Magyar Bancorp, Inc.
Form 10-Q
May 13, 2009

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, 2009

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) 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, 2009
Common Stock, $0.01 Par Value	5,767,434

MAGYAR BANCORP, INC.

Form 10-Q Quarterly Report

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PART I. FINANCIAL INFORMATION

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	March 31, 2009 (Unaudited)	September 30, 2008
Assets		
Cash	$ 3,178	$ 4,756
Interest earning deposits with banks	8,318	257
Total cash and cash equivalents	11,496	5,013
Investment securities - available for sale, at fair value	43,514	49,326
Investment securities - held to maturity, at amortized cost (fair value of $23,625and $9,629 at March 31, 2009 and September 30, 2008, respectively)	23,643	9,618
Federal Home Loan Bank of New York stock, at cost	3,233	3,867
Loans receivable, net of allowance for loan losses of $6,161 and $4,502 at March 31, 2009 and September 30, 2008, respectively	432,398	406,149
Bank owned life insurance	10,769	10,547
Accrued interest receivable	2,063	2,177
Premises and equipment, net	21,122	21,613
Other real estate owned	5,619	4,666
Other assets	3,202	1,296
Total assets	$ 557,059	$ 514,272
Liabilities and Stockholders' Equity		
Liabilities		
Deposits	$ 431,027	$ 375,560
Escrowed funds	1,280	1,285
Federal Home Loan Bank of New York advances	58,858	72,934
Securities sold under agreements to repurchase	15,000	15,000
Accrued interest payable	677	660
Accounts payable and other liabilities	7,277	3,007
Total liabilities	514,119	468,446
Stockholders' equity		
Preferred stock: $.01 Par Value, 1,000,000 shares authorized; none issued	-	-
Common stock: $.01 Par Value, 8,000,000 shares authorized; 5,923,742issued; 5,767,434 and 5,756,141 outstanding at March 31, 2009 and September 30, 2008, respectively, at cost	59	59
Additional paid-in capital	26,115	26,209
Treasury stock: 156,308 and 167,601 shares at March 31, 2009 and September 30, 2008, respectively, at cost	(1,897)	(2,093)
Unallocated common stock held by Employee Stock Ownership Plan	(1,498)	(1,551)
Retained earnings	19,992	23,398
Accumulated other comprehensive gain (loss), net	169	(196)
Total stockholders' equity	42,940	45,826

Total liabilities and stockholders' equity	$ 557,059	$ 514,272

The accompanying notes are an integral part of these statements.

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

	For the Three Months Ended March 31, 2009	For the Three Months Ended March 31, 2008	For the Six Months Ended March 31, 2009	For the Six Months Ended March 31, 2008
	(Unaudited)			
Interest and dividend income				
Loans, including fees	$ 5,740	$ 6,537	$ 11,538	$ 13,462
Investment securities				
Taxable	802	541	1,636	1,145
Tax-exempt	12	33	44	66
Federal Home Loan Bank of New York stock	22	62	6	114
Total interest and dividend income	6,576	7,173	13,224	14,787
Interest expense				
Deposits	2,359	2,954	4,798	6,337
Borrowings	781	750	1,594	1,416
Total interest expense	3,140	3,704	6,392	7,753
Net interest and dividend income	3,436	3,469	6,832	7,034
Provision for loan losses	411	391	4,413	614
Net interest and dividend income after provision for loan losses	3,025	3,078	2,419	6,420
Other income				
Service charges	196	233	402	515
Other operating income	122	144	232	253
Gains on sales of loans	14	-	14	-
Gains (losses) on the sales of investment securities	772	(19)	772	(19)
Losses on the sales of other real estate owned	-	(37)	-	(88)
Total other income	1,104	321	1,420	661
Other expenses				
Compensation and employee benefits	2,080	2,249	4,108	4,312
Occupancy expenses	634	656	1,280	1,317
Advertising	62	65	132	128
Professional fees	186	174	353	317
Service fees	141	144	286	282
Other expenses	592	457	1,087	909
Total other expenses	3,695	3,745	7,246	7,265
Income (loss) before income tax expense	434	(346)	(3,407)	(184)
Income tax expense (benefit)	25	(48)	44	(28)
Net income (loss)	$ 409	$ (298)	$ (3,451)	$ (156)
Net income (loss) per share-basic and diluted	$ 0.07	$ (0.05)	$ (0.60)	$ (0.03)

The accompanying notes are an integral part of these statements.

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MAGYAR BANCORP, INC. AND SUBSIDIARY
Consolidated Statement of Changes in Stockholders' Equity
Six Months Ended March 31, 2009
(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	Accumulated Other Comprehensive Income/(Loss)	Total
Balance, September 30, 2008	5,756,141	$ 59	$ 26,209	$ (2,093)	$ (1,551)	$ 23,398	$ (196)	$ 45,826
Comprehensive loss								
Net loss	-	-	-	-	-	(3,451)	-	(3,451)
Unrealized loss on securities available-for-sale, net of tax benefit of $109	-	-	-	-	-	-	(115)	(115)
Reclassification adjustment for gains included in net loss, net of tax expense of $308	-	-	-	-	-	-	464	464
Unrealized gain on derivatives, net of tax expense of $11	-	-	-	-	-	-	16	16
Total comprehensive loss								$ (3,086)
Purchase of treasury stock	(9,600)	-	-	(62)	-	-	-	(62)
Treasury stock used for restricted stock plan	20,893	-	(303)	257		46		-
Allocation of ESOP stock	-	-	(23)	-	53	-	-	30
Stock-based compensation expense	-	-	232	-	-	-	-	232
Balance, March 31, 2009	5,767,434	$ 59	$ 26,115	$ (1,897)	$ (1,498)	$ 19,992	$ 169	$ 42,940

The accompanying notes are an integral part of this statement.

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

	For the Six Months March 31, 2009	2008
	(Unaudited)	
Operating activities		
Net loss	$ (3,451)	$ (156)
Adjustment to reconcile net loss to net cash provided by (used in) operating activities		
Depreciation expense	546	578
Premium amortization on investment securities, net	28	23
Proceeds from the sales of loans	597	-
Provision for loan losses	4,413	614
Gains on sale of loans	(14)	-
(Gains) losses on sales of investment securities	(772)	19
Losses on the sales of other real estate owned	-	88
ESOP compensation expense	30	136
Stock-based compensation expense	232	231
Deferred income tax provision	-	(202)
Decrease in accrued interest receivable	114	215
Increase in bank owned life insurance	(222)	(210)
Increase in other assets	(2,090)	(917)
Increase (decrease) in accrued interest payable	17	(429)
Increase (decrease) in accounts payable and other liabilities	4,270	(219)
Net cash provided by (used in) operating activities	3,698	(229)
Investing activities		
Net increase in loans receivable	(33,145)	(19,009)
Purchases of investment securities held to maturity	(15,132)	-
Purchases of investment securities available for sale	(21,927)	(26,094)
Sales of investment securities held to maturity	-	2,321
Sales of investment securities available for sale	25,129	2,825
Proceeds from calls of investment securities held to maturity	10	2,005
Principal repayments on investment securities held to maturity	1,093	2,955
Principal repayments on investment securities available for sale	3,906	4,830
Purchases of premises and equipment	(55)	(159)
Investment in other real estate owned	(291)	(147)
Proceeds from the sale of other real estate owned	1,240	1,158
Redemption (purchase) of Federal Home Loan Bank stock	634	(1,452)
Net cash used in investing activities	(38,538)	(30,767)
Financing activities		
Net increase (decrease) in deposits	55,467	(6,849)
Net increase (decrease) in escrowed funds	(5)	85
Proceeds from long-term advances	4,000	12,959
Repayments of long-term advances	(527)	(506)
Proceeds from short-term advances	-	19,825

Repayments of short-term advances		(17,550)		-
Proceeds from securities sold under agreements to repurchase		-		5,000
Purchase of treasury stock		(62)		(306)
Net cash provided by financing activities		41,323		30,208
Net increase (decrease) in cash and cash equivalents		6,483		(788)
Cash and cash equivalents, beginning of period		5,013		5,233
Cash and cash equivalents, end of period	$	11,496	$	4,445
Supplemental disclosures of cash flow information				
Cash paid for				
Interest	$	6,377	$	8,182
Income taxes	$	39	$	121
Non-cash investing activities				
Real estate acquired in full satisfaction of loans in foreclosure	$	1,900	$	4,000

The accompanying notes are an integral part of these statements.

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

NOTE A – BASIS OF PRESENTATION

The consolidated financial statements include the accounts of the 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, 2009 are not necessarily indicative of the results that may be expected for the year ending September 30, 2009. The September 30, 2008 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.

NOTE B- RECENT ACCOUNTING PRONOUNCEMENTS

In December 2007, the Financial Accounting Standards Board “FASB” issued Statement of Financial Accounting Standards “SFAS” No.141(R), “Business Combinations.” SFAS No. 141(R) requires most identifiable assets, liabilities, noncontrolling interests, and goodwill acquired in a business combination to be recorded at “full fair value.” SFAS No. 141(R) applies to all business combinations, including combinations among mutual entities and combinations by contract alone. Under SFAS No. 141(R), all business combinations will be accounted for by applying the acquisition method. SFAS No. 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008 and may not be applied before that date. The Company does not expect that the adoption of SFAS No. 141(R) will have a material impact on its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements.” SFAS No. 160 will require noncontrolling interests (previously referred to as minority interests) to be treated as a separate component of equity, not as a liability or other item outside of permanent equity. SFAS No. 160 applies to the accounting for noncontrolling interests and transactions with noncontrolling interest holders in consolidated financial statements. SFAS No. 160 is effective for periods beginning on or after December 15, 2008. Earlier application is prohibited. The Company does not expect that the adoption of SFAS No. 160 will have a material impact on its consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, “Disclosures about Derivative Instruments and Hedging Activities”. SFAS No. 161 is intended to improve financial reporting about derivative instruments and

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hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The Company does not expect that the adoption of SFAS No. 161 will have a material impact on its consolidated financial statements.

In June 2008, EITF 03-6-1 was issued which addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share. The Statement is effective for financial statements issued for fiscal years beginning after December 15, 2008. The Company does not expect that the adoption of EITF 03-6-1 will have a material impact on its consolidated financial statements.

In April 2009, FASB issued FASB Staff Position (FSP) FAS 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly," to provide additional guidance on estimating fair value when the volume and level of activity for an asset or liability have significantly decreased. The FSP also includes guidance on identifying circumstances that indicate a transaction is not orderly. The FSP emphasizes that, regardless of whether the volume and level of activity for an asset or liability have decreased significantly and regardless of which valuation technique was used, the objective of a fair value measurement under FASB Statement 157, Fair Value Measurements, remains the same—to estimate the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. The FSP also requires expanded disclosures. FSP FAS 157-4 is effective for interim and annual periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009, and must be applied prospectively. If an entity adopts either FSP FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments," or FSP FAS 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments," for periods ending after March 15, 2009, then it must adopt this FSP at the same time. The Company intends to adopt FSP FAS 157-4 effective June 30, 2009 and apply its provisions prospectively. The Company's financial assets and liabilities are typically measured using Level 1 inputs and as a result, the Company does not believe that the adoption of FSP FAS 157-4 will have a significant effect on its financial statements.

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, 2009 and 2008 were calculated by dividing net income by the weighted-average number of shares outstanding for the period. Stock options and restricted stock awards were anti-dilutive for the three and six months ended March 31, 2009 and the three and six months ended March 31, 2008. The following table shows the Company's earnings per share for the periods presented:

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	For the Three Months Ended March 31,				For the Six Months Ended March 31,			
	2009		2008		2009		2008	
	(In thousands except for per share data)							
Net income (loss)	$	409	$	(298)	$	(3,451)	$	(156)
Weighted average number of common shares outstanding - basic		5,767		5,800		5,766		5,805
Stock options and restricted stock		-		-		-		-
Weighted average number of common shares and common share equivalents - diluted		5,767		5,800		5,766		5,805
Basic earnings per share	$	0.07	$	(0.05)	$	(0.60)	$	(0.03)
Diluted earnings per share	$	0.07	$	(0.05)	$	(0.60)	$	(0.03)

Options to purchase 217,826 shares of common stock at a weighted average price of $14.61 and 62,890 shares of restricted shares at a weighted average price of $14.51 were outstanding and not included in the computation of diluted earnings per share for the three and six months ended March 31, 2009 because the grant price was greater than the average market price. Options to purchase 217,826 shares of common stock at an average price of $14.61 and 83,783 restricted shares at a weighted average price of $14.51 were outstanding and not included in the computation of diluted earnings per share for the three and six months ended March 31, 2008 because the grant price was greater than the average market price.

NOTE E – STOCK-BASED COMPENSATION

The Company accounts for its share-based compensation in accordance with SFAS No. 123(R), “Share-Based Payments.” SFAS 123(R) 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. SFAS No. 123(R) 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. The strike price for all options was determined by the market price of the common stock on the date the options were granted. 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 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 107 and 110. The 7-year Treasury yield in effect at the time of the grant provides the risk-free rate for periods within the contractual life of the option. Management recognizes compensation expense for the fair values of these awards on a straight-line basis over the requisite service period of the awards.

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.

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The following is a summary of the status of the Company's stock option activity and related information for its option plan for the six months ended March 31, 2009:

	Number of Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Balance at September 30, 2008	217,826	$ 14.61		
Granted	-	-		
Exercised	-	-		
Forfeited	-	-		
Balance at March 31, 2009	217,826	$ 14.61	7.9 years	$ -
Exercisable at March 31, 2009	87,130	-	N/A	N/A

On March 1, 2009, recipients of stock options under the 2006 Equity Incentive Plan were entitled to 40% of the options awarded, or 87,130 shares.

The following is a summary of the status of the Company's non-vested options as of March 31, 2009:

	Number of Stock Options	Weighted Average Grant Date Fair Value
Balance at September 30, 2008	174,261	$ 3.91
Granted	-	-
Exercised	-	-
Forfeited	-	-
Vested	(43,565)	3.91
Balance at March 31, 2009	130,696	3.91

The following is a summary of the status of the Company's restricted shares as of September 30, 2008 and changes during the six months ended March 31, 2009:

	Number of Stock Awards	Weighted Average Grant Date Fair Value
Balance at September 30, 2008	83,783	$ 14.51
Granted	-	-
Forfeited	-	-

Vested	(20,893)	14.51
Balance at March 31, 2009	62,890	14.51

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Stock option and stock award expenses included with compensation expense were $81,000 and $151,000, respectively, for the six months ended March 31, 2009.

The Company completed its first stock repurchase program of 130,927 shares in November 2007 and announced a second repurchase program in November 2007 of up to 5% of its publicly-held outstanding shares of common stock, or 129,924 shares. At March 31, 2009, the Company had repurchased a total of 197,897 shares of its common stock at an average cost of $12.30 per share under both programs. Under the stock repurchase program, 62,954 shares of the 129,924 shares authorized remained available for repurchase as of March 31, 2009. 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. On March 1, 2009, recipients of stock awards under the 2006 Equity Incentive Plan were entitled to their second 20% of the shares awarded, or 20,893 shares. Accordingly, these shares were distributed from the Company's treasury stock in March 2009.

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 makes 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, 2009) with principal and interest payable annually in equal installments over thirty years. The loan is secured by shares of the Company's common 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 Sheets. The Company accounts for its ESOP in accordance with Statement of Position ("SOP") 93-6, "Employer's Accounting for Employee Stock Ownership Plans", issued by the Accounting Standards Division of the American Institute of Certified Public Accountants ("AICPA"). 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, 2009, shares allocated to ESOP participants totaled 64,644. Unallocated ESOP shares held in suspense totaled 153,219 at March 31, 2009 and had a fair market value of $689,000. The Company's contribution expense for the ESOP was $30,000 and $135,000 for the six months ended March 31, 2009 and 2008, respectively.

NOTE F - COMPREHENSIVE INCOME

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

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	Three Months Ended March 31,					
	2009			2008		
	Before Tax Amount	Tax Benefit (Expense)	Net of Tax Amount	Before Tax Amount	Tax Benefit (Expense)	Net of Tax Amount
	(Unaudited)					
Unrealized holding gains (losses) arising during period on:						
Available-for-sale investments	$ (1,289)	$ 518	$ (771)	$ 102	$ (40)	$ 62
Less reclassification adjustment for gains (losses) realized in net income	772	(308)	464	(19)	8	(11)
Interest rate derivatives	(64)	26	(38)	516	(206)	310
Other comprehensive income (loss), net	$ (581)	$ 236	$ (345)	$ 599	$ (238)	$ 361

	Six Months Ended March 31,					
	2009			2008		
	Before Tax Amount	Tax Benefit (Expense)	Net of Tax Amount	Before Tax Amount	Tax Benefit (Expense)	Net of Tax Amount
	(Unaudited)					
Unrealized holding gains arising during period on:						
Available-for-sale investments	$ (224)	$ 109	$ (115)	$ 158	$ (50)	$ 108
Less reclassification adjustment for gains (losses) realized in net income	772	(308)	464	(19)	8	(11)
Interest rate derivatives	27	(11)	16	884	(353)	531
	$ 575	$ (210)	$ 365	$ 1,023	$ (395)	$ 628

Other comprehensive income, net	

NOTE G – FAIR VALUE MEASUREMENTS

Effective October 1, 2008, we adopted SFAS No. 157 “Fair Value Measurements” and related interpretations, which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 applies only to fair value measurements already required or permitted by other accounting standards and does not impose requirements for additional fair value measures. SFAS No. 157 was issued to increase consistency and comparability in reporting fair values. Our adoption of SFAS No. 157 did not have a material impact on our financial condition or results of operations.

The following disclosures, which include certain disclosures which are generally not required in interim period financial statements, are included herein as a result of our adoption of SFAS No. 157.

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.

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In accordance with SFAS No. 157, 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:

Level 1 - Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 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.

Level 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. SFAS No. 157 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.

Derivative financial instruments
The Company uses interest rate floors to manage its interest rate risk. 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 at March 31, 2009.

	Fair Value at March 31, 2009			
	Total	Level 1	Level 2	Level 3
	(In Thousands)			
Investment securities available-for-sale	$ 43,514	$ -	$ 43,514	$ -
Derivatives	319	-	319	-
	$ 43,833	$ -	$ 43,833	$ -

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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 (MSR's) 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. As used in SFAS No. 114, Accounting by Creditors for Impairment of a Loan (FAS114), and in SFAS No. 5, Accounting for Contingencies (FAS 5), as amended, all amounts due according to the contractual terms means that both the contractual interest payments and the contractual principal payments of a loan will be collected as scheduled in the loan agreement. FAS 114 established three impairment measurement methods, 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.

Other Real Estate Owned
Other real estate owned is carried at lower of cost or estimated fair value. The estimated fair value of the real estate 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, 2009.

	Fair Value at March 31, 2009			
	Total	Level 1	Level 2	Level 3
	(In Thousands)			
Mortgage servicing rights	$ 19	$ -	$ -	$ 19
Impaired loans	23,122	-	-	23,122
Other real estate owned	5,619	-	-	5,619
	$ 28,760	$ -	$ -	$ 28,760

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NOTE H - INVESTMENT SECURITIES

The following table sets forth the composition of our investment securities portfolio (in thousands):

	March 31, 2009		September 30, 2008	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Unaudited)			
Securities available for sale:				
U.S. government and government-sponsored enterprise obligations	$ 2,237	$ 2,220	$ 2,237	$ 2,123
Municipal bonds	-	-	3,211	3,104
Mortgage-backed securities	41,417	41,294	44,566	44,099
Total securities available for sale	$ 43,654	$ 43,514	$ 50,014	$ 49,326
Securities held to maturity:				
U.S. government and government-sponsored enterprise obligations	$ 94	$ 92	$ 99	$ 98
Municipal bonds	122	133	132	140
Mortgage-backed securities	23,427	23,400	9,387	9,391
Total securities held to maturity	$ 23,643	$ 23,625	$ 9,618	$ 9,629

NOTE I – LOANS RECEIVABLE, NET

Loans receivable, net were comprised of the following (in thousands):

	March 31, 2009 (Unaudited)	September 30, 2008
One-to four-family residential	$ 166,784	$ 157,867
Commercial real estate	97,370	92,823
Construction	95,911	92,856
Home equity lines of credit	19,328	15,893
Commercial business	44,943	35,995
Other	14,205	15,294
Total loans receivable	438,541	410,728
Net deferred loan costs (fees)	18	