Magyar Bancorp, Inc.
Form 10-Q
May 13, 2011

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

FORM 10-Q

þ QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2011

Commission File Number 000-51726

Magyar Bancorp, Inc.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	20-4154978
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)
400 Somerset Street, New Brunswick, New Jersey	08901
(Address of Principal Executive Office)	(Zip Code)

(732) 342-7600
(Issuer's Telephone Number including area code)

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 past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes þ No o

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

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	o	Accelerated filer	o
Non-accelerated filer (Do not check if a smaller reporting company)	o	Smaller reporting company	þ

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

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

Class	Outstanding at May 1, 2011
Common Stock, $0.01 Par Value	5,798,831

MAGYAR BANCORP, INC.

Form 10-Q Quarterly Report

Table of Contents

PART I. FINANCIAL INFORMATION

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

MAGYAR BANCORP, INC. AND SUBSIDIARY
Consolidated Balance Sheets
(In Thousands, Except Share and Per Share Data)

	March 31, 2011	September 30, 2010
	(Unaudited)	
Assets		
Cash	$1,309	$ 1,126
Interest earning deposits with banks	13,942	19,960
Total cash and cash equivalents	15,251	21,086
Investment securities - available for sale, at fair value	28,009	14,187
Investment securities - held to maturity, at amortized cost (fair value of $42,527 and $45,398 at March 31, 2011 and September 30, 2010, respectively)	42,397	44,479
Federal Home Loan Bank of New York stock, at cost	2,690	2,775
Loans receivable, net of allowance for loan losses of $3,769 and $4,766 at March 31, 2011 and September 30, 2010, respectively	394,439	403,886
Bank owned life insurance	9,484	9,306
Accrued interest receivable	1,975	1,950
Premises and equipment, net	19,964	20,142
Other real estate owned ("OREO")	16,371	12,655
Other assets	7,223	7,483
Total assets	$537,803	$ 537,949
Liabilities and Stockholders' Equity		
Liabilities		
Deposits	$430,530	$ 427,932
Escrowed funds	1,257	1,555
Federal Home Loan Bank of New York advances	43,891	45,769
Securities sold under agreements to repurchase	15,000	15,000
Accrued interest payable	370	418
Accounts payable and other liabilities	2,876	3,098
Total liabilities	493,924	493,772
Stockholders' equity		
Preferred stock: $.01 Par Value, 1,000,000 shares authorized; none issued	-	-
Common stock: $.01 Par Value, 8,000,000 shares authorized; 5,923,742 issued; 5,798,831 and 5,783,131 outstanding at March 31, 2011 and September 30, 2010, respectively, at cost	59	59
Additional paid-in capital	26,337	26,396
Treasury stock: 124,911 and 140,611 shares at March 31, 2011 and September 30, 2010, respectively, at cost	(1,514)	(1,704)
Unearned Employee Stock Ownership Plan shares	(1,284)	(1,342)

Retained earnings	21,109	21,300
Accumulated other comprehensive loss	(828)	(532)
Total stockholders' equity	43,879	44,177
Total liabilities and stockholders' equity	$537,803	$ 537,949

The accompanying notes are an integral part of these statements.

1

Table of Contents

MAGYAR BANCORP, INC. AND SUBSIDIARY
Consolidated Statements of Operations
(In Thousands, Except Per Share Data)

	For the Three Months Ended March 31, 2011	For the Three Months Ended March 31, 2010	For the Six Months Ended March 31, 2011	For the Six Months Ended March 31, 2010
	(Unaudited)			
Interest and dividend income				
Loans, including fees	$5,005	$5,788	$10,152	$11,588
Investment securities				
Taxable	533	632	1,035	1,327
Tax-exempt	1	1	3	3
Federal Home Loan Bank of New York stock	40	46	87	91
Total interest and dividend income	5,579	6,467	11,277	13,009
Interest expense				
Deposits	1,278	1,667	2,694	3,484
Borrowings	597	698	1,207	1,415
Total interest expense	1,875	2,365	3,901	4,899
Net interest and dividend income	3,704	4,102	7,376	8,110
Provision for loan losses	478	750	836	1,150
Net interest and dividend income after provision for loan losses	3,226	3,352	6,540	6,960
Other income				
Service charges	235	259	576	501
Other operating income	104	130	216	248
Gains on sales of loans	10	39	459	115
Gains on sales of investment securities	35	270	35	349
Gains (losses) on the sales of OREO	(157)	97	(292)	97
Total other income	227	795	994	1,310
Other expenses				
Compensation and employee benefits	1,987	1,897	3,857	4,617
Occupancy expenses	709	631	1,376	1,253
Advertising	49	47	102	89
Professional fees	303	341	550	568
Service fees	145	144	289	289
REO expenses	113	81	236	125
FDIC deposit insurance premiums	357	284	706	551
Other expenses	391	441	856	799

Total other expenses	4,054	3,866	7,972	8,291
Income (loss) before income tax expense (benefit)	(601)	281	(438)	(21)
Income tax expense (benefit)	(244)	2	(208)	(321)
Net income (loss)	$(357)	$279	$(230)	$300
Net income (loss) per share-basic and diluted	$(0.06)	$0.05	$(0.04)	$0.05

The accompanying notes are an integral part of these statements.

Table of Contents

MAGYAR BANCORP, INC. AND SUBSIDIARY
Consolidated Statement of Changes in Stockholders' Equity
For the Six Months Ended March 31, 2011
(In Thousands, Except for Share Amounts)
(Unaudited)

	Common Stock Shares Outstanding	Common Stock Par Value	Additional Paid-In Capital	Treasury Stock	Unearned ESOP Shares	Retained Earnings	Other Comprehensive Loss	Total
Balance, September 30, 2010	5,783,131	$59	$ 26,396	$(1,704)	$(1,342)	$21,300	$ (532)	$44,177
Comprehensive loss:								
Net loss	-	-	-	-	-	(230)	-	(230)
Unrealized loss on securities available-for-sale, net of tax benefit of $108	-	-	-	-	-	-	(214)	(214)
Reclassification adjustment for gains included in net loss, net of tax benefit of $14	-	-	-	-	-	-	(21)	(21)
Unrealized loss on derivatives, net of tax benefit of $40	-	-	-	-	-	-	(61)	(61)
Total comprehensive loss								(526)
Treasury stock used for restricted stock plan	15,700	-	(229)	190	-	39	-	-
ESOP shares allocated	-	-	(31)	-	58	-	-	27
Stock-based compensation expense	-	-	201	-	-	-	-	201
Balance, March 31, 2011	5,798,831	$59	$ 26,337	$(1,514)	$(1,284)	$21,109	$ (828)	$43,879

The accompanying notes are an integral part of this statement.

Table of Contents

MAGYAR BANCORP, INC. AND SUBSIDIARY
Consolidated Statements of Cash Flows
(In Thousands)

	For the Six Months Ended March 31, 2011	2010
	(Unaudited)	
Operating activities		
Net income (loss)	$(230)	$300
Adjustment to reconcile net income (loss) to net cash provided by operating activities		
Depreciation expense	485	560
Premium amortization on investment securities, net	155	75
Provision for loan losses	836	1,150
Provision for loss on other real estate owned	449	-
Proceeds from the sales of loans	7,613	1,875
Gains on sale of loans	(459)	(115)
Gains on sales of investment securities	(35)	(349)
Gains on the sales of other real estate owned	(157)	(97)
ESOP compensation expense	27	24
Stock-based compensation expense	201	151
(Increase) decrease in accrued interest receivable	(25)	156
Increase in surrender value bank owned life insurance	(178)	(224)
Decrease (increase) in other assets	320	(3,262)
Decrease in accrued interest payable	(48)	(148)
Decrease in accounts payable and other liabilities	(222)	(74)
Net cash provided by operating activities	8,732	22
Investing activities		
Net (increase) decrease in loans receivable	(2,124)	4,182
Purchases of investment securities held to maturity	(7,747)	(7,153)
Purchases of investment securities available for sale	(18,091)	(1,775)
Sales of investment securities held to maturity	-	4,000
Sales of investment securities available for sale	2,016	3,555
Proceeds from calls of investment securities held to maturity	-	3,028
Principal repayments on investment securities held to maturity	9,752	4,445
Principal repayments on investment securities available for sale	1,854	1,688
Purchases of premises and equipment	(307)	(101)
Investment in other real estate owned	(968)	(81)
Proceeds from the sale of other real estate owned	541	887
Redemption of Federal Home Loan Bank stock	85	47
Net cash (used) provided by investing activities	(14,989)	12,722
Financing activities		
Net increase (decrease) in deposits	2,598	(13,319)
Net decrease in escrowed funds	(298)	(15)
Repayments of long-term advances	(1,878)	(1,037)
Net cash provided (used) by financing activities	422	(14,371)

Net decrease in cash and cash equivalents	(5,835)	(1,627)
Cash and cash equivalents, beginning of period	21,086	7,921
Cash and cash equivalents, end of period	$15,251	$6,294
Supplemental disclosures of cash flow information		
Cash paid for		
Interest	$3,949	$5,047
Income taxes	$6	$4
Non-cash investing activities		
Real estate acquired in full satisfaction of loans in foreclosure	$3,581	$5,238

The accompanying notes are an integral part of these statements.

Table of Contents

MAGYAR BANCORP, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
(Unaudited)

NOTE A – BASIS OF PRESENTATION

The consolidated financial statements include the accounts of Magyar Bancorp, Inc. (the “Company”), its wholly owned subsidiary Magyar Bank, and the Bank’s wholly owned subsidiaries Magyar Service Corporation, Hungaria Urban Renewal, LLC, and MagBank Investment Company. All material intercompany transactions and balances have been eliminated. The Company prepares its financial statements on the accrual basis and in conformity with accounting principles generally accepted in the United States of America ("US GAAP"). The unaudited information furnished herein reflects all adjustments (consisting of normal recurring accruals) that are, in the opinion of management, necessary to a fair statement of the results for the interim periods presented.

Operating results for the three and six months ended March 31, 2011 are not necessarily indicative of the results that may be expected for the year ending September 30, 2011. The September 30, 2010 information has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by US GAAP for complete financial statements.

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. 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 other real estate owned, and the assessment of realizability of deferred income tax assets.

The Company has evaluated events and transactions occurring subsequent to the balance sheet date of March 31, 2011 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through the date these financial statements were issued.

NOTE B- RECENT ACCOUNTING PRONOUNCEMENTS

In connection with the preparation of quarterly and annual reports in accordance with the Securities and Exchange Commission’s (SEC) Securities Exchange Act of 1934, SEC Staff Accounting Bulletin Topic 11.M requires the disclosure of the impact that recently issued accounting standards will have on financial statements when they are adopted in the future.

In October 2009, the FASB issued Accounting Standards Update (“ASU”) 2009-16, Transfers and Servicing (Topic 860) - Accounting for Transfers of Financial Assets. This Update amends the Codification for the issuance of FASB Statement No. 166, Accounting for Transfers of Financial Assets-an amendment of FASB Statement No. 140. The amendments in this Update improve financial reporting by eliminating the exceptions for qualifying special-purpose entities from the consolidation guidance and the exception that permitted sale accounting for certain mortgage securitizations when a transferor has not surrendered control over the transferred financial assets. In addition, the amendments require enhanced disclosures about the risks that a transferor continues to be exposed to because of its continuing involvement in transferred financial assets. Comparability and consistency in accounting for transferred financial assets will also be improved through clarifications of the requirements for isolation and limitations on portions of financial assets that are eligible for sale accounting. This Update is effective at the start of a reporting entity’s first fiscal year beginning after November 15, 2009. The ASU did not have a material impact on the Company’s consolidated financial statements.

In October 2009, the FASB issued ASU 2009-17, Consolidations (Topic 810) - Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities. This Update amends the Codification for the issuance of FASB Statement No. 167, Amendments to FASB Interpretation No. 46(R). The amendments in this Update replace the quantitative-based risks and rewards calculation for determining which reporting entity, if any, has a controlling financial interest in a variable interest entity with an approach focused on identifying which reporting entity has the power to direct the activities of a variable interest entity that most significantly impact the entity's economic

Table of Contents

performance and (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. An approach that is expected to be primarily qualitative will be more effective for identifying which reporting entity has a controlling financial interest in a variable interest entity. The amendments in this Update also require additional disclosures about a reporting entity's involvement in variable interest entities, which will enhance the information provided to users of financial statements. This Update is effective at the start of a reporting entity's first fiscal year beginning after November 15, 2009. The ASU did not have a material impact on the Company's consolidated financial statements.

The FASB has issued ASU 2010-06, Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements. This ASU requires some new disclosures and clarifies some existing disclosure requirements about fair value measurement as set forth in Codification Subtopic 820-10. The FASB's objective is to improve these disclosures and, thus, increase the transparency in financial reporting. Specifically, ASU 2010-06 amends Codification Subtopic 820-10 to now require: (1) a reporting entity to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers; and (2) in the reconciliation for fair value measurements using significant unobservable inputs, a reporting entity should present separately information about purchases, sales, issuances, and settlements. In addition, ASU 2010-06 clarifies the requirements of the following existing disclosures: (1) for purposes of reporting fair value measurement for each class of assets and liabilities, a reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities; and (2) a reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. ASU 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Early adoption is permitted. The ASU did not have a material impact on the Company's consolidated financial statements.

The FASB issued ASU 2010-20, Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses, in an effort to help investors assess the credit risk of a company's receivables portfolio and the adequacy of its allowance for credit losses held against the portfolios by expanding credit risk disclosures. This ASU requires more information about the credit quality of financing receivables in the disclosures to financial statements, such as aging information and credit quality indicators. The amendments in this Update apply to all public and nonpublic entities with financing receivables. Financing receivables include loans and trade accounts receivable. However, short-term trade accounts receivable, receivables measured at fair value or lower of cost or fair value, and debt securities are exempt from these disclosure amendments. The amendments require disclosures as of the end of a reporting period effective for periods ending on or after December 15, 2010. The amendments that require disclosures about activity that occurs during a reporting period are effective for periods beginning on or after December 15, 2010. The portions of the ASU that were not delayed by ASU 2011-01 (see below) did not have a material impact on the Company's consolidated financial statements.

The FASB issued ASU 2011-01, Receivables (Topic 310): Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20 in January 2011 to temporarily delay the effective date of the disclosures about troubled debt restructurings in Update 2010-20 for public entities. Under the existing effective date in Update 2010-20, public-entity creditors would have provided disclosures about troubled debt restructurings for periods beginning on or after December 15, 2010. The delay was intended to allow the Board time to complete its deliberations on what constitutes a troubled debt restructuring.

The FASB issued ASU 2011-02, Receivables (Topic 310): A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring in April 2011 to help creditors in determining whether a creditor has granted a concession and whether a debtor is experiencing financial difficulties for purposes of determining whether a restructuring constitutes a troubled debt restructuring. In evaluating whether a restructuring constitutes a troubled debt restructuring, a creditor must separately conclude that both 1) the restructuring constitutes a concession and 2) the debtor is experiencing financial difficulties. In addition, the amendments to Topic 310 clarify the guidance on a creditor's evaluation of whether it has granted a concession and whether a debtor is experiencing financial difficulties. The amendments in this Update are effective for the first interim or annual period beginning on or after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption. The Company is evaluating the updates to Topic 310 and does not expect their implementation to have a material impact on its consolidated financial statements.

Table of Contents

NOTE C - CONTINGENCIES

The Company, from time to time, is a party to routine litigation that arises in the normal course of business. In the opinion of management, the resolution of this litigation, if any, would not have a material adverse effect on the Company's consolidated financial position or results of operations.

NOTE D - EARNINGS PER SHARE

Basic and diluted earnings per share for the three and six months ended March 31, 2011 and 2010 were calculated by dividing net income by the weighted-average number of shares outstanding for the period. All stock options and restricted stock awards were anti-dilutive for the three and six months ended March 31, 2011 and the three and six months ended March 31, 2010. The following table shows the Company's earnings per share for the periods presented:

	For the Three Months Ended March 31,		For the Six Months Ended March 31,	
	2011	2010	2011	2010
	(In thousands except for per share data)			
Income (loss) applicable to common shares	$ (357)	$ 279	$ (230)	$ 300
Weighted average number of common shares outstanding - basic	5,800	5,782	5,798	5,780
Stock options and restricted stock	-	-	-	-
Weighted average number of common shares and common share equivalents - diluted	5,800	5,782	5,798	5,780
Basic earnings (loss) per share	$ (0.06)	$ 0.05	$ (0.04)	$ 0.05
Diluted earnings (loss) per share	N/A	$ 0.05	N/A	$ 0.05

Options to purchase 188,276 shares of common stock at a weighted average price of $14.61 and 25,588 shares of restricted shares at a weighted average price of $10.15 were outstanding and not included in the computation of diluted earnings per share for the three and six months ended March 31, 2011 because the grant (or option strike) price was greater than the average market price of the common shares during the periods. Options to purchase 188,276 shares of common stock at an average price of $14.61 and 30,084 restricted shares at a weighted average price of $14.55 were outstanding and not included in the computation of diluted earnings per share for the three and six months ended March 31, 2010 because the grant (or option strike) price was greater than the average market price of the common shares during the periods.

NOTE E – STOCK-BASED COMPENSATION AND STOCK REPURCHASE PROGRAM

The Company follows FASB Accounting Standards Codification ("ASC") Section 718, Compensation-Stock Compensation, which covers a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. ASC 718 requires that compensation cost relating to share-based payment transactions be recognized in financial statements. The cost is measured based on the fair value of the equity or liability instruments issued.

ASC 718 also requires the Company to realize as a financing cash flow rather than an operating cash flow, as previously required, the benefits of realized tax deductions in excess of previously recognized tax benefits on compensation expense. In accordance with SEC Staff Accounting Bulletin (“SAB”) No. 107, the Company classified share-based compensation for employees and outside directors within “compensation and employee benefits” in the consolidated statement of operations to correspond with the same line item as the cash compensation paid.

Stock options generally vest over a five-year service period and expire ten years from issuance. Management recognizes compensation expense for all option grants over the awards’ respective requisite service periods. The fair values of all option grants were estimated using the Black-Scholes option-pricing model. Since there was limited

Table of Contents

historical information on the volatility of the Company's stock, management also considered the average volatilities of similar entities for an appropriate period in determining the assumed volatility rate used in the estimation of fair value. Management estimated the expected life of the options using the simplified method allowed under SAB No. 107. The 7-year Treasury yield in effect at the time of the grant provided the risk-free rate for periods within the contractual life of the option. Management recognizes compensation expense for the fair values of these awards, which have graded vesting, on a straight-line basis over the requisite service period of the awards. Once vested, these awards are irrevocable. Shares will be obtained from either the open market or treasury stock upon share option exercise.

Restricted shares generally vest over a five-year service period on the anniversary of the grant date. Once vested, these awards are irrevocable. The product of the number of shares granted and the grant date market price of the Company's common stock determine the fair value of restricted shares under the Company's restricted stock plans. Management recognizes compensation expense for the fair value of restricted shares on a straight-line basis over the requisite service period.

The following is a summary of the status of the Company's stock option activity and related information for its option plan for the three months ended March 31, 2011:

	Number of Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Balance at September 30, 2010	188,276	$ 14.61		
Granted	-	-		
Exercised	-	-		
Forfeited	-	-		
Balance at March 31, 2011	188,276	$ 14.61	5.9 years	$ -
Exercisable at March 31, 2011	154,561	$ 14.61	5.9 years	$ -

The following is a summary of the Company's non-vested stock awards as of March 31, 2011 and changes during the six months ended March 31, 2011:

	Number of Stock Awards	Weighted Average Grant Date Fair Value
Balance at September 30, 2010	45,390	$ 11.45
Granted	-	-
Vested	(15,697)	14.55
Forfeited	-	-
Balance at March 31, 2011	29,693	$ 9.81

Stock option and stock award expenses included with compensation expense were $81,000 and $120,000, respectively, for the six months ended March 31, 2011.

The Company announced in November 2007 its second stock repurchase program of up to 5% of its publicly-held outstanding shares of common stock, or 129,924 shares. Through March 31, 2011, the Company had repurchased a total of 66,970 shares of its common stock at an average cost of $9.39 per share under this program. No shares have been repurchased during the six months ended March 31, 2011. Under the stock repurchase program, 62,954 shares of the 129,924 shares authorized remained available for repurchase as of March 31, 2011. The Company's intended use of the repurchased shares is for general corporate purposes, including the funding of awards granted under the 2006 Equity Incentive Plan.

Table of Contents

The Company has an Employee Stock Ownership Plan ("ESOP") for the benefit of employees of the Company and the Bank who meet the eligibility requirements as defined in the plan. The ESOP trust purchased 217,863 shares of common stock in the open market using proceeds of a loan from the Company. The total cost of shares purchased by the ESOP trust was $2.3 million, reflecting an average cost per share of $10.58. The Bank will make cash contributions to the ESOP on an annual basis sufficient to enable the ESOP to make the required loan payments to the Company. The loan bears a variable interest rate that adjusts annually every January 1st to the then published Prime Rate (3.25% at January 1, 2011) with principal and interest payable annually in equal installments over thirty years. The loan is secured by shares of the Company's stock.

As the debt is repaid, shares are released as collateral and allocated to qualified employees. Accordingly, the shares pledged as collateral are reported as unearned ESOP shares in the Consolidated Balance Sheet. As shares are released from collateral, the Company reports compensation expense equal to the then current market price of the shares, and the shares become outstanding for earnings per share computations.

At March 31, 2011, shares allocated to participants totaled 84,631. Unallocated ESOP shares held in suspense totaled 133,232 at March 31, 2011 and had a fair market value of $572,898. The Company's contribution expense for the ESOP was $27,000 and $24,000 for the six months ended March 31, 2011 and 2010, respectively.

NOTE F - COMPREHENSIVE INCOME (LOSS)

The components of comprehensive income (loss) and the related income tax effects are as follows:

	Three Months Ended March 31,					
	2011			2010		
	Before Tax Amount	Tax Benefit (Expense)	Net of Tax Amount	Before Tax Amount	Tax Benefit (Expense)	Net of Tax Amount
	(Dollars in thousands)					
Unrealized holding gains arising during period on:						
Available-for-sale investments	$ 100	$ (46)	$ 54	$ 395	$ (153)	$ 242
Less reclassification adjustment for gains realized in net income	(35)	14	(21)	(270)	107	(163)
Interest rate derivatives	(28)	11	(17)	(72)	29	(43)
Other comprehensive income, net	$ 37	$ (21)	$ 16	$ 53	$ (17)	$ 36

Six Months Ended March 31,

2011 2010

	Before Tax Amount	Tax Benefit (Expense)	Net of Tax Amount	Before Tax Amount	Tax Benefit (Expense)	Net of Tax Amount
			(Dollars in thousands)			
Unrealized holding losses arising during period on:						
Available-for-sale investments	$ (321)	$ 107	$ (214)	$ 105	$ (45)	$ 60
Less reclassification adjustment for gains realized in net income	(35)	14	(21)	(349)	139	(210)
Interest rate derivatives	(101)	40	(61)	(150)	60	(90)
Other comprehensive loss, net	$ (457)	$ 161	$ (296)	$ (394)	$ 154	$ (240)

Table of Contents

NOTE G – FAIR VALUE DISCLOSURES

We use fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Our securities available-for-sale are recorded at fair value on a recurring basis. Additionally, from time to time, we may be required to record at fair value other assets or liabilities on a non-recurring basis, such as held-to-maturity securities, mortgage servicing rights, loans receivable and other real estate owned, or OREO. These non-recurring fair value adjustments involve the application of lower-of-cost-or-market accounting or write-downs of individual assets.

In accordance with ASC 820, we group our assets and liabilities at fair value in three levels, based on the markets in which the assets are traded and the reliability of the assumptions used to determine fair value. These levels are:

Λεϖελ 1 – Valuation is based upon quoted prices for identical instruments traded in active markets.

Λεϖελ 2 – Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market.

Λεϖελ 3 – Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect our own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include the use of option pricing models, discounted cash flow models and similar techniques. The results cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset or liability.

We base our fair values on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 requires us to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The following is a description of valuation methodologies used for assets measured at fair value on a recurring basis.

Securities available-for-sale
Our available-for-sale portfolio is carried at estimated fair value on a recurring basis, with any unrealized gains and losses, net of taxes, reported as accumulated other comprehensive income/loss in stockholders' equity. Our securities available-for-sale portfolio consists of U.S government and government-sponsored enterprise obligations, municipal bonds, and mortgage-backed securities. The fair values of these securities are obtained from an independent nationally recognized pricing service. Our independent pricing service provides us with prices which are categorized as Level 2, as quoted prices in active markets for identical assets are generally not available for the securities in our portfolio. Various modeling techniques are used to determine pricing for our mortgage-backed securities, including option pricing and discounted cash flow models. The inputs to these models include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data.

Derivative financial instruments
The Company uses interest rate floors to manage its interest rate risk. The interest rate floors have been designated as cash flow hedging instruments. The valuation of these instruments is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves and implied volatilities.

The following table provides the level of valuation assumptions used to determine the carrying value of our assets measured at fair value on a recurring basis.

	Fair Value at March 31, 2011			
	Total	Level 1	Level 2	Level 3
	(Dollars in thousands)			
Securities available for sale:				
Obligations of U.S. government agencies:				
Mortgage backed securities - residential	$ 3,528	$ -	$ 3,528	$ -
Obligations of U.S. government-sponsored enterprises:				
Mortgage-backed securities-residential	13,761	-	13,761	-
Mortgage backed securities-commercial	4,173	-	4,173	-
Debt securities	4,842	-	4,842	-
Private label mortgage-backed securities-residential	1,705	-	1,705	-
Total securities available for sale	$ 28,009	$ -	$ 28,009	$ -

Table of Contents

	Fair Value at September 30, 2010			
	Total	Level 1	Level 2	Level 3
	(Dollars in thousands)			
Securities available for sale:				
Obligations of U.S. government agencies:				
Mortgage backed securities - residential	$ 3,878	$ -	$ 3,878	$ -
Obligations of U.S. government-sponsored enterprises:				
Mortgage-backed securities-residential	2,940	-	2,940	-
Mortgage backed securities-commercial	4,270	-	4,270	-
Debt securities	1,002	-	1,002	-
Private label mortgage-backed securities-residential	2,097	-	2,097	-
Total securities available for sale	$ 14,187	$ -	$ 14,187	$ -
Derivatives	51	-	51	-
	$ 14,238	$ -	$ 14,238	$ -

The following is a description of valuation methodologies used for assets measured at fair value on a non-recurring basis.

Mortgage Servicing Rights, net

Mortgage Servicing Rights (MSRs) are carried at the lower of cost or estimated fair value. The estimated fair value of MSR is determined through a calculation of future cash flows, incorporating estimates of assumptions market participants would use in determining fair value including market discount rates, prepayment speeds, servicing income, servicing costs, default rates and other market driven data, including the market's perception of future interest rate movements and, as such, are classified as Level 3.

Impaired Loans

Loans which meet certain criteria are evaluated individually for impairment. A loan is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. All amounts due according to the contractual terms means that both the contractual interest and principal payments of a loan will be collected as scheduled in the loan agreement. Three impairment measurement methods are used, depending upon the collateral securing the asset: 1) the present value of expected future cash flows discounted at the loan's effective interest rate (the rate of return implicit in the loan); 2) the asset's observable market price; or 3) the fair value of the collateral if the asset is collateral dependent. The regulatory agencies require this method for loans from which repayment is expected to be provided solely by the underlying collateral. Our impaired loans are generally collateral dependent and, as such, are carried at the estimated fair value of the collateral less estimated selling costs. Fair value is estimated through current appraisals, and adjusted as necessary, by management, to reflect current market conditions and, as such, are generally classified as Level 3.

Appraisals of collateral securing impaired loans are conducted by approved, qualified, and independent third-party appraisers. Such appraisals are ordered via the Bank's credit administration department, independent from the lender who originated the loan, once the loan is deemed impaired, as described in the previous paragraph. Impaired loans are generally re-evaluated with an updated appraisal within one year of the last appraisal. However, the Company also obtains updated appraisals on performing construction loans that are approaching their maturity date to determine whether or not the fair value of the collateral securing the loan remains sufficient to cover the loan amount prior to considering an extension. The Company discounts the appraised "as is" value of the collateral for estimated selling and disposition costs and compares the resulting fair value of collateral to the outstanding loan amount. If the outstanding loan amount is greater than the discounted fair value, the Company requires a reduction in the outstanding loan balance or additional collateral before considering an extension to the loan. If the borrower is unwilling or unable to reduce the loan balance or increase the collateral securing the loan, it is deemed impaired and the difference between the loan amount and the fair value of collateral, net of estimated selling and disposition costs, is charged off through a reduction of the allowance for loan loss.

Other Real Estate Owned
The fair value of other real estate owned is determined through current appraisals, and adjusted as necessary, by management, to reflect current market conditions. As such, other real estate owned is generally classified as Level 3.

The following table provides the level of valuation assumptions used to determine the carrying value of our assets measured at fair value on a non-recurring basis at March 31, 2011.

Table of Contents

	Fair Value at March 31, 2011			
	Total	Level 1	Level 2	Level 3
	(Dollars in thousands)			
Impaired loans	$ 6,869	$ -	$ -	$ 6,869
Other real estate owned	3,446	-	-	3,446
	$ 10,315	$ -	$ -	$ 10,315

	Fair Value at September 30, 2010			
	Total	Level 1	Level 2	Level 3
	(Dollars in thousands)			
Impaired loans	$ 16,193	$ -	$ -	$ 16,193

The following methods and assumptions were used to estimate the fair value of each class of financial instruments not already disclosed above for which it is practicable to estimate fair value:

Cash and interest earning deposits with banks: The carrying amounts are a reasonable estimate of fair value.

Held to maturity securities: The fair values of our held to maturity securities are obtained from an independent nationally recognized pricing service. Our independent pricing service provides us with prices which are categorized as Level 2, as quoted prices in active markets for identical assets are generally not available for the securities in our portfolio.

Loans: Fair value for the loan portfolio, excluding impaired loans with specific loss allowances, is estimated based on discounted cash flow analysis using interest rates currently offered for loans with similar terms to borrowers of similar credit quality.

Federal Home Loan Bank of New York ("FHLB") stock: The carrying amount of FHLB stock approximates fair value and considers the limited marketability of the investment.

Bank-owned life insurance: The carrying amounts are based on the cash surrender values of the individual policies, which is a reasonable estimate of fair value.

The fair value of commitments to extend credit is estimated based on the amount of unamortized deferred loan commitment fees. The fair value of letters of credit is based on the amount of unearned fees plus the estimated costs to terminate the letters of credit. Fair values of unrecognized financial instruments including commitments to extend credit and the fair value of letter of credit are considered immaterial.

Deposits: The fair value of deposits with no stated maturity, such as money market deposit accounts, interest-bearing checking accounts and savings accounts, is equal to the amount payable on demand. The fair value of certificates of deposit is based on the discounted value of contractual cash flows. The discount rate is equivalent to current market rates for deposits of similar size, type and maturity.

Accrued interest receivable and payable: For these short-term instruments, the carrying amount is a reasonable estimate of fair value.

Federal Home Loan Bank of New York advances and securities sold under reverse repurchase agreements: The fair value of borrowings is based on the discounted value of contractual cash flows. The discount rate is equivalent to the rate currently offered by the Federal Home Loan Bank of New York for borrowings of similar maturity and terms.

The carrying amounts and estimated fair values of the Company’s financial instruments at March 31, 2011 and September 30, 2010 were as follows:

	March 31, 2011 Carrying Value	March 31, 2011 Fair Value	September 30, 2010 Carrying Value	September 30, 2010 Fair Value
	(Dollars in thousands)			
Financial assets				
Investment securities	$ 70,406	$ 70,536	$ 58,666	$ 59,585
Loans, net of allowance for loan losses	394,439	398,629	403,886	408,790
Bank owned insurance policies	9,484	9,484	9,306	9,306
Financial liabilities				
Deposits				
Demand, NOW and money market savings	$ 247,422	$ 247,422	$ 239,917	$ 239,917
Certificates of deposit	183,108	186,667	188,015	191,636