PRUDENTIAL BANCORP INC OF PENNSYLVANIA
Form 10-Q
August 14, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 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, 2008

OR

o 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: 000-51214

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

Pennsylvania	68-0593604
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
1834 Oregon Avenue Philadelphia, Pennsylvania	19145
(Address of Principal Executive Offices)	(Zip Code)

(215) 755-1500
(Registrant'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 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 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 definition 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 o (Do not check if smaller reporting company)	Smaller reporting company x

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

Indicate the number of shares outstanding of each of the issuer’s classes of common stock as of the latest practical date: as of August 8, 2008, 11,069,866 shares were issued and outstanding

PRUDENTIAL BANCORP, INC. OF PENNSYLVANIA AND SUBSIDIARIES

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PRUDENTIAL BANCORP, INC. OF PENNSYLVANIA AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	June 30 2008	September 30, 2007
	(Dollars in thousands)	
ASSETS		
Cash and amounts due from depository institutions	$ 4,882	$ 4,133
Interest-bearing deposits	8,949	8,136
Total cash and cash equivalents	13,831	12,269
Investment securities held to maturity (estimated fair value—June 30, 2008, $122,959; September 30, 2007, $133,693)	124,018	134,782
Investment securities available for sale (amortized cost—June 30, 2008, $3,026; September 30, 2007, $38,007)	3,351	38,343
Mortgage-backed securities held to maturity (estimated fair value— June 30, 2008, $40,325; September 30, 2007, $44,213)	41,533	45,534
Mortgage-backed securities available for sale (amortized cost— June 30, 2008, $48,264; September 30, 2007, $8,492)	47,858	8,549
Loans receivable—net of allowance for loan losses (June 30, 2008, $770; September 30, 2007, $1,011)	233,481	219,149
Accrued interest receivable:		
Loans receivable	1,239	1,264
Mortgage-backed securities	369	234
Investment securities	1,918	2,006
Real estate owned	1,651	-
Federal Home Loan Bank stock—at cost	2,507	2,397
Office properties and equipment—net	2,212	2,363
Prepaid expenses and other assets	7,371	7,274
Deferred tax asset-net	181	28
TOTAL ASSETS	$ 481,520	$ 474,192
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Deposits:		
Noninterest-bearing	$ 4,782	$ 4,480
Interest-bearing	369,707	349,558
Total deposits	374,489	354,038
Advances from Federal Home Loan Bank	30,711	33,743
Accrued interest payable	2,720	2,868
Advances from borrowers for taxes and insurance	1,944	1,117
Accounts payable and accrued expenses	627	913
Accrued dividend payable	531	552
Total liabilities	411,022	393,231
COMMITMENTS AND CONTINGENCIES (Note 8)		

STOCKHOLDERS' EQUITY:		
Preferred stock, $.01 par value, 10,000,000 shares authorized, none issued	-	-
Common stock, $.01 par value, 40,000,000 shares authorized, issued 12,563,750; outstanding - 11,069,866 at June 30, 2008; 11,478,366 at September 30, 2007	126	126
Additional paid-in capital	54,923	54,880
Unearned ESOP shares	(3,736)	(3,903)
Treasury stock, at cost: 1,493,884 shares at June 30, 2008; 1,085,384 shares at September 30, 2007	(19,481)	(14,372)
Retained earnings	38,719	43,971
Accumulated other comprehensive income	(53)	259
Total stockholders' equity	70,498	80,961
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 481,520	$ 474,192

See notes to unaudited consolidated financial statements.

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PRUDENTIAL BANCORP, INC. OF PENNSYLVANIA AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2008	2007	2008	2007
	(Dollars in Thousands Except Per Share Amounts)		(Dollars in Thousands Except Per Share Amounts)	
INTEREST INCOME:				
Interest on loans	$ 3,539	$ 3,792	$ 10,764	$ 11,402
Interest on mortgage-backed securities	895	692	2,375	2,105
Interest and dividends on investments	2,031	2,262	6,552	6,613
Total interest income	6,465	6,746	19,691	20,120
INTEREST EXPENSE:				
Interest on deposits	3,247	3,355	10,220	9,807
Interest on borrowings	256	387	945	1,102
Total interest expense	3,503	3,742	11,165	10,909
NET INTEREST INCOME	2,962	3,004	8,526	9,211
PROVISION (RECOVERY) FOR LOAN LOSSES	112	(20)	262	55
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	2,850	3,024	8,264	9,156
NON-INTEREST INCOME:				
Fees and other service charges	136	165	411	463
Impairment charge on investment securities	-	-	(1,492)	-
Loss on redemption of investment securities, net	(4,016)	-	(4,016)	-
Other	82	97	242	331
Total non-interest income (charges)	(3,798)	262	(4,855)	794
NON-INTEREST EXPENSE:				
Salaries and employee benefits	1,115	1,173	3,426	3,436
Data processing	124	117	377	370
Professional services	(130)	17	427	460
Office occupancy	90	85	275	267
Depreciation	84	54	250	173
Payroll taxes	62	61	209	208
Director compensation	77	60	206	198
Other	491	286	1,268	885
Total non-interest expense	1,913	1,853	6,438	5,997
(LOSS) INCOME BEFORE INCOME TAXES	(2,861)	1,433	(3,029)	3,953

INCOME TAXES:				
Current expense	339	501	599	1,065
Deferred expense (benefit)	364	(45)	8	50
Total income tax expense	703	456	607	1,115
NET (LOSS) INCOME	$ (3,564)	$ 977	$ (3,636)	$ 2,838
BASIC (LOSS) EARNINGS PER SHARE	$ (0.33)	$ 0.09	$ (0.33)	$ 0.25
DILUTED (LOSS) EARNINGS PER SHARE	$ (0.33)	$ 0.09	$ (0.33)	$ 0.25

See notes to unaudited consolidated financial statements.

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PRUDENTIAL BANCORP, INC. OF PENNSYLVANIA AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME

	Common Stock	Additional Paid-In Capital	Unearned ESOP Shares	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity	Comprehensive Income
				(Dollars in Thousands)				
BALANCE, OCTOBER 1, 2007	$ 126	$ 54,880	$ (3,903)	$ (14,372)	$ 43,971	$ 259	$ 80,961	
Comprehensive income and loss:								
Net loss					(3,636)		(3,636)	(3,636)
Net unrealized holding loss on available for sale securities arising during the period, net of income tax benefit of $669						(1,297)	(1,297)	(1,297)
Reclassification adjustment for other-than-temporary impairment net of tax of $507						985	985	985
Comprehensive loss								$ (3,948)
Treasury stock purchased				(5,109)			(5,109)	
Cash dividend declared ($.15 per share)					(1,616)		(1,616)	
ESOP shares committed to be released	-	43	167	-	-	-	210	
BALANCE, June 30, 2008	$ 126	$ 54,923	$ (3,736)	$ (19,481)	$ 38,719	$ (53)	$ 70,498	

	Common Stock	Additional Paid-In Capital	Unearned ESOP Shares	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity	Comprehensive Income
	(Dollars in thousands)							
BALANCE, OCTOBER 1, 2006	$ 126	$ 54,798	$ (4,127)	$ (6,422)	$ 42,539	$ 534	$ 87,448	
Comprehensive income:								
Net income					2,838		2,838	2,838
Net unrealized holding loss on available for sale securities arising during the period, net of income tax benefit of $166						(301)	(301)	(301)
Comprehensive income								$ 2,537
Treasury stock purchased				(6,148)			(6,148)	
Cash dividends declared ($.14 per share)					(1,586)		(1,586)	
Cumulative adjustment related to the adoption of SAB 108					172		172	
ESOP shares committed to be released	-	62	168	-	-	-	230	
BALANCE, June 30, 2007	$ 126	$ 54,860	$ (3,959)	$ (12,570)	$ 43,963	$ 233	$ 82,653	

See notes to unaudited consolidated financial statements.

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PRUDENTIAL BANCORP, INC. OF PENNSYLVANIA AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended June 30,	
	2008	2007
	(Dollars in Thousands)	
OPERATING ACTIVITIES:		
Net (loss) income	$ (3,636)	$ 2,838
Adjustments to reconcile net income to net cash used in operating activities:		
Provision for loan losses	262	55
Depreciation	250	173
Net accretion of premiums/discounts	(80)	(54)
Net accretion of deferred loan fees and costs	(228)	(269)
Impairment charge on investment securities	1,492	-
Loss on redemption of investment securities	4,016	-
Amortization of ESOP	210	230
Income from bank owned life insurance	(149)	(158)
Deferred income tax expense	8	50
Changes in assets and liabilities which used cash:		
Accounts payable and accrued expenses	(286)	1,693
Accrued interest payable	(148)	(419)
Prepaid expenses and other assets	345	(1,239)
Accrued interest receivable	38	(436)
Net cash provided by operating activities	2,094	2,464
INVESTING ACTIVITIES:		
Purchase of investment securities held to maturity	(74,923)	(23,991)
Purchase of investment available for sale	(2,000)	-
Purchase of mortgage-backed securities held to maturity	-	(1,992)
Purchase of mortgage-backed securities available for sale	(16,634)	(1,901)
Loans originated or acquired	(53,384)	(54,093)
Principal collected on loans	37,367	50,199
Principal payments received on mortgage-backed securities:		
held-to-maturity	4,035	5,550
available-for-sale	1,656	507
Proceeds from calls and maturities of investment securities held to maturity	85,694	20,872
Proceeds from calls and maturities of investment available for sale	1,999	-
Proceeds from redemption of investment available for sale	4,367	-
Net purchases of Federal Home Loan Bank stock	(110)	(221)
Purchases of equipment	(99)	(555)
Net cash used in investing activities	(12,032)	(5,625)
FINANCING ACTIVITIES:		
Net increase (decrease) in demand deposits, NOW accounts, and savings accounts	4,137	(8,377)
Net increase in certificates of deposit	16,314	15,136
Net (repayment) borrowings of advances from Federal Home Loan Bank	(3,032)	969
Increase in advances from borrowers for taxes and insurance	827	696
Cash dividend paid	(1,637)	(1,494)

Purchase of treasury stock		(5,109)		(6,148)
Net provided by financing activities		11,500		782
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		1,562		(2,379)
CASH AND CASH EQUIVALENTS—Beginning of period		12,269		13,428
CASH AND CASH EQUIVALENTS—End of period	$	13,831	$	11,049
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:				
Interest paid on deposits and advances from Federal Home Loan Bank	$	11,313	$	11,329
Income taxes paid	$	767	$	978
SUPPLEMENTAL DISCLOSURES OF NONCASH ITEMS:				
Real estate acquired in settlement of loans	$	1,651	$	-
Mortgage-backed securities received through redemption in kind	$	24,755	$	-
Commitments to purchase investment securities	$	-	$	1,000

See notes to unaudited consolidated financial statements.

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PRUDENTIAL BANCORP, INC. OF PENNSYLVANIA AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS - JUNE 30, 2008

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Prudential Bancorp, Inc. of Pennsylvania (the "Company") is a Pennsylvania corporation, which was organized to be the mid-tier holding company for Prudential Savings Bank (the "Bank"), which is a Pennsylvania-chartered, FDIC-insured savings bank with seven full-service branches in the Philadelphia area. The Company was organized in conjunction with the Bank's reorganization from a mutual savings bank to the mutual holding company structure in March 2005. The Bank is principally in the business of attracting deposits from its community through its branch offices and investing those deposits, together with funds from borrowings and operations, primarily in single-family residential loans and construction loans.

Prudential Mutual Holding Company, a Pennsylvania-chartered mutual entity, is the mutual holding company parent of the Company. Prudential Mutual Holding Company owns 62.9% (6,957,062 shares) of the Company's outstanding common stock as of June 30, 2008 and must always own at least a majority of the voting stock of the Company. In addition to the shares of the Company, Prudential Mutual Holding Company was capitalized with $100,000 in cash from the Bank in connection with the completion of the reorganization. The consolidated financial statements of the Company include the accounts of the Company and the Bank. In addition, Prudential Mutual Holding Company receives dividends on the common stock of the Company that it holds. All intercompany balances and transactions have been eliminated.

Prior to the reorganization described above, the Board of Directors approved a plan of charter conversion in May 2004 pursuant to which the Bank would convert its charter from a Pennsylvania-chartered mutual savings and loan association to a Pennsylvania-chartered mutual savings bank. The conversion to a Pennsylvania-chartered mutual savings bank was completed on August 20, 2004. As a result of the charter conversion, the Bank's primary federal banking regulator changed from the Office of Thrift Supervision to the Federal Deposit Insurance Corporation. The Pennsylvania Department of Banking remains as the Bank's state banking regulator.

In November 2005, the Bank formed PSB Delaware, Inc., a Delaware Corporation, as a subsidiary of the Bank. In March 2006, all mortgage-backed securities owned by the Company were transferred to PSB Delaware, Inc. The activity of PSB Delaware, Inc. is included as part of the consolidated financial statements.

The accompanying unaudited consolidated financial statements were prepared in accordance with the instructions to Form 10-Q, and therefore do not include all the information or footnotes necessary for complete financial statements in conformity with accounting principles generally accepted in the United States of America. However, all normal recurring adjustments that, in the opinion of management, are necessary for a fair presentation of the financial statements have been included. The results for the three and nine months ended June 30, 2008 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2008, or any other period. These financial statements should be read in conjunction with the audited consolidated financial statements of the Company and the accompanying notes thereto for the year ended September 30, 2007 included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2007.

Use of Estimates in the Preparation of Financial Statements—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the 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. The most significant estimates and assumptions in the Company's consolidated financial statements are recorded in the allowance for loan losses and deferred income taxes. Actual results could differ from those estimates.

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Dividend Payable – On June 18, 2008, the Company's Board of Directors declared a quarterly cash dividend of $.05 on the common stock of the Company payable on July 28, 2008 to the shareholders of record at the close of business on July 14, 2008 which resulted in a payable of $531,000 at June 30, 2008. A portion of the cash dividend was payable to Prudential Mutual Holding Company on the shares of the Company's common stock it holds and totaled $348,000.

Employee Stock Ownership Plan – In fiscal 2005, the Company established an employee stock ownership plan ("ESOP") for substantially all of its full-time employees. The ESOP purchased 452,295 shares of the Company's common stock for an aggregate cost of approximately $4.5 million. Shares of the Company's common stock purchased by the ESOP are held in a suspense account until released for allocation to participants. Shares are allocated to each eligible participant based on the ratio of each such participant's compensation, as defined in the ESOP, to the total compensation of all eligible plan participants. As the unearned shares are released from the suspense account, the Company recognizes compensation expense equal to the fair value of the ESOP shares during the periods in which they become committed to be released. To the extent that the fair value of the ESOP shares released differs from the cost of such shares, the difference is charged or credited to equity as additional paid-in capital. As of June 30, 2008, the Company had allocated a total of 62,205 shares from the suspense account to participants and committed to release an additional 11,310 shares. In addition, at such date the amount of the shares of Company common stock held by the ESOP totaled 450,885. For the nine months ended June 30, 2008, the Company recognized $202,000 in compensation expense with respect to the ESOP.

Treasury Stock – Stock held in treasury by the Company is accounted for using the cost method, which treats stock held in treasury as a reduction to total stockholders' equity. A total of 408,500 shares have been repurchased during the nine month period ended June 30, 2008.

Comprehensive Income—The Company presents in the unaudited consolidated statement of changes in stockholders' equity and comprehensive income those amounts arising from transactions and other events which currently are excluded from the statement of income and are recorded directly to stockholders' equity. For the nine months June 30, 2008 and 2007, the only components of comprehensive income were net (loss) income and unrealized holding gains and losses, net of income tax expense and benefit, on available for sale securities. The Company recognized a comprehensive loss totaling $3.9 million for the nine months ended June 30, 2008 and comprehensive income of $2.5 million for the nine months ended June 30, 2007.

Recent Accounting Pronouncements – On July 13, 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"), which is effective for fiscal years beginning after December 15, 2006. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes." This Interpretation prescribes a comprehensive model for how a company should recognize, measure, present and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return. The Company adopted FIN 48 and related FASB Staff Position FIN 48-1 on October 1, 2007, and the adoption did not have an impact on the Company's financial statements. The Company recognizes interest and/or penalties related to income tax matters in income tax expense. The Company did not have any amounts accrued for interest and penalties at June 30, 2008. As of October 1, 2007, the Company had no unrecognized tax benefits. The Company's federal and state income tax returns for taxable years through September 30, 2003 have been closed for purposes of examination by the Internal Revenue Service (the "IRS") or the Pennsylvania Department of Revenue. As of June 30, 2008, the Company is not currently being audited by and has no pending disputes with the IRS or the State of Pennsylvania on any tax matters.

In September 2006, the Emerging Issues Task Force ("EITF") of FASB issued EITF Issue No. 06-4, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split Dollar Life Insurance Arrangements" (EITF 06-04). EITF 06-4 requires the recognition of a liability related to the postretirement benefits covered by an endorsement split-dollar life insurance arrangement. EITF 06-4 is effective for fiscal years beginning after December

15, 2007, with earlier application permitted. The Company is currently assessing the impact of the adoption of EITF 06-04 on its financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 157, "Fair Value Measurements" ("SFAS No. 157"). SFAS No. 157 (i) defines fair value, (ii) establishes a framework for measuring fair value in GAAP and (iii) expands disclosure requirements about fair value measurements. SFAS No. 157 is effective for all financial statements issued for fiscal years beginning after November 15, 2007, thus the effective date for the Company will be October 1, 2008. SFAS No. 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. FASB Staff Position ("FSP") No 157-2, Effective Date of FASB Statement No. 157, issued in February 2008, delays the effective date of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in an entity's financial statements on a recurring basis (at least annually), to fiscal years beginning after November 15, 2008. The Company is currently assessing the impact of SFAS No. 157 on its financial statements.

In September 2006, the Securities and Exchange Commission ("SEC") issued SAB No. 108 expressing the SEC staff's views regarding the process of quantifying financial statement misstatements and the build up of improper amounts on the balance sheet. SAB No. 108 requires that registrants quantify errors using both a balance sheet and income statement approach and evaluate whether either approach results in a misstated amount that, when all relevant quantitative and qualitative factors are considered, is material. The built up misstatements, while not considered material in the individual years in which the misstatements were built up, may be considered material in a subsequent year if a company were to correct those misstatements through current period earnings. Initial application of SAB No. 108 allows registrants to elect not to restate prior periods but to reflect the initial application in their annual financial statements covering the first fiscal year ending after November 15, 2006. The cumulative effect of the initial application should be reported in the carrying amounts of assets and liabilities as of the beginning of that fiscal year and the offsetting adjustment, net of tax, should be made to the opening balance of retained earnings for that year.

The Company implemented SAB No. 108 on October 1, 2006 which resulted in an increase in mortgage-backed securities held to maturity of approximately $321,000, an increase in income tax liabilities of approximately $149,000 and a cumulative adjustment to increase retained earnings as of that date by approximately $172,000. The adjustment relates to two separate accounting entries. The first entry pertains to the method of accounting that was utilized in past years for the recognition of investment income on mortgage-backed securities. Prior to fiscal 2006, the Company used the straight line method over the contractual life of the securities rather than using the effective yield method prescribed by SFAS No. 91, "Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases". The impact of this entry was the correction of an understatement of mortgage-backed securities by approximately $321,000 and a corresponding understatement of income tax payable of $109,000 during the quarter ended December 31, 2006. The second entry relates to a write off during the quarter ended December 31, 2006 of a deferred tax asset of approximately $40,000 that was incorrectly accounted for in prior periods.

In prior periods, management performed a quantitative and qualitative analysis of the differences between these two methods of accounting and concluded that there was not a material impact on any past individual quarter or annual reporting periods.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS No. 159"). The Statement provides companies with an option to report selected financial assets and liabilities at fair value. This Statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007; thus, the effective date for the Company will be October 1, 2008. Early adoption is permitted under certain circumstances. The Company is currently assessing the impact of SFAS No. 159 on its financial statements.

In March 2007, the FASB ratified Emerging Issues Task Force Issue No. 06-10 "Accounting for Collateral Assignment Split-Dollar Life Insurance Agreements" (EITF 06-10). EITF 06-10 provides guidance for determining a liability for the postretirement benefit obligation as well as recognition and measurement of the associated asset on the basis of the terms of the collateral assignment agreement. EITF 06-10 is effective for fiscal years beginning after December 15, 2007. The Company is currently assessing the impact of the adoption of EITF 06-10 on its financial statements.

In May 2008, the FASB issued SFAS No. 162, “The Hierarchy of Generally Accepted Accounting Principles” (“SFAS No. 162”). SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP. SFAS No. 162 is effective sixty days following the SEC approval of the Public Company Accounting Oversight Board (“PCAOB”) amendments to AU Section 411, The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles. The Company does not expect SFAS No. 162 will have an impact on its financial condition or results of operations as it is not expected to change its current practices.

2. EARNINGS PER SHARE

Basic earnings per common share is computed based on the weighted average number of shares outstanding. Diluted earnings per share is computed based on the weighted average number of shares outstanding and common share equivalents ("CSEs") that would arise from the exercise of dilutive securities. As of June 30, 2008, the Company did not issue and did not have any outstanding CSEs.

The calculated basic and diluted earnings per share are as follows:

	For the Quarter Ended June 30, 2008		For the Quarter Ended June 30, 2007	
	Basic	Diluted	Basic	Diluted
	(Dollars in thousands except per share data)			
Net (loss) income	$ (3,564)	$ (3,564)	$ 977	$ 977
Weighted average shares outstanding used in basic earnings per share computation	10,812,296	10,812,296	11,325,265	11,325,265
Effect of CSEs	-	-	-	-
Adjusted weighted average shares used in diluted earnings per share computation	10,812,296	10,812,296	11,325,265	11,325,265
(Loss) earnings per share - basic and diluted	$ (0.33)	$ (0.33)	$ 0.09	$ 0.09

	For the Nine Months Ended June 30, 2008		For the Nine Months Ended June 30, 2007	
	Basic	Diluted	Basic	Diluted
	(Dollars in thousands except per share data)			
Net (loss) income	$ (3,636)	$ (3,636)	$ 2,838	$ 2,838
Weighted average shares outstanding used in basic earnings per share computation	10,879,946	10,879,946	11,498,527	11,498,527
Effect of CSEs	-	-	-	-
Adjusted weighted average shares used in diluted earnings per share computation	10,879,946	10,879,946	11,498,527	11,498,527
(Loss) earnings per share - basic and diluted	$ (0.33)	$ (0.33)	$ 0.25	$ 0.25

3. INVESTMENT SECURITIES

The amortized cost and fair value of securities, with gross unrealized gains and losses, are as follows:

	June 30, 2008			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(Dollars in Thousands)			
Securities held to maturity:				
Debt securities - U.S. Treasury securities and securities of U.S. Government agencies	$ 121,568	$ 243	$ (1,284)	$ 120,527
Debt securities - Municipal bonds	2,450	1	(19)	2,432
Total securities held to maturity	$ 124,018	$ 244	$ (1,303)	$ 122,959
Securities available for sale:				
Debt securities - U.S. Treasury securities and securities of U.S. Government agencies	$ 3,000	$ 1	$ (86)	$ 2,915
FNMA stock	-	2	-	2
FHLMC preferred stock	26	408	-	434
Total securities available for sale	$ 3,026	$ 411	$ (86)	$ 3,351

	September 30, 2007			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities held to maturity:	(Dollars in Thousands)			
Debt securities - U.S. Treasury securities and securities of U.S. Government agencies	$ 132,332	$ 109	$ (1,159)	$ 131,282
Debt securities - Municipal bonds	2,450	1	(40)	2,411
Total securities held to maturity	$ 134,782	$ 110	$ (1,199)	$ 133,693
Securities available for sale:				
Debt securities - U.S. Treasury securities and securities of U.S. Government agencies	$ 2,999	$ -	$ (30)	$ 2,969
FNMA stock	-	7	-	7
Mutual fund	34,982	-	(1,175)	33,807
FHLMC preferred stock	26	1,534	-	1,560

Total securities available for sale	$	38,007	$	1,541	$	(1,205)	$	38,343

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The following table shows the gross unrealized losses and related estimated fair values of the Company's investment securities, aggregated by investment category and length of time that individual securities have been in a continuous loss position at June 30, 2008:

	Less than 12 months		More than 12 months	
	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value
	(Dollars in Thousands)			
Securities held to maturity:				
U.S. Treasury and Government agencies	$ 1,284	$ 81,111	$ -	$ -
Municipal bonds	8	807	11	339
Total securities held to maturity	1,292	81,918	11	339
Securities available for sale:				
U.S. Treasury and Government agencies	86	1,914	-	-
Total securities available for sale	86	1,914	-	-
Total	$ 1,378	$ 83,832	$ 11	$ 339

The following table shows the gross unrealized losses and related estimated fair values of the Company's investment securities, aggregated by investment category and length of time that individual securities have been in a continuous loss position at September 30, 2007:

	Less than 12 months		More than 12 months	
	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value
	(Dollars in thousands)			
Securities held to maturity:				
U.S. Treasury and Government agencies	92	14,899	1,067	82,715
Municipal bonds	-	-	40	1,599
Total securities held to maturity	92	14,899	1,107	84,314
Securities available for sale:				
U.S. Treasury and Government agencies	-	-	30	2,969
Mutual fund	-	-	1,175	33,807
Total securities available for sale	-	-	1,205	36,776
Total	$ 92	$ 14,899	$ 2,312	$ 121,090

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. For all securities that are in an unrealized loss position for an extended period of time and for all securities whose fair value is significantly below amortized cost, the Company performs an evaluation of the specific events attributable to the market decline of the security. The Company considers the length of time and extent to which the security's market value has been below cost as well as the general market conditions, industry characteristics, and the fundamental operating results of the issuer to determine if the decline is other-than-temporary. The Company also considers as part of the evaluation its intent and ability to hold the security until its market value has recovered to a level at least equal to the amortized cost. When the Company determines that a security's unrealized loss is other-than-temporary, a realized loss is recognized in the period in which the decline in value is determined to be other-than-temporary. The write-downs are measured based on public market prices of the security at the time the Company determines the decline in value was other-than temporary.

At June 30, 2008, securities in a gross unrealized loss position for twelve months or longer consisted of 1 security having an aggregate depreciation of 3.2% from the Company's amortized cost basis. Securities in a gross unrealized loss position for less than twelve months consist of 62 securities having an aggregate depreciation of 1.6% from the Company's amortized cost basis. The unrealized losses disclosed above are primarily related to movements in market interest rates. Although the fair value will fluctuate as the market interest rates move, the majority of the Company's investment portfolio consists of low-risk securities from U.S. government agencies or government sponsored enterprises. If held to maturity, the contractual principal and interest payments of such securities are expected to be received in full. As such, no loss in value is expected over the lives of the securities with stated maturities.

In connection with reporting results of operations for the quarter ended March 31, 2008, the Company announced that its $35.0 million investment in the mutual fund reflected above was impaired due to the determination that the decline in fair value was other than temporary. As a result of such determination, the Company recognized a $1.5 million pre-tax charge for the March 2008 quarter. The decline in the net asset value ("NAV") reflected the decline in fair value of the underlying mortgage-related securities held by such fund and the ongoing turbulence being experienced in the mortgage and bond markets. Subsequent to March 31, 2008, the NAV of the fund continued to decline significantly. In May 2008, the asset manager of the mutual fund advised the Company that it had activated the redemption in kind provisions. Due to the continued decline in the NAV of the fund and the manager's decision to activate the redemption in kind provision, the Bank redeemed its shares in the form of cash and securities. As a result, the Bank received approximately $4.3 million in cash and $24.7 million of securities based on its representative interest in the securities held by the mutual fund. The securities received in the redemption are classified as mortgage-backed securities available for sale. The decline in the NAV and a subsequent impairment charge of the securities held by the fund resulted in a pre-tax charge of $4.0 million for the quarter ended June 30, 2008.

The amortized cost and estimated fair value of debt securities, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	June 30, 2008			
	Held to Maturity		Available for Sale	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(Dollars in thousands)			
Due within one year	$ -	$ -	$ -	$ -
Due after one through five years	2,440	2,491	-	-
Due after five through ten years	44,975	44,777	1,000	1,000
Due after ten years	76,603	75,691	2,000	1,915
Total	$ 124,018	$ 122,959	$ 3,000	$ 2,915

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	September 30, 2007			
	Held to Maturity		Available for Sale	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(Dollars in thousands)			
Due within one year	$ 6,000	$ 5,981	$ -	$ -
Due after one through five years	25,002	24,950	-	-
Due after five through ten years	39,592	39,427	1,000	999
Due after ten years	64,188	63,335	1,999	1,970
Total	$ 134,782	$ 133,693	$ 2,999	$ 2,969

Mutual fund had a cost of $35.0 million and a fair value of $33.8 million as of September 30, 2007.

4. MORTGAGE-BACKED SECURITIES

Mortgage-backed securities are summarized as follows: