DSA FINANCIAL CORP
Form 10QSB
November 14, 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 September 30, 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 November 10, 2006, the latest practicable date, 1,684,362 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	SEPTEMBER 30, 2006 (Unaudited)
Cash and due from banks	$ 1,848
Interest-bearing deposits in other financial institutions	322
Cash and cash equivalents	2,170
Investment securities designated as available for sale - at market	4,458
Mortgage-backed securities designated as available for sale - at market	384
Loans receivable - net	91,871
Office premises and equipment - at depreciated cost	2,570
Stock in Federal Home Loan Bank - at cost	1,000
Accrued interest receivable on loans	455
Accrued interest receivable on investments	54
Bank-owned life insurance	2,871
Prepaid expenses and other assets	431

Prepaid income taxes	--
Deferred income taxes	431
Total assets	$106,695
LIABILITIES AND STOCKHOLDERS' EQUITY	
Deposits	$ 78,656
Borrowings from the Federal Home Loan Bank	9,000
Advances by borrowers for taxes and insurance	223
Accounts payable on mortgage loans serviced for others	317
Accrued interest payable	28
Accrued income taxes	123
Other liabilities	1,257
Total liabilities	89,604
Stockholders' equity	
Preferred stock - 10,000 shares of $0.01 par value authorized; no shares issued	--
Common stock - 2,500,000 shares of $0.01 par value authorized; 1,684,362 and 1,686,662 shares issued and outstanding as of September 30, 2006 and June 30, 2006, respectively	17
Additional paid-in capital	10,817
Shares acquired by stock benefit plans	(1,161)
Treasury stock - at cost, 2,300 shares at September 30, 2006	(29)
Retained earnings, restricted	7,509
Accumulated comprehensive loss, net of related tax benefits	(62)
Total stockholders' equity	17,091
Total liabilities and stockholders' equity	$106,695

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DSA FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF EARNINGS

For the three months ended September 30,
(Unaudited)
(In thousands, except per share data)

	2006	2005
Interest income		
Loans	$1,488	$1,182
Mortgage-backed securities	4	7
Investment securities	44	38
Interest-bearing deposits and other	27	42
Total interest income	1,563	1,269
Interest expense		
Deposits	718	424
Borrowings	108	82
Total interest expense	826	506

Net interest income	737	763
Provision for losses on loans	15	7
Net interest income after provision for losses on loans	722	756
Other income (expense)		
Gain on sale of loans	13	11
Loss on sale of real estate acquired through foreclosure	--	(3)
Bank-owned life insurance	25	20
Other operating	61	57
Total other income	99	85
General, administrative and other expense		
Employee compensation and benefits	366	325
Occupancy and equipment	34	38
Data processing	35	34
Other operating	129	134
Total general, administrative and other expense	564	531
Earnings before income taxes	257	310
Income taxes		
Current	143	114
Deferred	(51)	1
Total income taxes	92	115
NET EARNINGS	$ 165	$ 195
EARNINGS PER SHARE Basic and diluted	$ 0.10	$ 0.12
DIVIDENDS DECLARED PER SHARE	$ 0.20	$ 0.20

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DSA FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the three months ended September 30,
(Unaudited)
(In thousands)

	2006	2005
Net earnings	$165	$195
Other comprehensive income, net of related tax effects:		
Unrealized holding gains (losses) on securities during the period, net of taxes (benefits) of $34 and $(18) during the respective periods	48	(25)
Comprehensive income	$213	$170

Accumulated comprehensive income (loss)	$(62)	$ 28

DSA FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three months ended September 30,
(Unaudited)
(In thousands)

	2006	2005
Cash flows from operating activities:		
Net earnings for the period	$ 165	$ 195
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Amortization of discounts and premiums on loans, investments and mortgage-backed securities - net	--	(3)
Amortization of deferred loan origination fees	(1)	(1)
Amortization of mortgage servicing rights	--	11
Provision for losses on loans	15	7
Depreciation and amortization	18	22
Loss on sale of real estate acquired through foreclosure	--	3
Origination of loans for sale in the secondary market	(827)	(532)
Proceeds from sale of loans in the secondary market	833	539
Gain on sale of loans	(6)	(7)
Increase in cash surrender value of life insurance	(26)	(20)
Increase (decrease) in cash due to changes in:		
Accrued interest receivable on loans	(44)	2
Accrued interest receivable on investments	(17)	(18)
Prepaid expenses and other assets	(10)	82
Accounts payable on mortgage loans serviced for others	256	(3)
Accrued interest payable	8	1
Other liabilities	49	27
Income taxes		
Current	146	115
Deferred	(51)	1
Net cash provided by operating activities	508	421
Cash flows used in investing activities:		
Principal repayments on mortgage-backed securities	48	143
Principal repayments on loans	5,835	6,181
Loan disbursements	(8,301)	(7,959)
Loans purchased	(942)	--
Purchase of office premises and equipment	(496)	(7)
Decrease in certificates of deposit in other financial institutions	--	800
Purchase of bank-owned life insurance	--	(900)
Redemption of bank-owned life insurance	--	24
Redemption of Federal Home Loan Bank stock	138	--
Proceeds from sale of real estate acquired through foreclosure	--	51
Improvements to real estate acquired through foreclosure	--	(4)

Net cash used in investing activities	(3,718)	(1,671)
Net cash used in operating and investing activities (balance carried forward)	(3,210)	(1,250)

DSA FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

For the three months ended September 30,
(Unaudited)
(In thousands)

	2006	2005
Net cash used in operating and investing activities (balance brought forward)	$(3,210)	$(1,250)
Cash flows provided by (used in) financing activities:		
Net increase in deposit accounts	2,244	471
Repayment of Federal Home Loan Bank borrowings	(5,500)	--
Proceeds from Federal Home Loan Bank borrowings	6,500	--
Advances by borrowers for taxes and insurance	95	91
Purchase of treasury stock	(29)	--
Dividends paid on common stock	(338)	(329)
Net cash provided by financing activities	2,972	233
Net decrease in cash and cash equivalents	(238)	(1,017)
Cash and cash equivalents at beginning of period	2,408	4,043
Cash and cash equivalents at end of period	$ 2,170	$ 3,026
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Income taxes	$ --	$ --
Interest on deposits and borrowings	$ 818	$ 505
Supplemental disclosure of noncash investing activities:		
Unrealized gains (losses) on securities designated as available for sale, net of related tax effects	$ 48	$ (25)
Recognition of mortgage servicing rights in accordance with SFAS No. 140	$ 7	$ 4
Transfers from loans to real estate acquired through foreclosure	$ --	$ 60

Loans originated upon sale of real estate acquired through foreclosure	$ --	$ 37

DSA FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended September 30, 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") in fiscal 2004. Pursuant to the Plan, which was completed effective in fiscal 2005, 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. was merged out of existence. 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, all of the capital stock of Dearborn Savings was 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, 2006. 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-month periods ended September 30, 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 53,241 unallocated shares held by the ESOP, totaled 1,633,271 for the three-month period ended September 30, 2006. 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 the three-month period ended September 30, 2005.

The Corporation had no dilutive or potentially dilutive securities at September 30, 2006 and 2005.

At the Annual Meeting of Stockholders held in November 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.

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 will be 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.

DSA FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three months ended September 30, 2006 and 2005

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 has adopted the provisions of SFAS No. 156 effective July 1, 2006, without material effect on the Corporation's financial condition or results of operations.

In September 2006, the FASB issued SFAS No. 158, "Employers Accounting for Defined Benefit Pension and Other Postretirement Plans: An Amendment of FASB Statements No. 87, 88, 106 and 132R." The Statement requires recognition of the funded status of postretirement benefit plans in the consolidated statement of financial condition. An employer must recognize an asset or liability in its statement of financial condition for the difference between the fair value of the plan assets and the projected benefit obligations. Changes in the plan's funded status must be recognized, in the year of change, in comprehensive income.

Additionally, the Statement will generally require entities to measure the funded status of the plan as of the date of the year-end statement of financial condition.

The recognition provisions of this Statement are effective for fiscal years ending after December 31, 2006, or June 30, 2007, as to the Corporation. Application as of the end of an earlier fiscal year is encouraged. The Statement is to be applied as of the end of the year adopted. Retrospective application is prohibited.

The provisions that may require an entity to change the plan measurement date are effective for fiscal years ending after December 31, 2008, or June 30, 2009, as to the Corporation.

Management is currently evaluating the requirements of SFAS No. 158 but does not expect it to have a material effect on its consolidated statement of financial condition and results of operations.

In September 2006, the SEC staff issued Staff Accounting Bulletin ("SAB") No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements." SAB 108 was issued to provide consistency between how registrants quantify financial statement misstatements.

Historically, there have been two widely-used methods for quantifying the effects of financial statement misstatements. These methods are referred to as the "roll-over" and "iron curtain" method. The roll-over method quantifies the amount by which the current year income statement is misstated. Exclusive reliance on an income statement approach can result in the accumulation of errors on the balance sheet that may not have been material to any individual income statement, but which may misstate one or more balance sheet accounts. The iron curtain method quantifies the error as the cumulative amount by which the current year balance sheet is misstated. Exclusive reliance on a balance sheet approach can result in disregarding the effects of errors in the current year income statement that results from the correction of an error existing in previously issued financial statements. We currently use the roll-over method for quantifying identified financial statement misstatements.

4. Effects of Recent Accounting Pronouncements (continued)

SAB 108 established an approach that requires quantification of financial statement misstatements based on the effects of the misstatement on each of the company's financial statements and the related financial statement disclosures. This approach is commonly referred to as the "dual approach" because it requires quantification of errors under both the roll-over and iron curtain methods.

SAB 108 allows registrants to initially apply the dual approach either by (1) retroactively adjusting prior financial statements as if the dual approach had always been used, or by (2) recording the cumulative effect of initially applying the dual approach as adjustments to the carrying values of assets and liabilities as of July 1, 2006, with an offsetting adjustment recorded to the opening balance of retained earnings. Use of this "cumulative effect" transition method requires detailed disclosure of the nature and amount of each individual error being corrected through the cumulative adjustment and how and when it arose.

Management is currently evaluating the requirements of SAB 108 but does not expect it to have a material adverse effect on the Corporation's financial position or results of operations.

In July 2006, the FASB issued FASB Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes." The interpretation clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes." Specifically, FIN 48 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax provision taken or expected to be taken on a tax return. FIN 48 also provides guidance on the related derecognition, classification, interest and penalties, accounting for interim periods, disclosure, and transition of uncertain tax positions. FIN 48 is effective for fiscal years beginning after December 15, 2006, or July 1, 2007 as to the Corporation. The Corporation is currently evaluating the requirements of FIN 48 but has not quantified the effects of adoption, if any.

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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, 2006.

Discussion of Financial Condition Changes from June 30, 2006 to September 30, 2006

ASSETS. Total assets increased $3.6 million, or 3.5%, to $106.7 million at September 30, 2006, from $103.1 million at June 30, 2006. The increase in assets resulted from a $3.4 million increase in loans, to $91.9 million at September 30, 2006 from $88.5 million at June 30, 2006, and a $478,000 increase in office premises and equipment, to $2.6 million at September 30, 2006 from $2.1 million at June 30, 2006, partially offset by a $238,000 decrease in cash and cash equivalents to $2.2 million at September 30, 2006 from $2.4 million at June 30, 2006. The increase in office premises and equipment, is due to the on-going construction of our new headquarters expected to be placed in service by early December, 2006. The increase in loans reflected increases of $1.5 million in one- to four-family residential real estate, $615,000 in multi-family residential real estate and $825,000 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 $3.8 million, or 4.4%, to $89.6 million at September 30, 2006 from $85.8 million at June 30, 2006. The increase in liabilities reflects a $2.2 million, or 2.9%, increase in deposits, to $78.7 million at September 30, 2006 from $76.4 million at June 30, 2006 and a $1.0 million, or 12.5%, increase in Federal Home Loan Bank advances to $9.0 million at September 30, 2006 from $8.0 million at June 30, 2006. The increase in deposits consisted of an increase of $3.9 million in certificates of deposit, partially offset by a decrease of $823,000 in passbook accounts and a $824,000 decrease in Money Market/NOW Accounts. The growth in certificates of deposit was due to the higher interest rates offered during the period.

STOCKHOLDERS' EQUITY. Stockholders' equity decreased $154,000, or 0.9%, to $17.1 million at September 30, 2006, reflecting the purchase of $29,000 in treasury stock coupled with dividends paid of $338,000, which were partially offset by net earnings of $165,000 and a decrease of $48,000 in unrealized losses on securities available for sale. Dividends paid included a special dividend of $0.095 per share in addition to the $0.105 per share that has been paid rather consistently. The $48,000 decrease in unrealized losses was due to improved conditions in the interest rate markets, which increased the value of our investment portfolio.

DSA FINANCIAL CORPORATION

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

Comparison of Operating Results for the Three-Month Periods Ended September 30, 2006 and 2005

GENERAL. Net earnings decreased $30,000, or 15.4%, to $165,000 for the three months ended September 30, 2006, from $195,000 for the three months ended September 30, 2005. The decrease resulted primarily from a $26,000 decrease in net interest income and a $33,000 increase in general, administrative and other expense, which were partially offset by an increase of $14,000 in other income.

INTEREST INCOME. Interest income was $1.6 million for the three months ended September 30, 2006, an increase of $294,000, or 23.2%, over the $1.3 million recorded for the three months ended September 30, 2005. Material changes occurred primarily in interest income on loans.

Interest income on loans increased $306,000, or 25.9%, to $1.5 million for the three months ended September 30, 2006 from $1.2 million for the three months ended September 30, 2005. The increase was due primarily to a $13.4 million, or 17.4%, increase in the average balance of loans outstanding, and an increase of 44 basis points in the average yield, to 6.59% for the three months ended September 30, 2006, from 6.15% for the three months ended September 30, 2005.

INTEREST EXPENSE. Interest expense increased $320,000, or 63.2%, to $826,000 for the three months ended September 30, 2006 from $506,000 for the three months ended September 30, 2005. The increase in interest expense resulted from a $294,000 increase in interest expense on deposits and a $26,000 increase in interest expense on borrowed money.

Interest expense on deposits increased $294,000, or 69.3%, to $718,000 for the three months ended September 30, 2006 from $424,000 for the three months ended September 30, 2005. The increase was due to a 112 basis point increase in the average rate paid on deposits to 3.54% for the three months ended September 30, 2006 from 2.42% for the same period in 2005, and an increase in the average balance of deposits outstanding of $10.2 million, or 15.2%. The average balance of certificates of deposit increased $14.3 million, or 34.5%, and the average rate paid increased 114 basis points, to 4.38% for the three months ended September 30, 2006 from 3.24% for the three months ended September 30, 2005. The average balance of passbook accounts decreased by $4.0 million, or 24.2%, while the average cost of passbook accounts increased by 64 basis points to 2.41% 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 $26,000, or 31.7%, to $108,000 for the three months ended September 30, 2006 from $82,000 for the three months ended September 30, 2005. The increase was due to a 42 basis point increase in the average rate paid on borrowings to 5.10% for the three months ended September 30, 2006 from 4.68% for the same period in 2005, and an increase in the average balance of borrowings outstanding of $1.4 million, or 19.9%. 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 $26,000, or 3.4%, decrease in net interest income, to $737,000 for the three months ended September 30, 2006, from $763,000 for the three months ended September 30, 2005. Our interest rate spread decreased to 2.62% in the 2006 quarter from 3.16% in the 2005 quarter and our net interest margin decreased to 3.04% during the 2006 quarter from 3.53% during the 2005 quarter, while average net interest-earning assets decreased to $11.4 million for the three months ended September 30, 2006 from $12.4 million for the three months ended September 30, 2005.

DSA FINANCIAL CORPORATION

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

Comparison of Operating Results for the Three-Month Periods Ended September 30, 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 recorded a provision of $15,000 and $7,000 for the three months ended September 30, 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 $457,000, or 0.48%, of gross loans outstanding at September 30, 2006, as compared with $360,000, or 0.43%, 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 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 $457,000, or 0.50% of total loans at September 30, 2006, compared to $296,000, or 0.38% of total loans at September 30, 2005. Nonperforming loans consisted solely of one- to four-family residential loans at September 30, 2006. Management expects no losses on these nonperforming loans. The provision for losses on loans for the three months ended September 30, 2006 was predicated primarily upon growth in the portfolio of loans secured by land and nonresidential real estate and loans secured by junior liens on 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 $14,000, or 16.5%, to $99,000 for the three months ended September 30, 2006 from $85,000 for the three months ended September 30, 2005. The were relatively minor increases in all categories of other income. We sold $827,000 of loans during the three months ended September 30, 2006 compared to $532,000 of such sales during the three months ended September 30, 2005. The increase in sales volume resulted from management's recent decision during the current period to begin selling certain one- to four-family fixed-rate residential loans, however, demand was somewhat limited by market conditions.

GENERAL, ADMINISTRATIVE AND OTHER EXPENSE. General, administrative and other expense increased $33,000, or 6.2%, to $564,000 for the three months ended September 30, 2006 from $531,000 for the three months ended September 30, 2005. The increase resulted primarily from a $41,000, or 12.6%, increase in employee compensation and benefits expense, to $366,000 for the three months ended September 30, 2006 from $325,000 for the three months ended September 30, 2005, primarily offset by a decrease in other operating expense of $5,000, or 3.7%, to $129,000 for the three-month period ended September 30, 2006 from $134,000 for the three-month period ended September 30, 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 and the Stock-Based Incentive Plan (Plan). This Plan was approved by the Corporation's shareholders at the Annual Meeting of Shareholders held in November, 2005. The decrease in other operating expense resulted primarily from a decrease in legal fees and Delaware franchise tax partially offset by an increase in professional and consulting fees.

INCOME TAXES. The provision for income taxes was $92,000 for the three months ended September 30, 2006 and $115,000 for the three months ended September 30, 2005, reflecting effective tax rates of 35.8% and 37.1%, respectively.

DSA FINANCIAL CORPORATION

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

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 December 2006. Management has estimated costs of construction, equipment and furnishings to amount to $1.9 million, of which $911,000 has been incurred and paid as of September 30, 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, 2006.

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 September 30, 2006 that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

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: November 14, 2006 By: /s/ Edward L. Fischer

Edward L. Fischer
President and Chief Executive Officer

Date: November 14, 2006 By: /s/ Steven R. Doll

Steven R. Doll
Chief Financial Officer