CAMCO FINANCIAL CORP
Form 424B3
August 13, 2013
Table of Contents

Filed pursuant to Rule 424(b)(3)

under the Securities Act of 1933

Registration No. 333-182719

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2013

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 Number 0-25196

CAMCO FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**51-0110823**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**

814 Wheeling Avenue, Cambridge, Ohio 43725-9757

(Address of principal executive offices) (Zip Code)

Registrant s telephone number, including area code: (740) 435-2020

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	x

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

As of August 9, 2013, the latest practicable date, 13,586,594 shares of the registrant s common stock, $1.00 par value, were outstanding.

Table of Contents

Camco Financial Corporation

INDEX

Table of Contents

PART I FINANCIAL INFORMATION

ITEM 1. Financial Statements

Camco Financial Corporation

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(In thousands, except share data)

	June 30, 2013 (unaudited)	December 31, 2012
ASSETS		
Cash and due from banks	$ 14,796	$ 13,815
Federal Reserve	6,856	39,199
Interest-bearing deposits in other financial institutions	5,473	5,365
Cash and cash equivalents	27,125	58,379
Securities available for sale, at market	102,737	85,298
Securities held to maturity, at cost	792	903
Loans held for sale - at lower of cost or market	2,697	6,544
Loans receivable net	560,914	554,575
Office premises and equipment net	7,906	8,105
Real estate acquired through foreclosure	6,919	10,581
Federal Home Loan Bank stock - at cost	9,888	9,888
Accrued interest receivable	2,576	2,631
Mortgage servicing rights at lower of cost or market	3,700	3,245
Prepaid expenses and other assets	10,620	3,525
Cash surrender value of life insurance	20,905	20,585
Total assets	**$ 756,779**	**$ 764,259**
LIABILITIES AND STOCKHOLDERS EQUITY		
Deposits	$ 614,623	$ 627,224
Other Borrowings	12,640	10,923
Advances from the Federal Home Loan Bank	53,148	53,297
Advances by borrowers for taxes and insurance	833	2,635
Accounts payable and accrued liabilities	9,599	10,453
Total liabilities	690,843	704,532
Commitments	0	0
Stockholders equity:		
Preferred stock - $1 par value; authorized 100,000 shares; no shares outstanding	0	0
Common stock - $1 par value; authorized 29,900,000 shares; 15,227,995 and 14,911,949 shares issued at June 30, 2013 and December 31, 2012 respectively	15,228	14,912
Additional paid-in capital	63,976	63,310
Warrants - 2,656,205 at June 30, 2013 and 2,857,107 at December 31, 2012	1,311	1,411
Retained earnings	11,166	4,513
Accumulated other comprehensive income (loss)	(1,183)	100
Unearned compensation	(448)	(405)

Treasury stock - 1,678,913 shares at June 30, 2013 and December 31, 2012, at cost	(24,114)	(24,114)
Total stockholders equity	65,936	59,727
Total liabilities and stockholders equity	**$ 756,779**	**$ 764,259**

3

Table of Contents

Camco Financial Corporation

CONSOLIDATED STATEMENTS OF EARNINGS

For the six and three months ended June 30,

(In thousands, except per share data)

(unaudited)	Six months ended June 30, 2013	Six months ended June 30, 2012	Three months ended June 30, 2013	Three months ended June 30, 2012
Interest and dividend income				
Loans	$ 13,181	$ 15,912	$ 6,591	$ 7,699
Investment securities	290	219	170	132
Other interest-earning accounts	270	218	122	105
Total interest and dividend income	13,741	16,349	6,883	7,936
Interest Expense				
Deposits	2,033	2,956	1,000	1,405
Borrowings	855	1,291	429	618
Total interest expense	2,888	4,247	1,429	2,023
Net interest income	10,853	12,102	5,454	5,913
Provision for losses on loans	100	1,142	0	137
Net interest income after provision for losses on loans	10,753	10,960	5,454	5,776
Other income				
Late charges, rent and other	469	551	168	223
Loan servicing fees	549	566	273	285
Service charges and other fees on deposits	979	998	517	508
Gain on sale of loans	1,235	1,081	546	517
Mortgage servicing rights net	456	39	351	(63)
Gain on sale of investments	61	1	0	1
Loss on sale of fixed assets	(7)	(3)	(7)	0
Income on cash surrender value of life insurance	419	426	211	208
Total other income	4,161	3,659	2,059	1,679
General, administrative and other expenses				
Employee compensation and benefits	7,027	6,396	3,518	3,249
Occupancy and equipment	1,464	1,467	719	756
Federal deposit insurance premiums	883	923	441	469
Data and transaction processing	949	970	479	492
Advertising	272	195	128	108
Franchise taxes	457	384	227	201
Postage, supplies and office expenses	479	507	238	251
Travel, training and insurance	134	121	73	71
Professional services	717	889	388	351
Real estate owned and other expenses	1,449	1,236	910	589
Loan expenses	304	661	167	498
Total general, administrative and other expense	14,135	13,749	7,288	7,035
Earnings before federal income taxes	779	870	225	420

Federal income taxes	(5,874)	(25)	(5,929)	(62)
NET EARNINGS	**$ 6,653**	**$ 895**	**$ 6,154**	**$ 482**
EARNINGS PER SHARE				
Basic	**$ 0.49**	**$ 0.12**	**$ 0.45**	**$ 0.06**
Diluted	**$ 0.46**	**$ 0.12**	**$ 0.42**	**$ 0.06**

Table of Contents

Camco Financial Corporation

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

For the six and three months ended June 30,

(In thousands)

	Six months ended June 30,		Three months ended June 30,	
(unaudited)	**2013**	**2012**	**2013**	**2012**
Net earnings	$ 6,653	$ 895	$ 6,154	$ 482
Other comprehensive income, net of tax:				
Unrealized holding gains (losses) on securities during the period, net of tax effects of $(640) and $25, $(606) and $63 for the respective periods	(1,243)	50	(1,177)	123
Reclassification adjustment for realized gains included in net earnings, net of taxes of $(21) and $0, and $0 and $0 for the respective periods	(40)	(1)	0	(1)
Comprehensive income	**$ 5,370**	**$ 944**	**$ 4,977**	**$ 604**

5

Table of Contents

Camco Financial Corporation

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the six months ended June 30,

(In thousands)

(unaudited)	2013	2012
Cash flows from operating activities:		
Net earnings for the period	$ 6,653	$ 895
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Amortization of deferred loan origination fees	(61)	(71)
Amortization of premiums and discounts on investment and mortgage-backed securities net	(16)	16
Amortization of mortgage servicing rights net	(247)	453
Depreciation and amortization	658	690
Provision for losses on loans	100	1,142
Deferred taxes	(5,874)	(25)
Stock based compensation expense	418	227
Provisions for losses on REO	315	335
(Gain)/loss on sale of real estate acquired through foreclosure	219	(91)
Gain on sale of investments	(61)	(1)
Gain on sale of loans	(1,235)	(1,081)
Loss on sale of assets	7	3
Loans originated for sale in the secondary market	(56,849)	(48,100)
Proceeds from sale of loans in the secondary market	61,931	54,739
Net increase in cash surrender value of life insurance	(320)	(335)
Increase (decrease) in cash due to changes in:		
Accrued interest receivable	55	228
Prepaid expenses and other assets	(559)	122
Accrued other liabilities	(854)	1,786
Net cash provided by operating activities	4,280	10,932
Cash flows provided by (used in) investing activities:		
Principal repayments, maturities on securities held to maturity	109	165
Principal repayments, maturities on securities available for sale	29,128	9,423
Purchases of investment securities designated as available for sale	(72,464)	(63,955)
Proceeds from sale of investments	24,031	8
Loan principal repayments	87,331	134,787
Loan disbursements	(95,928)	(100,046)
Proceeds from sale of office premises and equipment	0	19
Additions to office premises and equipment	(763)	(433)
Proceeds from sale of real estate acquired through foreclosure	5,436	1,945
Net cash used in investing activities	(23,120)	(18,087)
Net cash used in operating and investing activities (balance carried forward)	(18,840)	(7,155)

Table of Contents

Camco Financial Corporation

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

For the six months ended June 30,

(In thousands)

(unaudited)	2013	2012
Net cash used in operating and investing activities (balance brought forward)	$ (18,840)	$ (7,155)
Cash flows used in financing activities:		
Net decrease in deposits	(12,601)	9,257
Proceeds from Federal Home Loan Bank advances and other borrowings	50,121	79,691
Repayment of Federal Home Loan Bank advances and other borrowings	(48,553)	(90,776)
Net proceeds from exercised warrants	421	0
Decrease in advances by borrowers for taxes and insurance	(1,802)	(1,231)
Net cash used in financing activities	(12,414)	(3,059)
Decrease in cash and cash equivalents	(31,254)	(10,214)
Cash and cash equivalents at beginning of period	58,379	38,374
Cash and cash equivalents at end of period	**$ 27,125**	**$ 28,160**
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest on deposits and borrowings	$ 2,725	$ 4,246
Income taxes paid	0	25
Transfers from loans to real estate acquired through foreclosure	2,011	3,268

7

Table of Contents

Camco Financial Corporation

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(In thousands, except share data)

	Shares outstanding	Common Stock	Additional paid-in capital	Warrants	Retained earnings	Accumulated other comprehensive income (loss)	Unearned compensation	Treasury stock	Total stockholders equity
Balance at December 31, 2011	**7,205,595**	**$ 8,885**	**$ 60,528**	**$ 0**	**$ 350**	**$ (13)**	**$ (31)**	**$ (24,114)**	**$ 45,605**
Stock Option Expense	0	0	64	0	0	0	0	0	64
Net earnings for the six months ended June 30, 2012	0	0	0	0	895	0	0	0	895
Restricted shares granted	262,492	262	362	0	0	0	(624)	0	163
Restricted shares expense	0	0		0	0	0	163	0	0
Other comprehensive income (loss)	0	0	0	0	0	49	0	0	49
Balance at June 30, 2012	**7,468,087**	**$ 9,147**	**$ 60,954**	**$ 0**	**$ 1,245**	**$ 36**	**$ (492)**	**$ (24,114)**	**$ 46,776**
Balance at December 31, 2012	**13,233,036**	**$ 14,912**	**$ 63,310**	**$ 1,411**	**$ 4,513**	**$ 100**	**$ (405)**	**$ (24,114)**	**$ 59,727**
Stock Option Expense	0	0	62	0	0	0	0	0	62
Stock issued related to exercise of warrants	200,902	201	320	(100)	0	0	0	0	421
Net earnings for the six months ended June 30, 2013	0	0	0	0	6,653	0	0	0	6,653
Restricted shares granted (less forfeits)	115,144	115	284	0	0	0	(361)	0	(38)
Restricted shares expense	0	0	0	0	0	0	318	0	394
Other comprehensive income (loss)	0	0	0	0	0	(1,283)	0	0	(1,283)
Balance at June 30, 2013	**13,549,082**	**$ 15,228**	**$ 63,976**	**$ 1,311**	**$ 11,166**	**$ (1,183)**	**$ (448)**	**$ (24,114)**	**$ 65,936**

Table of Contents

Notes to Consolidated Financial Statements

1. Basis of Presentation

The accompanying unaudited consolidated financial statements were prepared in accordance with instructions for Form 10-Q 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 (US GAAP). Accordingly, these financial statements should be read in conjunction with the consolidated financial statements and notes thereto of Camco Financial Corporation (Camco or the Corporation) included in Camco s Annual Report on Form 10-K for the year ended December 31, 2012. However, all adjustments (consisting only of normal recurring accruals) that, in the opinion of management, are necessary for a fair presentation of the consolidated financial statements have been included. The results of operations for the six-month period ended June 2013, are not necessarily indicative of the results which may be expected for the entire year.

2. Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Camco and its wholly-owned subsidiary, Advantage Bank (Advantage or the Bank). All significant intercompany balances and transactions have been eliminated.

3. Critical Accounting Policies

The preparation of these financial statements requires Camco to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the valuation of mortgage servicing rights, the valuation of deferred tax assets and other real estate owned.

Several factors are considered in determining whether or not a policy is critical in the preparation of financial statements. These factors include, among other things, whether the estimates are significant to the financial statements, the nature of the estimates, the ability to readily validate the estimates with other information including third parties or available prices, and sensitivity of the estimates to changes in economic conditions and whether alternative accounting methods may be utilized under US GAAP.

We believe the accounting estimates related to the allowance for loan losses, the capitalization, amortization, and valuation of mortgage servicing rights, deferred income taxes and other real estate owned are critical accounting estimates because: (1) the estimates are highly susceptible to change from period to period because they require us to make assumptions concerning the changes in the types and volumes of the portfolios, rates of future prepayments, and anticipated economic conditions, and (2) the impact of recognizing an impairment or loan loss could have a material effect on Camco s assets reported on the balance sheet as well as its net earnings.

Allowance for Loan Losses

The procedures for assessing the adequacy of the allowance for loan losses reflect management s evaluation of credit risk after careful consideration of all information available to management. In developing this assessment, management must rely on estimates and exercise judgment regarding matters where the ultimate outcome is unknown such as economic factors, developments affecting companies in specific industries and issues with respect to single borrowers. Depending on changes in circumstances, future assessments of credit risk may yield materially different results, which may require an increase or a decrease in the allowance for loan losses.

Each quarter, management analyzes the adequacy of the allowance for loan losses based on a review of the loans in the portfolio along with an analysis of external factors (including current housing price depreciation and homeowners loss of equity) and historical delinquency and loss trends. The allowance is developed through specific components: 1) the specific allowance for loans subject to individual analysis, 2) the allowance for classified loans not otherwise subject to individual analysis and 3) the allowance for non-classified loans (primarily homogenous).

Table of Contents

Classified loans with indication or acknowledgment of deterioration are subject to individual analysis. Loan classifications are those used by regulators consisting of Special Mention, Substandard, Doubtful and Loss. In evaluating these loans for impairment, the measure of expected loss is based on the present value of the expected future cash flows discounted at the loan s effective interest rate, a loan s observable market price or the fair value of the collateral if the loan is collateral dependent. All other classified assets and non-classified assets are combined with the homogenous loan pools and segregated into loan segments. The segmentation is based on grouping loans with similar risk characteristics (one-to-four family, home equity, etc.). Loss rate factors are developed for each loan segment, which are used to estimate losses and determine an allowance. The loss factors for each segment are derived from historical delinquency, classification, and charge-off rates and adjusted for economic factors and an estimated loss scenario.

The allowance is reviewed by management to determine whether the amount is considered adequate to absorb probable, incurred losses inherent in the loan portfolio. Management s evaluation of the adequacy of the allowance is an estimate based on management s current judgment about the credit quality of the loan portfolio. This evaluation includes specific loss estimates on certain individually reviewed loans, statistical loss estimates for loan pools that are based on historical loss experience, and general loss estimates that are based upon the size, quality, and concentration characteristics of the various loan portfolios, adverse situations that may affect a borrower s ability to repay, and current economic and industry conditions. Also considered as part of that judgment is a review of the Bank s trends in delinquencies and loan losses, as well as trends in delinquencies and losses for the region and nationally, and economic factors. While the Corporation strives to reflect all known risk factors in its evaluations, judgment errors may occur.

Mortgage Servicing Rights

To determine the fair value of its mortgage servicing rights (MSRs) each reporting quarter, the Corporation provides information to a third party valuation firm, representing loan information in each pooling period accompanied by escrow amounts. The third party then evaluates the possible impairment of MSRs as described below.

MSRs are recognized as separate assets or liabilities when loans are sold with servicing retained. A pooling methodology, in which loans with similar characteristics are pooled together, is utilized. Once pooled, each grouping of loans is evaluated on a discounted earnings basis to determine the present value of future earnings that the Bank could expect to realize from the portfolio. Earnings are projected from a variety of sources including loan service fees, net interest earned on escrow balances, miscellaneous income and costs to service the loans. The present value of future earnings is the estimated fair value for the pool, calculated using consensus assumptions that a third party purchaser would utilize in evaluating a potential acquisition of the MSRs.

Events that may significantly affect the estimates used are changes in interest rates and the related impact on mortgage loan prepayment speeds and the payment performance of the underlying loans. The interest rate for net interest earned on escrow balances, which is supplied by management, takes into consideration the investment portfolio average yield as well as current short duration investment yields. Management believes this methodology provides a reasonable estimate. Mortgage loan prepayment speeds are calculated by the third party provider utilizing the Economic Outlook as published by the Office of Chief Economist of Freddie Mac in estimating prepayment speeds and provides a specific scenario with each evaluation. Based on the assumptions discussed, pre-tax projections are prepared for each pool of loans serviced. These earnings are used to calculate the approximate cash flow that could be received from the servicing portfolio. Valuation results are presented quarterly to management. At that time, management reviews the information and MSRs are marked to lower of amortized cost or fair value for the current quarter.

Deferred Income Taxes

Camco recognizes expense for federal income taxes currently payable as well as for deferred federal taxes for estimated future tax effects of temporary differences between the tax basis of assets and liabilities and amounts reported in the consolidated balance sheets. Realization of a deferred tax asset is dependent upon generating sufficient taxable income in either the carry forward or carry back periods to cover future tax deductions generated by the reversal of temporary differences. A valuation allowance is provided by way of a charge to income tax expense if it is determined that it is more likely than not that some or all of the deferred tax asset will not be realized. If different assumptions and conditions were to prevail, the valuation allowance may not be adequate to absorb unrealized deferred taxes and the amount of income taxes payable may need to be adjusted by way of a charge to expense. Accrual of income taxes payable and valuation allowances against deferred tax assets are estimates subject to change based upon the outcome of future events.

Table of Contents

The Corporation recorded a net tax benefit of $5.9 million for the three and six month periods ended June 30, 2013, respectively. For the three and six months ended June 30, 2013, the Corporation reversed a $5.9 million valuation allowance on its deferred tax asset. This reversal is the result of an analysis performed to determine the extent to which realization of future tax benefits could be considered more likely than not . The analysis considered projected future core earnings under various scenarios, possible tax planning strategies, and consideration of the expected timing of the reversal of existing temporary differences. As a result of the assessment, management decided to eliminate the entire valuation allowance. The difference from the Corporation s effective tax benefits for the three and six month periods ended June 30, 2013, as compared to the Corporation s statutory tax rate of 34% is primarily due to the release of the valuation allowance on the deferred tax asset.

Income tax returns are subject to audit by the IRS. Income tax expense for current and prior periods is subject to adjustment based upon the outcome of such audits. During 2011, the IRS began an examination of the Corporation s tax returns for the year ended December 31, 2009. The IRS has taken the position the Corporation took bad debt deductions prematurely. The Corporation disagrees. The matter was not resolved at the examination level, therefore, the Corporation contested the matter to the IRS Office of Appeals. Management believes it is more likely than not that the Corporation will be successful in the appeals process. If the IRS prevails, the Corporation may be required to repay approximately $1.57 million of tax refunds it had received as a result of a carryback of a net operating loss and the Corporation will increase its net operating loss tax carry forward by the same amount as the disallowed deduction.

Other Real Estate

Assets acquired through or instead of foreclosure, primarily other real estate owned, are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. New real estate appraisals are generally obtained at the time of foreclosure and are used to establish fair value. If fair value declines, a valuation allowance is recorded through expense. Estimating the initial and ongoing fair value of these properties involves a number of factors and judgments including holding time, costs to complete, holding costs, discount rate, absorption and other factors.

4. Earnings Per Share

Basic earnings per common share is computed based upon the weighted-average number of common shares outstanding during the year. Diluted earnings per common share is computed including the dilutive effect of additional potential common shares issuable under outstanding stock options and warrants. Diluted earnings per share is not computed for periods in which an operating loss is sustained. The computations were as follows for the periods ended June 30:

	For the six months ended June 30,		For the three months ended June 30,	
(In thousands except earnings per share)	2013	2012	2013	2012
BASIC:				
Net Earnings	$ 6,653	$ 895	$ 6,154	$ 482
Weighted average common shares outstanding	13,466	7,344	13,546	7,468
Basic earnings per share	$ 0.49	$ 0.12	$ 0.45	$ 0.06
DILUTED:				
Net Earnings	$ 6,653	$ 895	$ 6,154	$ 482
Weighted average common shares outstanding	13,466	7,344	13,546	7,468
Dilutive effect of warrants	961	0	1,029	0
Dilutive effect of stock options	129	0	143	14
Total common shares and dilutive potential common shares	14,556	7,344	14,718	7,482
Diluted earnings per share	$ 0.46	$ 0.12	$ 0.42	$ 0.06

Anti-dilutive options to purchase 94,633 and 580,900 shares of common stock with respective weighted-average exercise prices of $13.73 and $4.70 were outstanding at June 30, 2013 and 2012, respectively, but were excluded from the computation of common share equivalents for each of the six month periods, because the exercise prices were greater than the average market price of the common shares.

Table of Contents

Anti-dilutive options to purchase 94,683 and 428,286 shares of common stock with respective weighted-average exercise prices of $13.73 and $6.05 were outstanding at June 30, 2013 and 2012, respectively, but were excluded from the computation of common share equivalents for each of the three month periods, because the exercise prices were greater than the average market price of the common shares.

5. Stock Based Compensation

The Corporation follows a fair-value based method for valuing stock-based compensation that measures compensation cost at the grant date based on the fair value of the award.

The fair value of each option granted was estimated on the date of grant using the modified Black-Scholes options-pricing model.

In 2012 and 2013, no options were granted as the Corporation awarded restricted shares in lieu of options related to goals achieved within the 2011 and 2012 officer incentive plan.

A summary of the status of the Corporation s stock option plans as of June 30, 2013 and December 31, 2012, and changes during the periods ending on those dates is presented below:

	Six Months ended June 30, 2013		Year ended December 31, 2012	
	Shares	Weighted-average exercise price	Shares	Weighted-average exercise price
Outstanding at beginning of period	581,888	$ 4.62	587,342	$ 4.68
Granted	0	0	0	0
Exercised	0	0	0	0
Forfeited	(587)	2.40	(5,454)	10.63
Expired	(16,518)	16.13	0	0
Outstanding at end of period	564,783	$ 4.29	581,888	$ 4.62
Options exercisable at period end	456,473	$ 4.76	395,233	$ 5.70
Weighted-average fair value of options granted during the period		$ N/A		$ N/A

The following information applies to options outstanding at June 30, 2013:

	Options Outstanding				Options Exercisable		
Range of Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value	Weighted-Average Exercise Price	Number Exercisable	Aggregate Intrinsic Value	Weighted-Average Exercise Price
$1.90 $2.51	470,100	6.8		$ 2.39	361,790		$ 2.41
$8.92	18,877	4.6		8.92	18,877		8.92
$11.36 $12.35	43,473	2.8		13.69	43,473		13.69
$16.51 $17.17	32,333	1.4		16.60	32,333		16.60

	564,783	6.1	$ 420,582	$ 4.29	456,473	$ 315,295	$ 4.76

(1) The intrinsic value is based on the difference of Camco s stock price on the grant date and the stock price at June 30, 2013.

Table of Contents

A summary of unvested options as of, and changes during the period ended, June 30, 2013, were as follows:

	Number	Intrinsic Value
Unvested options:		
Beginning of period	186,655	$ 193,447
Granted	0	
Forfeited	(271)	
Vested during the period	(78,074)	
Unvested options at June 30, 2013	108,310	$ 105,286

The total intrinsic value of options exercised during the six months ended June 30, 2013 and for the year ended December 31, 2012, was $0 as no options were exercised.

As of June 30, 2013, there was $107,000 of total unrecognized compensation cost related to non-vested stock options. The unrecognized compensation cost is expected to be recognized over a weighted-average period of 1.5 years.

In 2009, Camco granted 50,000 restricted shares of stock out of the current authorized common stock related to an employment agreement. The issuance of restricted stock vested in four equal annual increments beginning in 2010.

In March 2012, Camco granted 262,492 shares of restricted stock with an impact to unearned/deferred compensation of $625,000. The stock was granted under the Camco Financial Corporation 2010 Equity Plan to officers based on 2011 performance. The issuance of the restricted stock vests over three years, 20% on the date of the award, 20% on the date that the Compensation Committee certifies Camco s 2012 financial results and 60% on the date that the Compensation Committee certifies Camco s 2013 financial results (such results are expected to be certified in the first quarter of 2014). However, if Camco s pre-tax earnings for the fiscal year ended December 31, 2013 are not equal to or greater than the pre-tax earnings for the fiscal year ended December 31, 2011; the participant will forfeit 25% of the equity award that is to vest on such date. The fair value per share of restricted stock is the stock price at close on the grant date, which value is expensed on a straight-line basis during the vesting period.

In October 2012, Camco granted 53,187 shares of restricted stock with an impact to unearned/deferred compensation of $94,150. The stock was granted under the Camco Financial Corporation 2010 Equity Plan based on achievement of a 2012 performance goal. The restricted stock vested immediately.

In February 2013, Camco granted 90,428 shares of restricted stock with an impact to unearned/deferred compensation of $313,785 of which $62,760 was expensed in the prior year related to shares which immediately vested. The stock was granted under the Camco Financial Corporation 2010 Equity Plan to officers based on 2012 performance. Of the 90,428 shares granted, 7,378 shares were withheld for the payment of taxes. The issuance of the restricted stock vests over three years, 20%, which equated to 10,700 shares, on the date of the award, 20% on the date that the Compensation Committee certifies Camco s 2013 financial results and 60% on the date that the Compensation Committee certifies Camco s 2014 financial results (such results are expected to be certified in the first quarter of 2014 and 2015, respectively). However, if Camco s pre-tax earnings for the fiscal year ending December 31, 2013 or 2014 are not equal to or greater than the budgeted pre-tax earnings for the fiscal year ended December 31, 2012; the participant will forfeit 25% of the equity award that is to vest on such date. Additionally, the shares may not be transferred for one year after vesting except for settlement of taxes. The fair value per share of restricted stock is the stock price at close on the grant date, which value is expensed on a straight-line basis during the vesting period.

In February 2013, Camco granted 81,391 shares of restricted stock awards with an impact to unearned/deferred compensation of $282,427 of which $141,212 was expensed in the prior year related to shares which immediately vested. The stock was granted under the Camco Financial Corporation 2010 Equity Plan based on 2012 performance of which 29,331 shares of the 81,391 shares granted were withheld for tax purposes related to an 83B election. The restricted stock vests 50%, or 11,364 shares, on the date of the award and 50% on the date that the Compensation Committee certifies Camco s 2013 financial results (such results are expected to be certified in the first quarter of 2014).

Table of Contents

The shares represented by restricted stock awards are considered outstanding at the grant date, as the recipients are entitled to voting rights and dividends, if declared. A summary of restricted stock award activity for the period is presented below:

	Non-vested Number of Shares	Weighted Average Grant Date Fair Value
Non-vested balance at December 31, 2012	219,989	$ 2.39
Granted	171,819	$ 3.47
Vested	(123,134)	$ 2.91
Forfeited	(570)	$ 2.94
Non-vested balance at June 30, 2013	268,104	$ 2.84

At June 30, 2013, there was approximately $436,000 of compensation cost that had not been recognized related to restricted stock awards. That cost is expected to be recognized over the next 18 months.

6. Fair Value

The fair value framework as disclosed in the Fair Value Measurements and Disclosure Topic of FASB ASC Topic 825, Financial Instruments (Fair Value Topic) includes a hierarchy which focuses on prioritizing the inputs used in valuation techniques. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1), a lower priority to observable inputs other than quoted prices in active markets for identical assets and liabilities (Level 2), and the lowest priority to unobservable inputs (Level 3). When determining the fair value measurements for assets and liabilities, the Corporation looks to active markets to price identical assets or liabilities whenever possible and classifies such items in Level 1. When identical assets and liabilities are not traded in active markets, the Corporation looks to observable market data for similar assets and liabilities and classifies such items as Level 2. Certain assets and liabilities are not actively traded in observable markets and the Corporation must use alternative techniques, based on unobservable inputs, to determine the fair value and classifies such items as Level 3. The level within the fair value hierarchy is based on the lowest level of input that is significant in the fair value measurement.

As a financial services corporation, the carrying value of certain financial assets and liabilities is impacted by the application of fair value measurements, either directly or indirectly. In certain cases, an asset or liability is measured and reported at fair value on a recurring basis, such as available-for-sale investment securities. In other cases, management must rely on estimates or judgments to determine if an asset or liability not measured at fair value warrants an impairment write-down or whether a valuation reserve should be established. Given the inherent volatility, the use of fair value measurements may have a significant impact on the carrying value of assets or liabilities, or result in material changes to the financial statements, from period to period.

Listed below are three levels of inputs that Camco uses to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Quoted prices on identical assets or liabilities that are not actively traded. Also consists of an observable market price for a similar asset or liability. This includes the use of matrix pricing used to value debt securities absent the exclusive use of quoted prices.

Level 3: Consists of unobservable inputs that are used to measure fair value when observable market inputs are not available. This could include the use of internally developed models, financial forecasting, etc.

The following methods, assumptions, and valuation techniques were used by the Corporation to measure different financial assets and liabilities at fair value and in estimating its fair value disclosures for financial instruments.

Cash and Cash Equivalents: The carrying amount reported in the consolidated statements of financial condition for cash and cash equivalents is deemed to approximate fair value and are classified as Level 1 of the fair value hierarchy.

Investment Securities: Fair values for investment securities are determined by quoted market prices if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities. For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using matrix pricing, which is a mathematical technique widely used in the industry to value investment securities without relying exclusively on quoted prices for the specific investment securities but rather relying on the investment securities relationship to other benchmark quoted investment securities (Level 2). Any investment securities not valued based upon the methods above is considered Level 3.

Table of Contents

The Corporation utilizes information provided by a third-party investment securities portfolio manager in analyzing the investment securities portfolio in accordance with the fair value hierarchy of the Fair Value Topic. The portfolio manager s evaluation of investment security portfolio pricing is performed using a combination of prices and data from other sources, along with internally developed matrix pricing models. The third-party s month-end pricing process includes a series of quality assurance activities where prices are compared to recent market conditions, previous evaluation prices, and between the various pricing services. These processes produce a series of quality assurance reports on which price exceptions are identified, reviewed and where appropriate, securities are re-priced. In the event of a materially different price, the third party will report the variance and review the pricing methodology in detail. The results of the quality assurance process are incorporated into the selection of pricing providers by the third party.

Loans Held for Sale: Mortgage loans held for sale are classified as Level 2 and are estimated using fair value which is determined using quoted prices and if available the contracted sales price of loans committed for delivery, which is determined on the date of sale commitment. Gains and losses on the sale of loans are recorded as net gains from sales of loans within noninterest income in the Consolidated Statements of Operations.

Loans Receivable: The loan portfolio has been segregated into categories with similar characteristics, such as one- to four-family residential real estate, multi-family residential real estate, installment and other. These loan categories were further delineated into fixed-rate and adjustable-rate loans. The fair values for the resultant loan categories were computed via discounted cash flow analysis, using current interest rates offered for loans with similar terms to borrowers of similar credit quality. The methods utilized to estimate the fair value of loans do not necessarily represent an exit price and due to the significant judgment involved in evaluating credit quality, loans are classified within Level 3 classification.

Federal Home Loan Bank Stock: The carrying amount presented in the consolidated statements of financial condition is deemed to approximate fair value.

Accrued Interest Payable: The fair value for accrued interest approximates its carrying amounts due. The valuation is a Level 3 classification that is consistent with its underlying asset or liability.

Deposits: The fair values of deposits with no stated maturity, such as money market demand deposits, savings and NOW accounts have been analyzed by management and assigned estimated maturities and cash flows which are then discounted to derive a value. The fair value of fixed-rate certificates of deposit is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar remaining maturities. The Corporation classifies the estimated fair value of deposit liabilities as Level 2 in the fair value hierarchy.

Advances from the Federal Home Loan Bank: The fair value of these advances is estimated using the rates currently offered for similar advances of similar remaining maturities or, when available, quoted market prices.

Repurchase Agreements: The fair value of repurchase agreements is based on the discounted value of contractual cash flows using rates currently offered for similar maturities. The Corporation classifies the estimated fair value of short-term borrowings as Level 2 of the fair value hierarchy.

Subordinated Debentures: The fair value of subordinated debentures is based on the discounted value of contractual cash flows using rates currently offered for smaller maturities.

Advances by Borrowers for Taxes and Insurance: The fair value of advances by borrowers for taxes and insurance approximates its carrying amounts due to the short duration before collection. The valuation is a Level 3 classification which is consistent with its underlying asset.

Table of Contents

Accrued interest payable: The fair value of accrued interest payable approximates its carrying amounts due. The valuation is a Level 3 classification which is consistent with its underlying asset.

Commitments to Extend Credit: For fixed-rate and adjustable-rate loan commitments, the fair value estimate considers the difference between current levels of interest rates and committed rates. At June 30, 2013 and December 31, 2012, the fair value of loan commitments was not material.

Fair value is defined as the price that would be received to sell an asset or transfer a liability between market participants at the balance sheet date. When possible, the Corporation looks to active and observable markets to price identical assets or liabilities. When identical assets and liabilities are not traded in active markets, the Corporation looks to observable market data for similar assets and liabilities. However, certain assets and liabilities are not traded in observable markets and Camco must use other valuation methods to develop a fair value. The fair value of impaired loans is based on the fair value of the underlying collateral, which is estimated through third party appraisals or internal estimates of collateral values.

Based on the foregoing methods and assumptions, the carrying value and fair value of the Corporation s financial instruments are as follows:

June 30, 2013	Carrying value	Fair value	Level 1 (In thousands)	Level 2	Level 3
Financial assets					
Cash and cash equivalents	$ 27,125	$ 27,125	$ 27,125	$ 0	$ 0
Investment securities available for sale	102,737	102,737	0	102,693	44
Investment securities held to maturity	792	837	0	837	0
Loans held for sale	2,697	2,743	0	2,743	0
Loans receivable	560,914	551,933	0	0	551,933
Federal Home Loan Bank stock	9,888	9,888			