Iridium Communications Inc.
Form 8-K
May 23, 2012

# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, DC 20549**

# FORM 8-K

## CURRENT REPORT

**Pursuant to Section 13 or 15(d) of**

**The Securities Exchange Act of 1934**

**Date of Report (Date of earliest event reported): May 22, 2012**

# Iridium Communications Inc.

**(Exact name of registrant as specified in its charter)**

| | | |
|---|---|---|
| **Delaware** | **001-33963** | **26-1344998** |
| **(State or other jurisdiction of incorporation)** | **(Commission File Number)** | **(IRS Employer Identification No.)** |

**1750 Tysons Boulevard, Suite 1400**

**McLean, VA 22102**

**(Address of principal executive offices, including zip code)**

**(703) 287-7400**

**(Registrant s telephone number, including area code)**

**N/A**

**(Former name or former address, if changed since last report)**

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

¨ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

¨ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

¨ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

¨ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

**Item 5.02 Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.**

On May 22, 2012, at the 2012 Annual Meeting of Stockholders (the ***Annual Meeting***) of Iridium Communications Inc. (the ***Company***), the Company s stockholders approved the Iridium Communications Inc. 2012 Equity Incentive Plan (the ***Plan***), under which a maximum of 13,416,019 shares of common stock are reserved for issuance pursuant to stock options and other equity awards, plus any shares underlying outstanding awards that return to the share reserve, as further described in the Plan. The Plan had been previously approved, subject to stockholder approval, by the Board of Directors of the Company. The Plan became effective immediately upon stockholder approval at the Annual Meeting.

A summary of the material terms of the Plan is set forth in the Company s definitive proxy statement for the Annual Meeting filed with the Securities and Exchange Commission on April 10, 2012. That summary and the foregoing description are qualified in their entirety by reference to the text of the Plan and the forms of grant notice and award agreements under the Plan, which are filed as Exhibit 99.1 through Exhibit 99.3 hereto and incorporated herein by reference.

**Item 5.07 Submission of Matters to a Vote of Security Holders.**

The Annual Meeting was held on May 22, 2012 in McLean, Virginia. Of the 73,205,008 shares outstanding as of the record date, 66,466,357 shares, or approximately 90.8%, were present or represented by proxy at the meeting. Set forth below are the results of the matters submitted for a vote of stockholders at the Annual Meeting.

*Proposal 1 Election of Directors*

The following ten (10) directors were elected to serve for one-year terms until the 2013 Annual Meeting of Stockholders and until their respective successors are elected and qualified.

| **Name** | **Votes For** | **Votes Withheld** | **Broker Non-Votes** |
|---|---|---|---|
| Robert H. Niehaus | 46,886,125 | 306,678 | 19,273,554 |
| J. Darrel Barros | 46,919,014 | 273,789 | 19,273,554 |
| Scott L. Bok | 45,847,288 | 1,345,515 | 19,273,554 |
| Thomas C. Canfield | 47,058,565 | 134,238 | 19,273,554 |
| Brigadier Gen. Peter M. Dawkins (Ret.) | 47,047,308 | 145,495 | 19,273,554 |
| Matthew J. Desch | 47,060,180 | 132,623 | 19,273,554 |
| Alvin B. Krongard | 46,894,313 | 298,490 | 19,273,554 |
| Admiral Eric T. Olson (Ret.) | 47,053,880 | 138,923 | 19,273,554 |
| Steven B. Pfeiffer | 46,968,344 | 224,459 | 19,273,554 |
| Parker W. Rush | 47,059,280 | 133,523 | 19,273,554 |

*Proposal 2 Approval, on an Advisory Basis, of the Compensation of the Company s Named Executive Officers.*

| **For** | **Against** | **Abstain** | **Broker Non-Votes** |
|---|---|---|---|
| 43,168,160 | 714,461 | 3,310,182 | 19,273,554 |

*Proposal 3 Approval of the Iridium Communications Inc. 2012 Equity Incentive Plan.*

| **For** | **Against** | **Abstain** | **Broker Non-Votes** |
|---|---|---|---|
| 36,611,755 | 9,896,988 | 684,060 | 19,273,554 |

*Proposal 4 Ratification of the Appointment of Ernst & Young LLP as the Company s independent registered public accounting firm for the fiscal year ending December 31, 2012.*

| For | Against | Abstain | Broker Non-Votes |
|---|---|---|---|
| 66,329,439 | 117,824 | 19,094 | 0 |

**Item 9.01 Financial Statements and Exhibits.**

**(d) Exhibits.**

| Exhibit No. | Description |
|---|---|
| 99.1 | Iridium Communications Inc. 2012 Equity Incentive Plan, incorporated by reference to Appendix A to the Registrant s Proxy Statement filed with the SEC on April 10, 2012. |
| 99.2 | Forms of Stock Option Grant Notice and Stock Option Agreement for use in connection with the Iridium Communications Inc. 2012 Equity Incentive Plan. |
| 99.3 | Forms of Restricted Stock Unit Grant Notice and Restricted Stock Unit Agreement for use in connection with the Iridium Communications Inc. 2012 Equity Incentive Plan. |

**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 hereunto duly authorized.

**IRIDIUM COMMUNICATIONS INC.**

Date: May 23, 2012

By: /s/ Matthew J. Desch
Matthew J. Desch
Chief Executive Officer

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The Bank also strives to provide a stable source of liquidity and earnings through the purchase of investment grade securities, seeks to maintain the asset quality of its loans and other investments, and uses appropriate portfolio and asset/liability management techniques in an effort to manage the effects of interest rate volatility on its profitability and capital.

The most recent recession in the United States officially began in December 2007, but became evident in 2008. The recession in the housing market was clearly underway by late 2008, and the economic crisis was in full stride, marked by the September 15, 2008 bankruptcy filing of Lehman Brothers Holdings, Inc. Although statistically, the recession ended in 2009, subsequent years have been marked by anemic gross deomestic product growth in the United States, and prolonged high rates of unemployment. The Federal Reserve Bank, in order to address one of its two primary mandates (i.e., stable employment), has pursued a monetary policy known as "quantitative easing", which has had the outcome of keeping the long end of the yield curve at historically low rates. Initially, financial intermediaries, like the Bank, benefited from low short term rates, through lower funding costs. Now, as quantitative easing enters its fifth year, borrowers are taking advantage of historically low intermediate- and long-term interest rates. This is beginning to put downward pressure on the Bank's asset yields, and net interest margin. At the same time, real estate conditions in the Bank's primary geographic market, and loan type (multifamily loans), have rebounded strongly. Credit costs, which characterized the 2009 through 2011 period, have abated.

During the years ended December 31, 2011 and 2012 and the three months ended March 31, 2013, the Company experienced a steadily increasing level of both prepayment and refinance activity. In the early portion of this cycle, the Company did not pursue loan portfolio growth. However, a combination of strong and growing bank capital levels, strong demand for multifamily housing and financing, improved economic conditions in NYC, and a Federal Reserve policy which has explicitly stated that rates will remain low until employment declines markedly, led to a change in investment posture on the part of management. As a result, for the past five quarters, the Company has been a more active lender, growing both the loan portfolio and total assets.

During the year ended December 31, 2012, the Company elected to prepay its entire $195.0 million of REPO borrowings with a weighted average cost of 4.3% and a weighted average term to maturity exceeding 4.0 years, incurring a prepayment cost of $28.8 million as a component of interest expense during the year ended December 31, 2012. The short-term securities that were pledged against these borrowings had yields that had steadily declined over the past several years, and approximated 0.5% throughout 2012. This prepayment transaction has a breakeven of 3.5 years, and contributed positively to net interest margin during the three months ended March 31, 2013.

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Selected Financial Highlights and Other Data
(Dollars in Thousands Except Per Share Amounts)

| | At or For the Three Months Ended March 31, | |
|---|---|---|
| | 2013 | 2012 |
| Performance and Other Selected Ratios: | | |
| Return on Average Assets | 1.07 % | 1.01 % |
| Return on Average Stockholders' Equity | 10.63 | 11.22 |
| Stockholders' Equity to Total Assets | 10.06 | 9.17 |
| Loans to Deposits at End of Period | 136.35 | 143.32 |
| Loans to Earning Assets at End of Period | 94.25 | 92.28 |
| Net Interest Spread | 3.22 | 3.20 |
| Net Interest Margin | 3.44 | 3.47 |
| Average Interest Earning Assets to Average Interest Bearing Liabilities | 115.79 | 113.05 |
| Non-Interest Expense to Average Assets | 1.65 | 1.62 |
| Efficiency Ratio | 47.97 | 46.54 |
| Effective Tax Rate | 40.44 | 40.83 |
| Dividend Payout Ratio | 46.67 | 46.67 |
| Per Share Data: | | |
| Reported EPS (Diluted) | $0.30 | $0.30 |
| Cash Dividends Paid Per Share | 0.14 | 0.14 |
| Stated Book Value | 11.16 | 10.47 |
| Asset Quality Summary: | | |
| Net Charge-offs | $177 | $2,263 |
| Non-performing Loans | 8,172 | 14,808 |
| Non-performing Loans/Total Loans | 0.23 % | 0.43 % |
| Non-performing Assets | $9,921 | $17,029 |
| Non-performing Assets/Total Assets | 0.25 % | 0.42 % |
| Allowance for Loan Loss/Total Loans | 0.58 | 0.57 |
| Allowance for Loan Loss/Non-performing Loans | 251.22 | 131.47 |
| Earnings to Fixed Charges Ratios (1) | | |
| Including Interest on Deposits | 2.45 x | 1.90 x |
| Excluding Interest on Deposits | 3.51 | 2.27 |

(1) Please refer to Exhibit 12.1 for further detail on the calculation of these ratios.

Critical Accounting Policies

Various elements of the Company's accounting policies are inherently subject to estimation techniques, valuation assumptions and other subjective assessments. The Company's policies with respect to the methodologies it uses to determine the allowance for loan losses (including reserves for loan commitments), the liability for the First Loss Position, the valuation of MSR, asset impairments (including the assessment of impairment of goodwill and other than temporary declines in the valuation of securities), the recognition of deferred tax assets and unrecognized tax positions, the recognition of loan income, the valuation of financial instruments, and accounting for defined benefit plans are its most critical accounting policies because they are important to the presentation of the Company's consolidated financial condition and results of operations, involve a significant degree of complexity and require management to make difficult and subjective judgments which often necessitate assumptions or estimates about highly uncertain matters. The use of different judgments, assumptions or estimates could result in material variations in the Company's consolidated results of operations or financial condition.

The following are descriptions of the Company's critical accounting policies and explanations of the methods and assumptions underlying their application.

Allowance for Loan Losses and Reserve for Loan Commitments. The Bank's methods and assumptions utilized to periodically determine its allowance for loan losses are summarized in Note 9 to the Company's condensed consolidated financial statements. The reserve for loan commitments is determined based upon the historical loss experience of similar loans owned by the Bank at each period end. Any increases in this reserve are achieved via a transfer of reserves from the Bank's allowance for loan losses, with any subsequent resulting shortfall in the allowance for loan losses satisfied through the quarterly provision for loan losses. Any decreases in the loan commitment reserve are recognized as a transfer of reserve balances back to the allowance for loans losses at each period end.

Liability for the First Loss Position. The Bank's methods and assumptions utilized to periodically determine its liability for the First Loss Position are summarized in Note 9 to the condensed consolidated financial statements.

Valuation of MSR. The proceeds received on mortgage loans sold with servicing rights retained by the Bank are allocated between the loans and the servicing rights based on their estimated fair values at the time of the loan sale. In accordance with GAAP, MSR are carried at the lower of cost or fair value and are amortized in proportion to, and over the period of, anticipated net servicing income. In accordance with ASC 860-50-35, all separately recognized MSR are required to be initially measured at fair value, if practicable. The estimated fair value of MSR is determined by calculating the present value of estimated future net servicing cash flows, using estimated prepayment, default, servicing cost and discount rate assumptions. All estimates and assumptions utilized in the valuation of MSR are derived based upon actual historical results for the Bank, or, in the absence of such data, from historical results for the Bank's peers.

The fair value of MSR is sensitive to changes in assumptions. Fluctuations in prepayment speed assumptions have the most significant impact on the estimated fair value of MSR. In the event that actual loan prepayments exceed the assumed amount, the fair value of MSR would likely decline. In the event that actual loan prepayments fall below the assumed amount, the fair value of MSR would likely increase. Any measurement of the value of MSR is limited by the existing conditions and assumptions utilized at a particular point in time, and would not necessarily be appropriate if applied at a different point in time.

Assumptions utilized in measuring the fair value of MSR additionally include the stratification based on predominant risk characteristics of the underlying loans. Increases in the risk characteristics of the underlying loans from the assumptions would result in a decline in the fair value of the MSR. A valuation allowance is established in the event the recorded value of an individual stratum exceeds its fair value for the full amount of the difference.

To the extent that the valuation of the MSR (as determined in the manner indicated above) falls below its recorded balance, an impairment charge is recognized through a valuation allowance, with any adjustments to such allowance reflected in periodic earnings.

Asset Impairment Adjustments. Certain assets are carried in the Company's consolidated statements of financial condition at fair value or at the lower of cost or fair value:

(i) Goodwill Impairment Analysis. Goodwill is accounted for in accordance with ASC 805-10. ASC 805-10 requires performance of an annual impairment test at the reporting unit level. Management quarterly performs analyses to test for impairment of goodwill. In the event an impairment of goodwill is determined to exist, it is recognized as a charge to earnings.

The Company identified a single reporting unit for purposes of its goodwill impairment testing, and thus performs its impairment test on a consolidated basis. The impairment test has two potential stages. In the initial stage, the Holding Company's market capitalization (reporting unit fair value) is compared to its outstanding equity (reporting unit carrying value). The Company utilizes closing price data for the Holding Company's common stock as reported on the Nasdaq National Market in order to compute market capitalization. The second stage is only utilized in the event that the initial stage indicates potential impairment. To date, the Company has not had to utilize the second stage. The Company performed an impairment test as of March 31, 2013 and concluded that no potential impairment of goodwill existed since the fair value of the Company's reporting unit exceeded its carrying value. No events or circumstances have occurred subsequent to March 31, 2013 that would reduce the fair value of the Company's reporting unit below its carrying value. Such events or circumstances would require the immediate performance of an impairment test in accordance with ASC 805-10.

(ii) Valuation of Financial Instruments and Analysis of OTTI Related to Investment Securities and MBS.  Debt securities are classified as held-to-maturity, and carried at amortized cost, only if the Company has a positive intent and ability to hold them to maturity.

At March 31, 2013, the Company owned seven TRUPS classified as held-to-maturity.  Late in 2008, the market for these securities became highly illiquid, and continued to be deemed as such as of March 31, 2013.  As a result, at both March 31, 2013 and December 31, 2012, their estimated fair value was obtained utilizing a blended valuation approach (Level 3 pricing as described in Note 11 to the Company's condensed consolidated financial statements).

At March 31, 2013 and December 31, 2012, the Company had investments in nine mutual funds totaling $5.0 million and $4.9 million, respectively, which were classified as trading.  All changes in valuation of these securities are recognized in the Company's results of operations.

Debt securities that are not classified as either held-to-maturity or trading are classified as available-for-sale.

Available-for-sale debt and equity securities that have readily determinable fair values are carried at fair value.  All of the Company's available-for-sale securities at March 31, 2013 and December 31, 2012 had readily determinable fair values, which were based on published or securities dealers' market values.

The Company conducts a periodic review and evaluation of its securities portfolio, taking into account the severity and duration of each unrealized loss, as well as management's intent and ability to hold the security until the unrealized loss is substantially eliminated, in order to determine if a decline in fair value of any security below its carrying value is either temporary or other than temporary. Unrealized losses on held-to-maturity securities that are deemed temporary are disclosed but not recognized. Unrealized losses on debt or equity securities available-for-sale that are deemed temporary are excluded from net income and reported net of deferred taxes as other comprehensive income or loss. All unrealized losses that are deemed other than temporary on either available-for-sale or held-to-maturity securities are recognized immediately as a reduction of the carrying amount of the security, with a corresponding decline in either net income or accumulated other comprehensive income or loss in accordance with ASC 320-10-65. See Note 10 to the Company's condensed consolidated financial statements for a reconciliation of OTTI on securities during the three-month periods ended March 31, 2013 and 2012.

Recognition of Deferred Tax Assets. Management reviews all deferred tax assets periodically. Upon such review, in the event that there is a greater than 50% likelihood that the deferred tax asset will not be fully realized, a valuation allowance is recognized against the deferred tax asset in the amount for which realization is determined to be more unlikely than likely to occur.

Unrecognized Tax Positions. Under current accounting rules, all tax positions adopted are subjected to two levels of evaluation. Initially, a determination is made, based on the technical merits of the position, as to whether it is more likely than not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes. In conducting this evaluation, management is required to presume that the position will be examined by the appropriate taxing authority possessing full knowledge of all relevant information. The second level of evaluation is the measurement of a tax position that satisfies the more-likely-than-not recognition threshold. This measurement is performed in order to determine the amount of benefit to recognize in the financial statements. The tax position is measured at the largest amount of benefit that is greater than 50 percent likely to be realized upon ultimate settlement. The Company had no material uncertain tax positions as of March 31, 2013 or December 31, 2012.

Loan Income Recognition. Interest income on loans is recorded using the level yield method. Loan origination fees and certain direct loan origination costs are deferred and amortized as yield adjustments over the contractual loan terms.

Please refer to "Part I – Item 2 – Management's Discussion and Analysis of Financial Condition and Results of Operations - Asset Quality - Monitoring and Collection of Delinquent Loans" for a discussion of management's policies for determining whether a loan is maintained on accrual or non-accrual status.

Accounting for Defined Benefit Plans. Defined benefit plans are accounted for in accordance with ASC 715, which requires an employer sponsoring a single employer defined benefit plan to recognize the funded status of such benefit plan in its statements of financial condition, measured as the difference between plan assets at fair value (with limited exceptions) and the benefit obligation. The Company utilizes the services of trained actuaries employed at an independent benefits plan administration entity in order to assist in measuring the funded status of its defined benefit plans.

Liquidity and Capital Resources

The Board of Directors of the Bank has approved a liquidity policy that it reviews and updates at least annually. Senior management is responsible for implementing the policy. The Bank's Asset Liability Committee ("ALCO") is responsible for general oversight and strategic implementation of the policy, and management of the appropriate departments are designated responsibility for implementing any strategies established by ALCO. On a daily basis, senior management receives a current cash position report and one-week forecast to ensure that all short-term obligations are timely satisfied and that adequate liquidity exists to fund future activities. On a monthly basis, reports detailing the Bank's liquidity reserves and forecasted cash flows are presented to both senior management and the Board of Directors. In addition, on a monthly basis, a twelve-month liquidity forecast is presented to ALCO in order to assess potential future liquidity concerns. A forecast of cash flow data for the upcoming 12 months is presented to the Board of Directors on an annual basis.

The Bank's primary sources of funding for its lending and investment activities include deposits, loan and MBS payments, investment security principal and interest payments, advances from the FHLBNY, and REPOS entered into with various financial institutions, including the FHLBNY. The Bank may also sell selected multifamily residential, mixed use and one- to four-family residential real estate loans to private sector secondary market purchasers and has in the past sold such loans to FNMA. The Company may additionally issue debt under appropriate circumstances. Although maturities and scheduled amortization of loans and investments are predictable sources of funds, deposit flows and prepayments on mortgage loans and MBS are influenced by interest rates, economic conditions and competition.

The Bank gathers deposits in direct competition with commercial banks, savings banks and brokerage firms, many among the largest in the nation. It must additionally compete for deposit monies against the stock and bond markets, especially during periods of strong performance in those arenas. The Bank's deposit flows are affected primarily by the pricing and marketing of its deposit products compared to its competitors, as well as the market performance of depositor investment alternatives such as the U.S. bond or equity

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markets. To the extent that the Bank is responsive to general market increases or declines in interest rates, its deposit flows should not be materially impacted. However, favorable performance of the equity or bond markets could adversely impact the Bank's deposit flows.

Retail branch and Internet banking deposits increased $121.9 million during the three months ended March 31, 2013, compared to an increase of $43.4 million during the three months ended March 31, 2012. Within deposits, core deposits (i.e., non-CDs) increased $134.5 million during the three months ended March 31, 2013 and $39.2 million during the three months ended March 31, 2012. These increases were due to both successful gathering efforts tied to promotional money market offerings as well as increased commercial checking balances. CDs decreased $12.6 million during the three months ended March 31, 2013 and increased $4.3 million during the three months ended March 31, 2012. The reduction during the three months ended March 31, 2013 resulted primarily from the attrition of maturing CDs from prior period promotional activities and the customer preference for deposit types other than CDs.

The Bank did not prepay any borrowings during the three months ended March 31, 2013. During the three months ended March 31, 2012, the Bank prepaid $40.0 million of borrowings secured by REPOS and $55.0 million of FHLBNY advances, removing a negative carrying cost on these $95.0 million of funding liabilities. During the three months ended March 31, 2012, the Bank elected to restrict asset growth, and thus utilized cash flows from real estate loans and MBS to fund loan originations and operations. Since cash flows exceeded its immediate needs, the Bank utilized excess liquidity to reduce its REPOS and FHLBNY advances.

During the three months ended March 31, 2013, principal repayments totaled $200.3 million on real estate loans (including refinanced loans) and $5.9 million on MBS. During the three months ended March 31, 2012, principal repayments totaled $210.4 million on real estate loans (including refinanced loans) and $10.3 million on MBS. The reduction in principal repayments on real estate loans resulted from lower refinancing activity (which was historically high during the year ended December 31, 2012). The decline in principal repayments on MBS resulted from a reduction of $38.2 million in their average balance from the three months ended March 31, 2012 to the three months ended March 31, 2013.

In the event that the Bank should require funds beyond its ability or desire to generate them internally, an additional source of funds is available through its borrowing line at the FHLBNY. At March 31, 2013, the Bank had an additional potential borrowing capacity of $443.5 million through the FHLBNY, subject to customary minimum FHLBNY common stock ownership requirements (i.e., 4.5% of the Bank's outstanding FHLBNY borrowings).

The Bank is subject to minimum regulatory capital requirements imposed by its primary federal regulator. As a general matter, these capital requirements are based on the amount and composition of an institution's assets. At March 31, 2013, the Bank was in compliance with all applicable regulatory capital requirements and was considered "well-capitalized" for all regulatory purposes.

The Company generally utilizes its liquidity and capital resources primarily to fund the origination of real estate loans, the purchase of mortgage-backed and other securities, the repurchase of Holding Company common stock into treasury, the payment of quarterly cash dividends to holders of the Holding Company's common stock and the payment of quarterly interest to holders of its outstanding trust preferred debt. During the three months ended March 31, 2013 and 2012, real estate loan originations totaled $244.4 million and $181.4 million, respectively. The increase from the three months ended March 31, 2012 to the three months ended March 31, 2013 reflected the Company's transition, in late 2012 and during the three months ended March 31, 2013, from a non-growth to a measured loan and balance sheet growth strategy, which necessitated higher real estate loan origination levels. Purchases of investment securities (excluding trading securities, short-term investments and federal funds sold) were negligible during the three months ended March 31, 2013, and $63.0 million during the three months ended March 31, 2012. Security purchases were de-emphasized during the three months ended March 31, 2013 due to the removal of required securities for collateral on REPO borrowings. The purchases made during the three months ended March 31, 2012 were comprised of $39.8 million of medium-term agency notes aimed at providing additional yield on liquid funds, and $23.2 million of adjustable rate Government National Mortgage Association ("GNMA') MBS, which sought to provide additional yield on liquid assets, ongoing cash flows from principal repayments and protection against potential increases in interest rates.

The Holding Company did not repurchase any shares of its common stock during the three months ended March 31, 2013 and 2012. As of March 31, 2013, up to 1,124,549 shares remained available for purchase under authorized share purchase programs. Based upon the $14.36 per share closing price of its common stock as of March 29, 2013, the Holding Company would utilize $16.1 million in order to purchase all of the remaining authorized shares. For the Holding Company to complete these share purchases, it would likely require dividend distributions from the Bank.

The Holding Company paid $4.9 million in cash dividends on its common stock during the three months ended March 31, 2013, and $4.8 million during the three months ended March 31, 2012. The increase in payment resulted from a net increase of 701,836 shares outstanding from March 31, 2012 to March 31, 2013.

Contractual Obligations

The Bank is obligated for rental payments under leases on certain of its branches and equipment. In addition, the Bank generally has outstanding at any time significant borrowings in the form of FHLBNY advances, as well as customer CDs with fixed contractual interest rates. The Holding Company also has $70.7 million of callable trust preferred borrowings from third parties due to mature in April 2034, which became callable at any time commencing in April 2009. The Holding Company does not currently intend to call this debt. The facts and circumstances surrounding these obligations have not changed materially since December 31, 2012.

Off-Balance Sheet Arrangements

From December 2002 through February 2009, the Bank originated and sold multifamily residential mortgage loans in the secondary market to FNMA while retaining servicing. The Bank is required to retain the First Loss Position related to all loans sold under this program, which will remain in effect until the earlier of the following events: (1) the loans have been fully satisfied or enter OREO status; or (2) the First Loss Position is fully exhausted.

In addition, as part of its loan origination business, the Bank generally has outstanding commitments to extend credit to third parties, which are granted pursuant to its regular underwriting standards. Since these loan commitments may expire prior to funding, in whole or in part, the contract amounts are not estimates of future cash flows.

The following table presents off-balance sheet arrangements as of March 31, 2013:

| | Less than One Year | One Year to Three Years | Over Three Years to Five Years | Over Five Years | Total |
|---|---|---|---|---|---|
| | (Dollars in thousands) | | | | |
| Credit Commitments: | | | | | |
| Available lines of credit | $43,574 | $ - | $ - | $ - | $43,574 |
| Other loan commitments (1) | 120,702 | - | - | - | 120,702 |
| Other Commitments: | | | | | |
| First Loss Position on loans sold to FNMA (1) | 15,428 | - | - | - | 15,428 |
| Total Commitments | $179,704 | $ - | $ - | $ - | $179,704 |

(1) In accordance with the requirements of both ASC 450-20-25 and 460-10-25, as of March 31, 2013, reserves on loan commitments and the liability for the First Loss Position on loans sold to FNMA were $192 and $1,291 respectively, and were recorded in other liabilities in the Company's condensed consolidated statements of financial condition.

Asset Quality

General

At both March 31, 2013 and December 31, 2012, the Company had neither whole loans nor loans underlying MBS that would have been considered subprime loans at origination, i.e., mortgage loans advanced to borrowers who did not qualify for market interest rates because of problems with their income or credit history. See Note 10 to the condensed consolidated financial statements for a discussion of impaired investment securities and MBS.

Monitoring and Collection of Delinquent Loans

Management of the Bank reviews delinquent loans on a monthly basis and reports to its Board of Directors regarding the status of all non-performing and otherwise delinquent loans in the Bank's portfolio.

The Bank's loan servicing policies and procedures require that an automated late notice be sent to a delinquent borrower as soon as possible after a payment is ten days late in the case of multifamily residential or commercial real estate loans, or fifteen days late in connection with one- to four-family or consumer loans. A second letter is sent to the borrower if payment has not been received within 30 days of the due date. Thereafter, periodic letters are mailed and phone calls placed to the borrower until payment is received. When contact is made with the borrower at any time prior to foreclosure, the Bank will attempt to obtain the full payment due or negotiate a repayment schedule with the borrower to avoid foreclosure.

Accrual of interest is generally discontinued on a loan that meets any of the following three criteria: (i) full payment of principal or interest is not expected; (ii) principal or interest has been in default for a period of 90 days or more (unless the loan is both deemed to be well secured and in the process of collection); or (iii) an election has otherwise been made to maintain the loan on a cash basis due to deterioration in the financial condition of the borrower. Such non-accrual determination practices are applied consistently to all loans regardless of their internal classification or designation. Upon entering non-accrual status, the Bank reverses all outstanding accrued interest receivable.

The Bank generally initiates foreclosure proceedings when a loan enters non-accrual status based upon non-payment, and typically does not accept partial payments once foreclosure proceedings have commenced. At some point during foreclosure proceedings, the Bank procures current appraisal information in order to prepare an estimate of the fair value of the underlying collateral. If a foreclosure action is instituted and the loan is not brought current, paid in full, or refinanced before the foreclosure action is completed, the property securing the loan is transferred to OREO status. The Bank generally utilizes all available remedies, such as note sales in lieu of foreclosure, in an effort to resolve non-accrual loans and OREO properties as quickly and prudently as possible in consideration of market conditions, the physical condition of the property and any other mitigating circumstances. In the event that a non-accrual loan is subsequently brought current, it is returned to accrual status once the doubt concerning collectability has been removed and the borrower has demonstrated performance in accordance with the loan terms and conditions for a period of at least six months.

Non-accrual Loans

Within the Bank's permanent portfolio, non-accrual loans totaled $8.2 million and $8.9 million at March 31, 2013 and December 31, 2012, respectively, representing 0.23% and 0.25% of total loans at March 31, 2013 and December 31, 2012, respectively. During the three months ended March 31, 2013, two non-accrual loans totaling $507,000 were either satisfied or disposed of at a value at or below their recorded balance, a $765,000 non-accrual loan was transferred to OREO, a $153,000 non-accrual loan was returned to accrual status, $78,000 of principal charge-offs were recognized on one non-accrual loan and principal amortization totaling $28,000 was recognized on six non-accrual loans. Partially offsetting these declines were two loans totaling $816,000 that were added to non-accrual status during the three months ended March 31, 2013.

Impaired Loans

The recorded investment in loans deemed impaired (as defined in Note 8 to the condensed consolidated financial statements) was approximately $49.2 million, consisting of twenty-three loans, at March 31, 2013, compared to $53.1 million, consisting of twenty-six loans, at December 31, 2012. The Bank disposed of a $450,000 impaired loan during the three months ended March 31, 2013, received full repayment on two additional impaired loans totaling $2.9 million, and transferred a $765,000 impaired loan to OREO. Additionally during the three months ended March 31, 2013, principal charge-offs of $78,000 were recognized on one impaired loan, and principal amortization totaling $170,000 was recognized on seventeen impaired loans. Partially offsetting these declines was a $414,000 loan that was added to impaired status during the three months ended March 31, 2013.

The following is a reconciliation of non-accrual and impaired loans at March 31, 2013:

| | (Dollars in Thousands) |
|---|---|
| Non-accrual loans | $ 8,172 |
| Non-accrual one- to four-family and consumer loans deemed homogeneous loans | (439) |
| TDRs retained on accrual status | 41,444 |
| Impaired loans | $ 49,177 |

TDRs

Under ASC 310-40-15, the Bank is required to recognize loans for which certain modifications or concessions have been made as TDRs. A TDR has been created in the event that any of the following criteria is met:

- For economic or legal reasons related to the debtor's financial difficulties, a concession has been granted that would not have otherwise been considered
- A reduction of interest rate has been made for the remaining term of the loan
- The maturity date of the loan has been extended with a stated interest rate lower than the current market rate for new debt with similar risk
- The outstanding principal amount and/or accrued interest have been reduced

In instances in which the interest rate has been reduced, management would not deem the modification a TDR in the event that the reduction in interest rate reflected either a general decline in market interest rates or an effort to maintain a relationship with a borrower who could readily obtain funds from other sources at the current market interest rate, and the terms of the restructured loan are comparable to the terms offered by the Bank to non-troubled debtors.  The Bank has not modified any loans in a manner that met the criteria for a TDR since the quarterly period ended March 31, 2012.

Accrual status for TDRs is determined separately for each TDR in accordance with the policies for determining accrual or non-accrual status that are outlined on page 34.   At the time an agreement is entered into between the Bank and the borrower that results in the Bank's determination that a TDR has been created, the loan can be either on accrual or non-accrual status.  If a loan is on non-

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accrual status at the time it is restructured, it continues to be classified as non-accrual until the borrower has demonstrated compliance with the modified loan terms for a period of at least six months. Conversely, if at the time of restructuring the loan is performing (and accruing), it will remain accruing throughout its restructured period, unless the loan subsequently meets any of the criteria for non-accrual status under either the Bank's policy, as disclosed on page 34 and/or the criteria related to accrual of interest established by agency regulations.

The Bank never accepts receivables or equity interests in satisfaction of TDRs.

At both March 31, 2013 and 2012, the great majority of TDRs were collateralized by real estate that generated rental income. For TDRs that demonstrated conditions sufficient to warrant accrual status, the present value of the expected net cash flows of the underlying property was utilized as the primary means of determining impairment. Any shortfall in the present value of the expected cash flows calculated at each measurement period (typically quarter-end) compared to the present value of the expected cash flows at the time of the original loan agreement was recognized as either an allocated reserve (in the event that it related to lower expected interest payments) or a charge-off (if related to lower expected principal payments). For TDRs on non-accrual status, an appraisal of the underlying real estate collateral is deemed the most appropriate measure to utilize when evaluating impairment, and any shortfall in valuation from the recorded balance is accounted for through a charge-off. In the event that either an allocated reserve or a charge-off is recognized on TDRs, the periodic loan loss provision is impacted.

Please refer to Note 8 to the condensed consolidated financial statements for a further discussion of TDRs.

OREO

Property acquired by the Bank, or a subsidiary, as a result of foreclosure on a mortgage loan or a deed in lieu of foreclosure is classified as OREO. Upon entering OREO status, the Bank obtains a current appraisal on the property and reassesses the likely realizable value of the property quarterly thereafter. OREO is carried at the lower of the likely realizable or book balance, with any writedowns recognized through a provision recorded in non-interest expense. Only the appraised value, or either contractual or formal marketed values that fall below the appraised value are used when determining the likely realizable value of OREO at each reporting period. The Bank typically seeks to dispose of OREO properties in a timely manner. As a result, OREO properties have generally not warranted subsequent independent appraisals.

During the three months ended March 31, 2013, foreclosure was completed on a $765,000 impaired loan. Upon becoming OREO, an appraisal of the underlying collateral was ordered and completed, which required a write down of principal of $180,000 to its recorded balance of $585,000 as of March 31, 2013. The Bank owned no OREO properties with a recorded balance at December 31, 2012.

The following table sets forth information regarding non-accrual loans, and certain other non-performing assets (including OREO) at the dates indicated:

| | At March 31, 2013 | At December 31, 2012 |
|---|---|---|
| | (Dollars in Thousands) | |
| One- to four-family residential and cooperative apartment | $697 | $ 938 |
| Multifamily residential and residential mixed use | 809 | 507 |
| Commercial real estate and mixed use commercial real estate | 6,659 | 7,435 |
| Consumer | 7 | 8 |
| Sub-total | 8,172 | 8,888 |

| | | |
|---|---|---|
| Non-accrual loans held for sale | 270 | 560 |
| Total non-accrual loans | 8,442 | 9,448 |
| Non-performing TRUPS | 894 | 892 |
| OREO | 585 | |
| Total non-performing assets | 9,921 | 10,340 |
| Ratios: | | |
| Total non-accrual loans to total loans | 0.25 % | 0.27 % |
| Total non-performing assets to total assets | 0.25 | 0.26 |

| | | |
|---|---|---|
| TDRs and Impaired Loans | | |
| TDRs | $47,339 | $ 51,123 |
| Impaired loans (1) | 49,177 | 53,144 |

(1) Amount includes all TDRs at both March 31, 2013 and December 31, 2012. See the discussion entitled "Impaired Loans" commencing on page 35 for a reconciliation of non-accrual and impaired loans.

Other Potential Problem Loans

(i) Loans Delinquent 30 to 89 Days

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The Bank had 10 real estate loans, totaling $2.0 million, that were delinquent between 30 and 89 days at March 31, 2013, a net reduction of $5.1 million compared to 13 such loans totaling $7.1 million at December 31, 2012. The 30 to 89 day delinquent levels fluctuate monthly, and are generally considered a less accurate indicator of near-term credit quality trends than non-accrual loans.

(ii) Temporary Loan Modifications

At March 31, 2013, the Bank had 4 loans totaling $2.3 million that were either current or less than 30 days delinquent, and were mutually modified with the borrowers in a manner that: (i) did not involve a full re-underwriting of the loan; and (ii) did not meet the criteria for TDR. At December 31, 2012, there were 4 such loans totaling $2.4 million. These modifications, which have a typical term of 12 months, were granted by the Bank to borrowers who requested cash flow relief in order to assist them through periods of sub-optimal occupancy. The key features of these modified loans were: 1) they permitted only minor reductions in the cash flow requirements of debt service; and 2) there was no forgiveness of contractual principal and interest amounts due to the Bank. The terms of modification were generally in the form of either: (1) temporary suspension of monthly principal amortization, which, given the balloon repayment feature of these loans, typically constitutes a minor concession; or (2) a temporary reduction in interest rate, or a permanent reduction to an interest rate higher than that offered a prime borrower and generally reflective of the credit condition of the loan at the time of modification. In consideration of paragraph 12c of ASC 310-40-15, the interest rate on these temporary modifications was consistent with a "market rate" that: 1) the Bank would have offered a different borrower with comparable loan-to-value and debt service coverage ratios; and 2) the borrower could have received from another financial institution at the time of modification. To date, none of these temporarily modified loans have had their maturities extended, nor would this be a typical negotiable item for the Bank. Although all of the temporarily modified loans at March 31, 2013 and December 31, 2012 were secured by real estate, none of them were reliant upon liquidation of the underlying collateral for repayment of the outstanding loan. In the rare instance in which the Bank also held a second lien on a first mortgage that was temporarily modified, it would consider the combined debt obligations of both liens in determining potential impairment. Any impairment determined based upon this combined debt would result in a charge-off of the second lien initially, and the first loan only after the full second lien has been eliminated.

Any temporary modification that either: 1) reduced the contractual rate below market as defined in the previous paragraph; 2) forgave principal owed; or 3) satisfied any of the other criteria designated in ASC 310-40-15 was deemed a TDR at both March 31, 2013 and December 31, 2012. Any adjustments to interest rates for loans experiencing sub-optimal underwriting conditions would be authorized under the loan approval and underwriting polices that are summarized beginning on page F-8 in the Company's Annual Report on Form 10-K for the year ended December 31, 2012. Based upon the criteria established by the Bank to review its potential problem loans for impairment, designation of the 4 temporarily modified loans as TDRs would not have had a material impact upon the determination of the adequacy of the Bank's allowance for loan losses at either March 31, 2013 or December 31, 2012.

The Bank's lending function performs a formal review process that serves as an effective re-underwriting of all temporarily modified loans.

There were no temporary modifications entered into during the three-months ended March 31, 2013 and 2012.

Problem Loans Serviced for FNMA Subject to the First Loss Position

The Bank services a pool of multifamily loans sold to FNMA that had an outstanding principal balance of $244.2 million at March 31, 2013. Pursuant to the sale agreement with FNMA, the Bank retained the First Loss Position. The First Loss Position totaled $15.4 million at both March 31, 2013 and December 31, 2012. Against this contingent liability, the Bank has charged through earnings a recorded liability (reserve liability for First Loss Position) of $1.3 million as of March 31, 2013 and $1.4 million December 31, 2012, leaving approximately $15.1 million of potential charges to earnings for future losses (if any) as of March 31, 2013. At March 31, 2013, within the pool of multifamily loans sold to FNMA, a $228,000 loan was delinquent between 30 and 89 days, and one $474,000 loan was 90 days or more delinquent. At December 31, 2012, within the pool of multifamily loans sold to FNMA, a $229,000 loan was delinquent between 30 and 89 days, and one $474,000 loan was 90 days or more delinquent. The Bank manages the collection of these loans in the same manner as it does for portfolio loans. Under the terms of the servicing agreement with FNMA, the Bank is obligated to fund FNMA all monthly principal and interest payments under the original terms of the loans, and to indemnify FNMA for any further losses (as defined in the sale agreement) until the earlier of the following events: (i) the Bank re-acquires the loan from FNMA; or (ii) the entire pool of loans sold to FNMA has either been fully satisfied or enters OREO status. However, the aggregate losses incurred by the Bank on this pool of serviced loans cannot exceed the total First Loss Position. The Bank has previously repurchased, and may opt to continue to repurchase, loans sold to FNMA with recourse exposure that become 90 or more days delinquent. Such repurchased loans are reported as non-performing portfolio loans and are typically purchased from FNMA in order to control losses and expedite resolution of the loan via restructure, note sale or enforcement of legal remedies.

Reserve Liability on Loan Origination Commitments

The Bank also maintains a reserve liability related to loan origination commitments (recorded in other liabilities) that totaled $192,000 at March 31, 2013 and $103,000 at December 31, 2012. The expected loss rates applied to these commitments are consistent with those applied to comparable loans held within the Bank's portfolio. This amount fluctuates based upon the amount and composition of the Bank's loan commitment pipeline.

Allowance for Loan Losses

The methodology utilized to determine the Company's allowance for loan losses on real estate and consumer loans, along with periodic associated activity, remained constant during the three-months ended March 31, 2013 and December 31, 2012. The following is a summary of the components of the allowance for loan losses as of the following dates:

| | At March 31, 2013 | At December 31, 2012 |
|---|---|---|
| | (Dollars in Thousands) | |
| Real Estate Loans: | | |
| Impaired loans | $490 | $520 |
| Substandard loans not deemed impaired | 697 | 795 |
| Special Mention loans | 242 | 145 |
| Pass graded loans | 19,075 | 19,063 |
| Sub-total real estate loans | 20,504 | 20,523 |
| Consumer loans | 26 | 27 |
| TOTAL | $20,530 | $20,550 |

Activity related to the allowance for loan losses during the three-months ended March 31, 2013 and 2012 is summarized as follows:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2013 | 2012 |
| | (Dollars in Thousands) | |
| Net charge-offs | $(177) | $(2,263) |
| Provision | 157 | 1,457 |
| Transfer from reserve for loan commitments | - | 20 |

The allowance for loan losses decreased $20,000 from December 31, 2012 to March 31, 2013, due primarily to the reduction of $30,000 of the allowance component related to impaired loans. During the period, an increase in the allowance component related to Special Mention loans was substantially offset by a reduction in the allowance component related to loans classified as Substandard but not individually evaluated for impairment. The provision for loan losses recorded during the three-months ended March 31, 2013 reflected lower expected losses on pass graded loans that was substantially offset by growth in the balance of these loans during the period.

For a further discussion of the allowance for loan losses and related activity during the three-month periods ended March 31, 2013 and 2012, please see Note 9 to the condensed consolidated financial statements. Period-end balances of special mention and pass graded real estate loans are summarized in Note 8 to the condensed consolidated financial statements, and period-end balances of impaired loans are summarized in Note 9 to the condensed consolidated financial statements.

Comparison of Financial Condition at March 31, 2013 and December 31, 2012

Assets. Assets totaled $3.98 billion at March 31, 2013, $76.9 million above their level at December 31, 2012.

Real estate loans and cash and due from banks increased by $41.0 million and $62.6 million, respectively, during the three months ended March 31, 2013. During the three months ended March 31, 2013, the Bank originated $244.4 million of real estate loans (including refinancing of existing loans) which exceeded the $200.3 million aggregate amortization on such loans (also including refinancing of existing loans). Growth in liquid funds from both retail deposits (due to depositors) and mortgagor escrow and other deposits generated an increase of $62.6 million in cash and due from bank balances from December 31, 2012 to March 31, 2013. The additional cash balances generated during the three months ended March 31, 2013 are expected to be deployed either as payment of mortgagor escrow disbusements or to fund new loan originations during the three months ending June 30, 2013. Investment securities available for sale declined $14.6 million during the three months ended March 31, 2013, as $14.8 million of agency securities that were called during the period were not replaced. MBS also declined $5.6 million during the three months ended March 31, 2013, primarily due to principal amortization during the period. The Company also reduced its investment in FHLBNY common stock by $4.3 million during the three months ended March 31, 2013 as a result of a $95.0 million decline in its outstanding FHLBNY borrowings during the period.

Liabilities. Total liabilities increased $68.0 million during the three months ended March 31, 2013. Retail deposits (due to depositors) increased $121.9 million, and mortgagor escrow and other deposits, which typically grow during the first and third quarters of each calendar year, grew $36.7 million during the three months ended March 31, 2013. Please refer to "Part I – Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources" for a discussion of the

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increase in retail deposits during the three months ended March 31, 2013. The Company elected not to replace $95.0 million of FHLBNY advances that matured during the three months ended March 31, 2013 as a result of the additional liquidity gathered from retail deposits and mortgagor escrow and other deposits during the period.

Stockholders' Equity. Stockholders' equity increased $8.9 million during the three months ended March 31, 2013, due primarily to net income of $10.6 million, $2.1 million of common stock issued for the exercise of stock options, a $946,000 aggregate increase related to either expense amortization or income tax benefits associated with stock benefit plans that added to the cumulative balance of stockholders' equity, and a net after-tax reduction of $219,000 in the balance of accumulated other comprehensive loss (due to an adjustment in the funded status of a defined benefit plan). Partially offsetting these items were $4.9 million in cash dividends paid during the period.

Comparison of Operating Results for the Three Months Ended March 31, 2013 and 2012

General. Net income was $10.6 million during the three months ended March 31, 2013, an increase of $323,000 from net income of $10.2 million during the three months ended March 31, 2012. During the comparative period, the provision for loan losses declined $1.3 million, non-interest income increased $108,000 and non-interest expense declined by $99,000. Partially offsetting these additions to pre-tax income was a reduction of $1.1 million in net interest income. Income tax expense increased $104,000 during the comparative period due to the growth of $427,000 in pre-tax earnings.

Net Interest Income. The discussion of net interest income for the three months ended March 31, 2013 and 2012 presented below should be read in conjunction with the following tables, which set forth certain information related to the condensed consolidated statements of operations for those periods, and which also present the average yield on assets and average cost of liabilities for the periods indicated. The average yields and costs were derived by dividing income or expense by the average balance of their related assets or liabilities during the periods represented. Average balances were derived from average daily balances. The yields include fees that are considered adjustments to yields.

Analysis of Net Interest Income

| | Three Months Ended March 31, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2013 | | | | 2012 | | | |
| | Average Balance | Interest | Average Yield/ Cost | | Average Balance | Interest | Average Yield/ Cost | |
| Assets: | (Dollars In Thousands) | | | | | | | |
| Interest-earning assets: | | | | | | | | |
| Real estate loans | $3,505,646 | $43,148 | 4.92 | % | $3,440,621 | $50,513 | 5.87 | % |
| Other loans | 2,184 | 25 | 4.58 | | 1,075 | 20 | 7.44 | |
| MBS | 45,477 | 459 | 4.04 | | 83,704 | 947 | 4.53 | |
| Investment securities | 42,807 | 129 | 1.21 | | 160,792 | 315 | 0.78 | |
| Federal funds sold and other short-term investments | 163,664 | 544 | 1.33 | | 158,288 | 674 | 1.70 | |
| Total interest-earning assets | 3,759,778 | $44,305 | 4.71 | % | 3,844,480 | $52,469 | 5.46 | % |
| Non-interest earning assets | 185,543 | | | | 208,635 | | | |
| Total assets | $3,945,321 | | | | $4,053,115 | | | |
| | | | | | | | | |
| Liabilities and Stockholders' Equity: | | | | | | | | |
| Interest-bearing liabilities: | | | | | | | | |
| Interest bearing checking accounts | $93,219 | $70 | 0.30 | % | $89,930 | $49 | 0.22 | % |
| Money Market accounts | 1,059,236 | 1,490 | 0.57 | | 782,446 | 1,126 | 0.58 | |
| Savings accounts | 375,374 | 101 | 0.11 | | 357,371 | 163 | 0.18 | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| CDs | 881,883 | 3,540 | 1.63 | | 978,097 | 4,388 | 1.80 | |
| Borrowed Funds | 837,402 | 6,790 | 3.29 | | 1,192,982 | 13,349 | 4.50 | |
| Total interest-bearing liabilities | 3,247,114 | $11,991 | 1.50 | % | 3,400,826 | $19,075 | 2.26 | % |
| Non-interest bearing checking accounts | 162,059 | | | | 150,356 | | | |
| Other non-interest-bearing liabilities | 138,554 | | | | 136,571 | | | |
| Total liabilities | 3,547,727 | | | | 3,687,753 | | | |
| Stockholders' equity | 397,594 | | | | 365,362 | | | |
| Total liabilities and stockholders' equity | 3,945,321 | | | | $4,053,115 | | | |
| Net interest income | | $32,314 | | | | $33,394 | | |
| Net interest spread | | | 3.21 | % | | | 3.20 | % |
| Net interest-earning assets | $512,664 | | | | $443,654 | | | |
| Net interest margin | | | 3.44 | % | | | 3.47 | % |
| Ratio of interest-earning assets to interest-bearing liabilities | | | 115.79 | % | | | 113.05 | % |

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Rate/Volume Analysis

| | Three Months Ended March 31, 2013 Compared to Three Months Ended March 31, 2012 Increase/ (Decrease) Due to: | | |
|---|---|---|---|
| | Volume | Rate | Total |
| | (Dollars In thousands) | | |
| Interest-earning assets: | | | |
| Real Estate Loans | $881 | $(8,246) | $(7,365) |
| Other loans | 17 | (12) | 5 |
| MBS | (409) | (79) | (488) |
| Investment securities | (295) | 109 | (186) |
| Federal funds sold and other short-term investments | 20 | (150) | (130) |
| Total | $214 | $(8,378) | $(8,164) |
| | | | |
| Interest-bearing liabilities: | | | |
| Interest bearing checking accounts | $3 | $18 | $21 |
| Money market accounts | 389 | (25) | 364 |
| Savings accounts | 4 | (66) | (62) |
| CDs | (433) | (415) | (848) |
| Borrowed funds | (3,473) | (3,086) | (6,559) |
| Total | $(3,510) | $(3,574) | $(7,084) |
| Net change in net interest income | $3,724 | $(4,804) | $(1,080) |

During the period January 1, 2009 through March 31, 2013, FOMC monetary policies resulted in the maintenance of the overnight federal funds rate in a range of 0.0% to 0.25%. As a result, beginning in early 2009, the Company was able to commence an orderly reduction of both its deposit and borrowing costs that continued through March 2013. In addition, both marketplace competition and refinancing activity related to loans secured by multifamily and commercial real estate increased considerably during both the year ended December 31, 2012 and the three months ended March 31, 2013, resulting in a reduction in the average yield on real estate loans. Both of these factors impacted the Company's net interest margin during the three months ended March 31, 2013 compared to the three months ended March 31, 2012.

Interest Income. Interest income was $44.3 million during the three months ended March 31, 2013, a reduction of $8.2 million from the three months ended March 31, 2012, primarily reflecting reductions of $7.4 million, $488,000 and $186,000 in interest income on real estate loans, MBS and investment securities, respectively. High volumes of prepayment and refinancing on real estate loans reduced the Company's average yield on real estate loans and MBS by 95 basis points and 49 basis points, respectively, during the three months ended March 31, 2013 compared to the three months ended March 31, 2012. The decline in interest income on MBS also reflected a reduction of $38.2 million in their average balance from the three months ended March 31, 2012 to the three months ended March 31, 2013. During the period April 1, 2012 through March 31, 2013, purchases of MBS were limited and were exceeded by principal repayments of existing MBS. Partially offsetting the decline in interest income on real estate loans during the three months ended March 31, 2013 compared to the three months ended March 31, 2012 that was attributable to the 95 basis point reduction in their average yield, was an increase of $65.0 million in their average balance during the comparative period, as the Company increased its loan origination volumes late in 2012, and during the three months ended March 31, 2013, as part of a measured balance sheet growth strategy. The decline in interest income on investment securities during the three months ended March 31, 2013 compared to the three months ended March 31, 2012, resulted from a reduction of $118.0 million in their average balance, which was partially offset by an increase of 43 basis points in their average yield. Similar to MBS, purchases of investment securities were limited during the period April 1, 2012 through March 31, 2013 and were exceeded by their calls and/or maturity activity. Since the great majority of the investment securities that were either called or matured during the period April 1, 2012 through March 31, 2013 possessed yields between 0.50% to 1.0%, their removal served to improve the average yield on the aggregate portfolio of investment securities during the three months ended March 31, 2013 compared to the three months ended March 31, 2012.

Interest Expense. Interest expense decreased $7.1 million, to $12.0 million, during the three months ended March 31, 2013, from $19.1 million during the three months ended March 31, 2012. This decline resulted primarily from reductions of $6.6 million and $848,000 in interest expense on borrowed funds and CDs, respectively, during the comparative period. The reduction in interest expense on borrowed funds resulted from declines of both $355.6 million in their average balance and 1.21% in their average cost from the three months ended March 31, 2012 to the three months ended March 31, 2013, as the Company, during the 12-month period ended March 31, 2013, elected to utilize liquidity generated from either deposit growth or increased loan amortization activity to restructure and/or reduce its aggregate level of borrowed funds. The reduction in interest expense on CDs also reflected declines of both $96.2 million in their average balance and 17 basis points in their average cost during the three months ended March 31, 2013 compared to the three months ended March 31, 2012. Since the Company did not elect to compete aggressively for CDs during the period April 1, 2012 through March 31, 2013, it experienced attrition in the higher cost CDs that matured during the period. The reduction in the average cost of CDs also resulted from ongoing reductions in offering rates on new CDs that occurred from April 1, 2012 through March 31, 2013.

Provision for Loan Losses. The provision for loan losses was $157,000 during the three months ended March 31, 2013, compared to $1.5 million during the three months ended March 31, 2012. The reduction reflected the improvement in the overall credit quality of the loan portfolio from April 1, 2012 through March 31, 2013. During the period April 1, 2012 through March 31, 2013, the Company experienced declines in both non-accrual and delinquent loans, as well as minimal net charge-off activity.

Non-Interest Income. Total non-interest income increased $108,000 from the three months ended March 31, 2012 to the three months ended March 31, 2013, due primarily to a reduction of $181,000 in OTTI losses on securities (a negative component of non-interest income) and an increase of $104,000 in the net gains or losses on securities (primarily trading securities). Other non-interest income declined $126,000 from the three months ended March 31, 2012 to the three months ended March 31, 2013 primarily due to the elimination of rental income on a real estate property that was disposed of late in 2012.

Non-Interest Expense. Non-interest expense was $16.3 million during the three months ended March 31, 2013, a reduction of $99,000 from $16.4 million during the three months ended March 31, 2012. Reductions of $167,000 in marketing expenses and $143,000 in regulatory examination costs during the three months ended March 31, 2013 compared to the three months ended March 31, 2012, were partially offset by an increase of $180,000 in writredowns on OREO during the comparative period.

Non-interest expense was 1.65% of average assets during the three months ended March 31, 2013, compared to 1.62% during the three months ended March 31, 2012, reflecting a reduction of $107.8 million in average assets from the three months ended March 31, 2012 to the three months ended March 31, 2013.

Income Tax Expense. Income tax expense increased $104,000 during the three months ended March 31, 2013 compared to the three months ended March 31, 2012, due primarily to the growth of $427,000 in pre-tax earnings. The Company's consolidated tax rate was 40.4% during the three months ended March 31, 2013, down slightly from 40.8% during the three months ended March 31, 2012.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Quantitative and qualitative disclosures about market risk were presented at December 31, 2012 in Item 7A of the Company's Annual Report on Form 10-K, filed with the SEC on March 15, 2013. The following is an update of the discussion provided therein.

General. Virtually all of the Company's market risk continues to reside at the Bank level. The Bank's largest component of market risk remains interest rate risk. The Company is not subject to foreign currency exchange or commodity price risk. At March 31, 2013, the Company owned nine mutual fund investments totaling $5.0 million that were designated as trading. At March 31, 2013, the Company did not conduct transactions involving derivative instruments requiring bifurcation in order to hedge interest rate or market risk.

Assets, Deposit Liabilities and Wholesale Funds. There was no material change in the composition of assets, deposit liabilities or wholesale funds from December 31, 2012 to March 31, 2013. See "Part I - Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources" for a discussion of deposit and borrowing activity during the period.

Interest Rate Risk Exposure Analysis
Economic Value of Equity ("EVE") Analysis. At March 31, 2013, the Bank continued to monitor the impact of interest rate volatility upon EVE in the same manner as at December 31, 2012.

The analysis that follows presents the estimated EVE resulting from market interest rates prevailing at a given quarter-end ("Pre-Shock Scenario"), and under other interest rate scenarios (each a "Rate Shock Scenario") represented by immediate, permanent, parallel shifts in interest rates from those observed at March 31, 2013 and December 31, 2012. The analysis additionally presents a measurement of the interest rate sensitivity at March 31, 2013 and December 31, 2012. Interest rate sensitivity is measured by the basis point changes in the various EVE ratios ("EVE Ratios") from the Pre-Shock Scenario to the Rate Shock Scenarios. EVE Ratios represent the EVE as a percentage of the total value of assets determined under each respective Pre- and Rate Shock Scenario. An increase in the EVE Ratio is considered favorable, while a decline is considered unfavorable.

The EVEs presented below incorporate some asset and liability values derived from the Bank's valuation model, such as those for mortgage loans and time deposits, and some asset and liability values provided by reputable independent sources, such as values for the Bank's MBS and CMO portfolios, as well as its putable borrowings. The Bank's valuation model makes various estimates regarding cash flows from principal repayments on loans and deposit decay rates at each level of interest rate change. The Bank's estimates for loan repayment levels are influenced by the recent history of prepayment activity in its loan portfolio, as well as the interest rate composition of the existing portfolio, especially in relation to the existing interest rate environment. In addition, the Bank considers the amount of fee protection inherent in the loan portfolio when estimating future repayment cash flows. Regarding deposit decay rates, the Bank tracks and analyzes the decay rate of its deposits over time and over various interest rate scenarios and then makes estimates of its deposit decay rate for use in the valuation model. The Bank also generates a series of spot discount rates that are integral to the valuation of the projected monthly cash flows of its assets and liabilities. The Bank's valuation model employs discount rates that it

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considers representative of prevailing market rates of interest, with appropriate adjustments it believes are suited to the heterogeneous characteristics of the Bank's various asset and liability portfolios. No matter the care and precision with which the estimates are derived, however, actual cash flows could differ significantly from the Bank's estimates, resulting in significantly different EVE calculations.

| | At March 31, 2013 Economic Value of Equity | | | | | | At December 31, 2012 | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Dollar Amount | Dollar Change | Percentage Change | EVE Ratio | Basis Point Change in EVE Ratio | Board Approved EVE Ratio Limit | EVE Dollar Amount | EVE Ratio | Basis Point Change in EVE Ratio | Board Approved EVE Ratio Limit |
| | (Dollars in Thousands) | | | | | | | | | |
| Rate Shock Scenario | | | | | | | | | | |
| + 200 Basis Points | $430,786 | $(34,837) | -7.48 % | 11.21% | (32) | 6.0 % | $431,313 | 11.43% | 22 | 6.0 % |
| Pre-Shock Scenario | 465,623 | - | - | 11.53 | | 8.0 | 444,209 | 11.21 | | 8.0 |

The Pre-Shock Scenario EVE was $465.6 million at March 31, 2013, compared to $444.2 million at December 31, 2012, and the EVE Ratio at March 31, 2013 was 11.53% in the Pre-Shock Scenario, compared to 11.21% at December 31, 2012. The Pre-Shock Scenario EVE and the EVE Ratio for December 31, 2012 have been adjusted to conform to methodology changes implemented in the March 31, 2013 valuation. The increase in both the Pre-Shock Scenario EVE and the Pre-Shock Scenario EVE Ratio at March 31, 2013 compared to December 31, 2012 resulted primarily from a more favorable valuation of both borrowings and CDs that reflected reductions in the average costs of these liabilities from December 31, 2012 to March 31, 2013.

The Bank's +200 basis point Rate Shock Scenario EVE decreased from its $431.3 million balance at December 31, 2012 to $430.8 million at March 31, 2013, reflecting a greater adverse impact on the valuation of real estate loans in the +200 basis point Rate Shock Scenario EVE as of March 31, 2013 (due to the extension of their average duration from December 31, 2012 to March 31, 2013), as well as a reduced benefit in the valuation of both CDs and borrowings in the +200 basis point Rate Shock Scenario EVE as of March 31, 2013 compared to December 31, 2012. The reduced benefit in valuation of CDs and borrowings reflected a reduction in the average duration of these liabilities during the three months ended March 31, 2013.

The EVE Ratio was 11.21% in the +200 basis point Rate Shock Scenario at March 31, 2013, a reduction from the EVE Ratio of 11.43% in the +200 basis point Rate Shock Scenario at December 31, 2012, reflecting both the reduction in the +200 basis point Rate Shock Scenario EVE from December 31, 2012 to March 31, 2013 and growth in total assets (a component of the denominator of the EVE Ratio) from December 31, 2012 to March 31, 2013.

At March 31, 2013, the interest rate sensitivity in the +200 basis point Rate Shock Scenario was negative 32 basis points, compared to interest rate sensitivity of positive 22 basis points in the +200 basis point Rate Shock Scenario at December 31, 2012, also reflecting both the reduction in the +200 basis point Rate Shock Scenario EVE and the growth in total assets during the period.

Income Simulation Analysis. As of the end of each quarterly period, the Company also monitors the impact of interest rate changes through a net interest income simulation model. This model estimates the impact of interest rate changes on the Bank's net interest income over forward-looking periods typically not exceeding 24 months (a considerably shorter period than measured through the EVE analysis). The following table discloses the estimated changes to the Company's net interest income over the 12-month period ending March 31, 2014 assuming instantaneous changes in interest rates for the given Rate Shock Scenarios:

| Instantaneous Change in Interest rate of: | Percentage Change in Aggregate Net Interest Income |
|---|---|
| + 200 Basis Points | (6.0)% |
| + 100 Basis Points | (3.0) |
| -100 Basis Points | N/A[1] |

[1] Due to the existing low level of interest rates, this calculation was deemed not applicable for the 12-month period ending March 31, 2014 (and was therefore not presented).

Item 4. Controls and Procedures

Management of the Company, with the participation of its Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness as of March 31, 2013, of the Company's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15(d)-15(e) under the Exchange Act. Based upon this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of March 31, 2013 in ensuring that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management of the Company as appropriate to allow timely decisions regarding required disclosures.

Changes in Internal Control Over Financial Reporting

There was no change in the Company's internal control over financial reporting that occurred during the Company's last fiscal quarter that has materially affected, or is reasonably likely to materially affect, such controls.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

In the ordinary course of business, the Company is routinely named as a defendant in or party to various pending or threatened legal actions or proceedings. Certain of these matters may seek substantial monetary damages. In the opinion of management, the Company is involved in no actions or proceedings that will have a material adverse impact on its financial condition and results of operations.

Item 1A. Risk Factors

There were no material changes from the risks disclosed in the Risk Factors section of the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(c) The Holding Company did not repurchase any shares of its common stock into treasury during the three months ended March 31, 2013. No existing repurchase programs expired during the three months ended March 31, 2013, nor did the Company terminate any repurchase programs prior to expiration during the period. As of March 31, 2013, the Holding Company had an additional 1,124,549 shares remaining eligible for repurchase under its twelfth stock repurchase program, which was publicly announced in June 2007.

Item 3. Defaults Upon Senior Securities

None.

Item 4. (Removed and Reserved)

Item 5. Other Information

None.

Item 6. Exhibits

<u>Exhibit Number</u>

| | |
|---|---|
| 3(i) | Amended and Restated Certificate of Incorporation of Dime Community Bancshares, Inc. (1) |
| 3(ii) | Amended and Restated Bylaws of Dime Community Bancshares, Inc. (16) |
| 4.1 | Amended and Restated Certificate of Incorporation of Dime Community Bancshares, Inc. [See Exhibit 3(i) hereto] |
| 4.2 | Amended and Restated Bylaws of Dime Community Bancshares, Inc. [See Exhibit 3(ii) hereto] |
| 4.3 | Draft Stock Certificate of Dime Community Bancshares, Inc. (2) |
| 4.4 | Second Amended and Restated Declaration of Trust, dated as of July 29, 2004, by and among Wilmington Trust Company, as Delaware Trustee, Wilmington Trust Company as |

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| | Institutional Trustee, Dime Community Bancshares, Inc., as Sponsor, the Administrators of Dime Community Capital Trust I and the holders from time to time of undivided beneficial interests in the assets of Dime Community Capital Trust I (5) |
| 4.5 | Indenture, dated as of March 19, 2004, between Dime Community Bancshares, Inc. and Wilmington Trust Company, as trustee (5) |
| 4.6 | Series B Guarantee Agreement, dated as of July 29, 2004, executed and delivered by Dime Community Bancshares, Inc., as Guarantor and Wilmington Trust Company, as Guarantee Trustee, for the benefit of the holders from time to time of the Series B Capital Securities of Dime Community Capital Trust I (5) |
| 10.1 | Amended and Restated Employment Agreement between The Dime Savings Bank of Williamsburgh and Vincent F. Palagiano (12) |
| 10.2 | Amended and Restated Employment Agreement between The Dime Savings Bank of Williamsburgh and Michael P. Devine (12) |
| 10.3 | Amended and Restated Employment Agreement between The Dime Savings Bank of Williamsburgh and Kenneth J. Mahon (12) |
| 10.4 | Employment Agreement between Dime Community Bancshares, Inc. and Vincent F. Palagiano (12) |

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|---|---|
| 10.5 | Employment Agreement between Dime Community Bancshares, Inc. and Michael P. Devine (12) |
| 10.6 | Employment Agreement between Dime Community Bancshares, Inc. and Kenneth J. Mahon (12) |
| 10.7 | Form of Employee Retention Agreement by and among The Dime Savings Bank of Williamsburgh, Dime Community Bancorp, Inc. and certain officers (14) |
| 10.8 | The Benefit Maintenance Plan of Dime Community Bancorp, Inc. (11) |
| 10.9 | Severance Pay Plan of The Dime Savings Bank of Williamsburgh (9) |
| 10.10 | Retirement Plan for Board Members of Dime Community Bancorp, Inc. (9) |
| 10.12 | Recognition and Retention Plan for Outside Directors, Officers and Employees of Dime Community Bancorp, Inc., as amended by amendments number 1 and 2 (3) |
| 10.13 | Form of stock option agreement for Outside Directors under Dime Community Bancshares, Inc. 1996 and 2001 Stock Option Plans for Outside Directors, Officers and Employees and the 2004 Stock Incentive Plan. (3) |
| 10.14 | Form of stock option agreement for officers and employees under Dime Community Bancshares, Inc. 1996 and 2001 Stock Option Plans for Outside Directors, Officers and Employees and the 2004 Stock Incentive Plan (3) |
| 10.20 | Dime Community Bancshares, Inc. 2001 Stock Option Plan for Outside Directors, Officers and Employees (13) |
| 10.21 | Dime Community Bancshares, Inc. 2004 Stock Incentive Plan for Outside Directors, Officers and Employees (8) |
| 10.22 | Waiver executed by Vincent F. Palagiano (7) |
| 10.23 | Waiver executed by Michael P. Devine (7) |
| 10.24 | Waiver executed by Kenneth J. Mahon (7) |
| 10.25 | Form of restricted stock award notice for officers and employees under the 2004 Stock Incentive Plan (6) |
| 10.27 | Form of restricted stock award notice for outside directors under the 2004 Stock Incentive Plan (6) |
| 10.28 | Employee Retention Agreement between The Dime Savings Bank of Williamsburgh, Dime Community Bancshares, Inc. and Daniel Harris (9) |
| 10.29 | Dime Community Bancshares, Inc. Annual Incentive Plan (9) |
| 10.30 | The Dime Savings Bank of Williamsburgh 401(K) Savings Plan (Amended and Restated Effective January 1, 2010) (10) |
| 10.31 | Employee Stock Ownership Plan of Dime Community Bancshares, Inc. and Certain Affiliates (9) |
| 10.32 | Amendment to the Benefit Maintenance Plan (15) |
| 10.33 | Amendments to the Employee Stock Ownership Plan of Dime Community Bancshares, Inc. and Certain Affiliates (16) |
| 12.1 | Computation of ratio of earnings to fixed charges |
| 31(i).1 | Certification of Chief Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a) |
| 31(i).2 | Certification of Chief Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a) |
| 32.1 | Certification of Chief Executive Officer Pursuant to 18 U.S.C. 1350 |
| 32.2 | Certification of Chief Financial Officer Pursuant to 18 U.S.C. 1350 |
| 101** | Pursuant to Rule 405 of Regulation S-T, the following financial information from the Company's Annual Report on Form 10-K for the period ended December 31, 2012 is formatted in XBRL (Extensible Business Reporting Language) interactive data files: (i) the Consolidated Balance Sheets as of December 31, 2012 and 2011, (ii) the Consolidated Statements of Operations, Comprehensive Income, Changes in Stockholders' Equity and Cash Flows for the years ended December 31, 2012, 2011 and 2010, and (iv) the Notes to Consolidated Financial Statements. |

** Furnished, not filed, herewith.

(1) Incorporated by reference to the registrant's Transition Report on Form 10-K for the transition period ended December 31, 2002 filed on March 28, 2003.

(2) Incorporated by reference to the registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1998 filed on September 28, 1998.

(3)

Incorporated by reference to the registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1997 filed on September 26, 1997, and the Current Reports on Form 8-K filed on March 22, 2004 and March 29, 2005.

(4) Incorporated by reference to the registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 2000 filed on September 28, 2000.

(5) Incorporated by reference to Exhibits to the registrant's Registration Statement No. 333-117743 on Form S-4 filed on July 29, 2004.

(6) Incorporated by reference to the registrant's Current Report on Form 8-K filed on March 22, 2005.

(7) Incorporated by reference to the registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2005 filed on May 10, 2005.

(8) Incorporated by reference to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2008 filed on August 8, 2008.

(9) Incorporated by reference to the registrant's Annual Report on Form 10-K for the year ended December 31, 2008 filed on March 16, 2009.

(10) Incorporated by reference to the registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010 filed on May 10, 2010

(11) Incorporated by reference to the registrant's Current Report on Form 8-K filed on April 4, 2011.

(12) Incorporated by reference to the registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2011 filed on May 10, 2011
(13) Incorporated by reference to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2011 filed on August 9, 2011
(14) Incorporated by reference to the registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012 filed on May 9, 2012
(15) Incorporated by reference to the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012 filed on November 13, 2012
(16) Incorporated by reference to the registrant's Annual Report on Form 10-K for the year ended December 31, 2012 filed on March 15, 2013

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.

Dime Community Bancshares, Inc.

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| Dated: May 10, 2013 | By: /s/ VINCENT F. PALAGIANO<br>Vincent F. Palagiano<br>Chairman of the Board and Chief Executive Officer |
| Dated: May 10, 2013 | By: /s/ KENNETH J. MAHON<br>Kenneth J. Mahon<br>Senior Executive Vice President and Chief Financial Officer (Principal Accounting Officer) |

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