losses at the time of its examination.

OTHER INCOME. Other income increased $23,000, or 23.5%, to $121,000 for the three months ended March 31, 2006 from $98,000 for the three months ended March 31, 2005. The increase resulted primarily from a $15,000, or 115%, increase in gain on sale of real estate acquired through foreclosure to $28,000 for the three months ended March 31, 2006 from $13,000 for the three months ended March 31, 2005. We sold $1.2 million of loans during the three months ended March 31, 2006 compared to $646,000 of such sales during the three months ended March 31, 2005. The increase in sales volume resulted from management's recent decision to begin selling certain one- to four-family fixed-rate residential loans during the current period.

GENERAL, ADMINISTRATIVE AND OTHER EXPENSE. General, administrative and other expense increased $3,000, or 0.58%, to $518,000 for the three months ended March 31, 2006 from $515,000 for the three months ended March 31, 2005. The increase resulted primarily from a $19,000, or 6.3%, increase in employee compensation and benefits expense, to $323,000 for the three months ended March 31, 2006 from $304,000 for the three months ended March 31, 2005, primarily offset by a decrease in other operating expense of $10,000, or 7.6%, to $122,000 for the three-month period ended March 31, 2006 from $132,000 for the three-month period ended March 31, 2005. The increase in employee compensation and benefits resulted from normal merit increases and increases in benefit plan costs, including the directors deferred compensation plan, the employee SEP plan and the employee stock ownership plan (ESOP). The decrease in other operating expense resulted primarily from a decrease in legal fees.

INCOME TAXES. The provision for income taxes was $131,000 for the three months ended March 31, 2006 and $139,000 for the three months ended March 31, 2005, reflecting effective tax rates of 38.1% and 37.7%, respectively.

COMPARISON OF OPERATING RESULTS FOR THE NINE-MONTH PERIODS ENDED MARCH 31, 2006 AND 2005

GENERAL. Net earnings increased $38,000, or 5.9%, to $682,000 for the nine months ended March 31, 2006, from $644,000 for the nine months ended March 31, 2005. The increase resulted primarily from an increase in the gain on sale of investments of $161,000, partially offset by a $90,000 increase in general, administrative and other expense and a $32,000 increase in the provision for losses on loans.

INTEREST INCOME. Interest income was $4.0 million for the nine months ended March 31, 2006, an increase of $743,000, or 22.5%, over the $3.3 million recorded for the nine months ended March 31, 2005. Material changes occurred in interest income on loans and to a lesser extent in interest income on investment securities.

Interest income on loans increased $786,000, or 26.0%, to $3.8 million for the nine months ended March 31, 2006 from $3.0 million for the nine months ended March 31, 2005. The increase was due primarily to a $15.2 million, or 23.1%, increase in the average balance of loans outstanding, and an increase of 14 basis points in the average yield, to 6.28% for the nine months ended March 31, 2006, from 6.14% for the nine months ended March 31, 2005.

Interest income on investment securities decreased by $28,000, or 19.3%, due primarily to a $1.2 million, or 22.1%, decrease in the average outstanding balance.

INTEREST EXPENSE. Interest expense increased $731,000, or 73.0%, to $1.7 million for the nine months ended March 31, 2006 from $1.0 million for the nine months ended March 31, 2005. The increase in interest expense resulted from a $643,000 increase in interest expense on deposits and an $88,000 increase in interest expense on borrowed money.

Interest expense on deposits increased $643,000, or 76.4%, to $1.5 million for the nine months ended March 31, 2006 from $842,000 for the nine months ended March 31, 2005. The increase was due to a 97 basis point increase in the average rate paid on deposits to 2.71% for the nine months ended March 31, 2006 from 1.74% for the same period in 2005, and an increase in the average balance of deposits outstanding of $8.7 million, or 13.5%. The average balance of certificates of deposit increased by $12.6 million, or 38.2%, and the average rate paid increased 110 basis points, to 3.55% for the nine months ended March

31, 2006 from 2.45% for the nine months ended March 31, 2005. The average balance of passbook accounts decreased by $3.7 million, or 19.3%, while the average cost of passbook accounts increased by 59 basis points to 1.91% for the period. The increase in the cost of deposits was due to the increase in interest rates in the overall economy during the period. The interest rates offered on deposits by Dearborn Savings were increased to match rates offered by competitors to maintain deposit share.

Interest expense on borrowings increased $88,000, or 55.3%, to $247,000 for the nine months ended March 31, 2006 from $159,000 for the nine months ended March 31, 2005. The increase was due to a 44 basis point increase in the average rate paid on borrowings to 4.67% for the nine months ended March 31, 2006 from 4.23% for the same period in 2005, and an increase in the average balance of borrowings outstanding of $2.0 million, or 40.8%.

NET INTEREST INCOME. The foregoing changes in our interest income and our interest expense resulted in a $12,000, or 0.5%, increase in net interest income. Our interest rate spread decreased to 3.17% in the 2006 period from 3.70% in the 2005 period and our net interest margin decreased to 3.46% during the 2006 period from 3.92% during the 2005 period, while average net interest-earning assets remained unchanged at $8.9 million for the nine months ended March 31, 2006 and 2005, respectively.

COMPARISON OF OPERATING RESULTS FOR THE NINE-MONTH PERIODS ENDED MARCH 31, 2006 AND 2005 (continued)

PROVISION FOR LOSSES ON LOANS. Management made provisions of $62,000 and $30,000 for the nine months ended March 31, 2006 and 2005, respectively. We used the same methodology and generally similar assumptions in assessing the allowance for both periods. The allowance for loan losses was $415,000, or 0.47% of gross loans outstanding at March 31, 2006, as compared with $362,000, or 0.45%, of gross loans outstanding at June 30, 2005. The level of the allowance is based on estimates, and ultimate losses may vary from the estimates.

The provision for losses on loans for the nine months ended March 31, 2006 was predicated primarily upon growth in the portfolio of loans secured by nonresidential real estate and loans secured by one- to four-family residential real estate.

OTHER INCOME. Other income increased $155,000, or 56.2%, to $431,000 for the nine months ended March 31, 2006 from $276,000 for the nine months ended March 31, 2005. The increase resulted primarily from a gain on the sale of an investment of $159,000, partially offset by a decrease of $24,000 in gain on sale of loans, to $32,000 for the nine months ended March 31, 2006, from $56,000 for the nine months ended March 31, 2005. The gain on sale of investment securities resulted from our redemption of our investment in the common stock of another financial institution, as that entity was acquired during the current period in an all-cash transaction. We sold $1.2 million of loans during the nine months ended March 31, 2006 compared to $2.3 million of such sales during the nine months ended March 31, 2005. The decline in sales volume resulted from management's decision to retain one- to four-family residential loans in our portfolio during the current period, although we have recently begun to reverse that trend by selling certain loans from current production.

GENERAL, ADMINISTRATIVE AND OTHER EXPENSE. General, administrative and other expense increased $90,000, or 5.9%, to $1.6 million for the nine months ended March 31, 2006 from $1.5 million for the nine months ended March 31, 2005. The increase resulted primarily from a $67,000, or 7.4%, increase in employee compensation and benefits expense, to $969,000 for the nine months ended March 31, 2006 from $902,000 for the nine months ended March 31, 2005 and an increase in other operating expense of $35,000, or 9.0%, to $424,000 for the nine-month period ended March 31, 2006 from $389,000 for the nine-month period ended March 31, 2005. The increase in employee compensation and benefits resulted primarily from normal merit increases, an increase in health insurance costs and increases in benefit plan costs, including the directors deferred compensation plan, the employee SEP plan and the employee stock ownership plan (ESOP). The increase in other operating expense resulted from an increase in ATM charges, increased advertising expenditures, and costs associated with becoming a publicly traded company, including Delaware franchise taxes of $17,000.

INCOME TAXES. The provision for income taxes was $393,000 for the nine months ended March 31, 2006 and $386,000 for the nine months ended March 31, 2005, reflecting effective tax rates of 36.6% and 37.5%, respectively. The decrease in the effective tax rate was due primarily to an increase in non-taxable income on cash surrender value of life insurance in the fiscal 2006 period.

LIQUIDITY AND CAPITAL RESOURCES

The Corporation has entered into a contract with a builder providing for the construction of a new headquarters for Dearborn Savings. The building is being constructed on land previously acquired in Lawrenceburg, Indiana at the intersection of U.S. Route 50 and Indiana Route 48. Management currently expects to occupy approximately seventy percent of the building and lease the remainder. The space occupied by the Corporation will include full service banking facilities, as well as administrative offices. Construction began in December 2005 and is expected to be concluded by August 2006. Management has estimated costs of construction, equipment and furnishings to amount to $1.9 million, of which $146,000 has been incurred and paid as of March 31, 2006.

There were no other material changes to the Corporation's liquidity and capital resources since that disclosed in the Corporation's Form 10-KSB as of June 30, 2005.

ITEM 3 CONTROLS AND PROCEDURES

The Corporation's Chief Executive Officer and Chief Financial Officer evaluated the disclosure controls and procedures (as defined under Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this quarterly report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Corporation's disclosure controls and procedures are effective.

There were no changes in the Corporation's internal control over financial reporting that occurred during the quarter ended March 31, 2006 that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

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DSA FINANCIAL CORPORATION

PART II

ITEM 1. LEGAL PROCEEDINGS

Not applicable

ITEM 2. UNREGISTERED SALES OF EQUITY 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

None.

ITEM 6. EXHIBITS

EX-31.1	Certification of Chief Executive Officer pursuant to Rule 13(a) or 15(d)
EX-31.2	Certification of Chief Financial Officer pursuant to Rule 13(a) or 15(d)
EX-32.1	Section 1350 Certification of the Chief Executive Officer
EX-32.2	Section 1350 Certification of the Chief Financial Officer

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DSA FINANCIAL CORPORATION

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.

Date: MAY 11, 2006 By: /S/EDWARD L. FISCHER

Edward L. Fischer
President and Chief Executive Officer

Date: MAY 11, 2006 By: /S/STEVEN R. DOLL

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Steven R. Doll
Chief Financial Officer

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