

Magyar Bancorp, Inc.
Form 10QSB
August 11, 2008

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

FORM 10-QSB

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2008

Commission File Number 000-51726

Magyar Bancorp, Inc.
(Exact Name of Small Business Issuer as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of Incorporation or
Organization)

20-4154978
(I.R.S. Employer Identification Number)

400 Somerset Street, New Brunswick, New Jersey
(Address of Principal Executive Office)

08901
(Zip Code)

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

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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 No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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 August 1, 2008 |
|--------------------------------|-------------------------------|
| Common Stock, \$0.01 Par Value | 5,761,841 |

Yes No

MAGYAR BANCORP, INC.

Form 10-QSB Quarterly Report

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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)

| | June 30, 2008 (Unaudited) | September 30, 2007 |
|--|---------------------------------|-----------------------|
| Assets | | |
| Cash | \$ 3,615 | \$ 5,132 |
| Interest earning deposits with banks | 187 | 101 |
| Total cash and cash equivalents | 3,802 | 5,233 |
| Investment securities - available for sale, at fair value | 50,619 | 27,373 |
| Investment securities - held to maturity, at amortized cost (fair value of \$10,168 and \$17,957 at June 30, 2008 and September 30, 2007, respectively) | 10,166 | 18,116 |
| Federal Home Loan Bank of New York stock, at cost | 4,067 | 2,325 |
| Loans receivable, net of allowance for loan losses of \$4,377 and \$3,754 at June 30, 2008 and September 30, 2007, respectively | 399,133 | 381,614 |
| Bank owned life insurance | 10,435 | 10,120 |
| Accrued interest receivable | 2,203 | 2,521 |
| Premises and equipment, net | 21,855 | 22,302 |
| Other real estate owned | 5,568 | 2,238 |
| Other assets | 2,208 | 1,335 |
| Total assets | \$ 510,056 | \$ 473,177 |
| Liabilities and Stockholders' Equity | | |
| Liabilities | | |
| Deposits | \$ 362,586 | \$ 368,777 |
| Escrowed funds | 1,339 | 1,172 |
| Federal Home Loan Bank of New York advances | 77,394 | 39,985 |
| Securities sold under agreements to repurchase | 15,000 | 10,000 |
| Accrued interest payable | 889 | 1,706 |
| Accounts payable and other liabilities | 3,718 | 3,344 |
| Total liabilities | 460,926 | 424,984 |
| 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; 5,771,741 and 5,798,942 outstanding at June 30, 2008 | | |

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| | | |
|--|------------|------------|
| and September 30, 2007, respectively | 59 | 59 |
| Additional paid-in capital | 26,102 | 26,082 |
| Treasury stock: 152,001 and 124,800 shares at June 30, 2008 and | | |
| September 30, 2007, respectively | (1,949) | (1,740) |
| Unearned shares held by Employee Stock Ownership Plan | (1,619) | (1,845) |
| Retained earnings | 26,437 | 25,717 |
| Accumulated other comprehensive income (loss), net | 100 | (80) |
| Total stockholders' equity | 49,130 | 48,193 |
| Total liabilities and stockholders' equity | \$ 510,056 | \$ 473,177 |

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 June 30, | | For the Nine Months Ended June 30, | |
|---|--|--------------|---------------------------------------|---------------|
| | 2008 | 2007 | 2008 | 2007 |
| | (Unaudited) | | | |
| Interest and dividend income | | | | |
| Loans, including fees | \$ 6,251 | \$ 6,923 | \$ 19,713 | \$ 20,120 |
| Investment securities | | | | |
| Taxable | 660 | 435 | 1,805 | 1,291 |
| Tax-exempt | 33 | 33 | 98 | 84 |
| Federal Home Loan Bank of New York stock | 77 | 68 | 192 | 168 |
| Total interest and dividend income | 7,021 | 7,459 | 21,808 | 21,663 |
| Interest expense | | | | |
| Deposits | 2,428 | 3,218 | 8,765 | 9,198 |
| Borrowings | 843 | 832 | 2,260 | 2,200 |
| Total interest expense | 3,271 | 4,050 | 11,025 | 11,398 |
| Net interest and dividend income | 3,750 | 3,409 | 10,783 | 10,265 |
| Provision for loan losses | 310 | 75 | 924 | 352 |
| Net interest and dividend income after provision for loan losses | 3,440 | 3,334 | 9,859 | 9,913 |
| Other income | | | | |
| Service charges | 219 | 354 | 734 | 763 |
| Other operating income | 141 | 107 | 394 | 339 |
| Gains on sales of loans | 27 | 5 | 27 | 17 |
| Losses on the sales of investment securities | - | - | (19) | - |
| Losses on the sales of other real estate owned | - | - | (88) | - |
| Total other income | 387 | 466 | 1,048 | 1,119 |
| Other expenses | | | | |
| Compensation and employee benefits | 2,109 | 2,072 | 6,421 | 5,881 |
| Occupancy expenses | 668 | 647 | 1,984 | 1,855 |
| Advertising | 69 | 82 | 196 | 226 |
| Professional fees | 216 | 169 | 533 | 452 |
| Service fees | 143 | 123 | 426 | 372 |
| Other expenses | 541 | 431 | 1,450 | 1,390 |
| Total other expenses | 3,746 | 3,524 | 11,010 | 10,176 |

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| | | | | |
|---|---------|---------|---------|---------|
| Income (loss) before income tax expense (benefit) | 81 | 276 | (103) | 856 |
| Income tax expense (benefit) | (171) | 82 | (199) | 231 |
| Net income | \$ 252 | \$ 194 | \$ 96 | \$ 625 |
| Net income per share-basic and diluted | \$ 0.04 | \$ 0.03 | \$ 0.02 | \$ 0.11 |

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
Nine Months Ended June 30, 2008
(In Thousands, Except for Share Amounts)
(Unaudited)

| | Common Stock Shares Outstanding | Par Value | Additional Paid-In Capital | Treasury Stock | Unearned ESOP Shares | Retained Earnings | Accumulated Other Comprehensive Income/(Loss) | Total |
|---|---------------------------------------|--------------|----------------------------------|-------------------|----------------------------|----------------------|--|-----------|
| Balance, September 30, 2007 | 5,798,942 | \$ 59 | \$ 26,082 | \$ (1,740) | \$ (1,845) | \$ 25,717 | \$ (80) | \$ 48,193 |
| Cumulative adjustment for adoption of FIN 48 | - | - | - | - | - | 603 | - | 603 |
| Balance, October 1, 2007 as revised | 5,798,942 | 59 | 26,082 | (1,740) | (1,845) | 26,320 | (80) | \$ 48,796 |
| Comprehensive income | | | | | | | | |
| Net income | - | - | - | - | - | 96 | - | 96 |
| Other comprehensive income, net of reclassification adjustments and taxes | - | - | - | - | - | - | 180 | 180 |
| Total comprehensive income | | | | | | | | 276 |
| Purchase of treasury stock | (47,897) | - | - | (489) | - | - | - | (489) |
| Treasury stock used for restricted stock plan | 20,696 | - | (301) | 280 | - | 21 | - | - |
| Allocation of ESOP stock | - | - | (27) | - | 226 | - | - | 199 |
| Stock-based compensation expense | - | - | 348 | - | - | - | - | 348 |
| Balance, June 30, 2008 | 5,771,741 | \$ 59 | \$ 26,102 | \$ (1,949) | \$ (1,619) | \$ 26,437 | \$ 100 | \$ 49,130 |

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 Nine Months Ended June 30, | |
|--|---------------------------------------|----------|
| | 2008 | 2007 |
| | Unaudited | |
| Operating activities | | |
| Net income | \$ 96 | \$ 625 |
| Adjustment to reconcile net income (loss) to net cash used in operating activities | | |
| Depreciation expense | 769 | 858 |
| Premium amortization on investment securities, net | 46 | 115 |
| Proceeds from the sales of loans | 4,352 | - |
| Provision for loan losses | 924 | 352 |
| Gains on sale of loans | (27) | (17) |
| Losses on sales of investment securities | 19 | - |
| Losses on the sales of other real estate owned | 125 | - |
| ESOP compensation expense | 199 | 255 |
| Stock-based compensation expense | 348 | 154 |
| Deferred income tax provision | (604) | - |
| Decrease (increase) in accrued interest receivable | 318 | (259) |
| Increase in bank owned life insurance | (315) | (273) |
| Decrease (increase) in other assets | 508 | (34) |
| Decrease in accrued interest payable | (817) | (114) |
| Increase (decrease) in accounts payable and other liabilities | 561 | (359) |
| Net cash provided by operating activities | 6,502 | 1,303 |
| Investing activities | | |
| Net increase in loans receivable | (26,768) | (33,765) |
| Purchases of investment securities available for sale | (33,624) | (13,772) |
| Sales of investment securities held to maturity | 2,320 | - |
| Sales of investment securities available for sale | 2,825 | 142 |
| Proceeds from maturities/calls of investment securities held to maturity | 2,005 | - |
| Principal repayments on investment securities held to maturity | 3,587 | 4,642 |
| Principal repayments on investment securities available for sale | 7,294 | 3,506 |
| Purchases of premises and equipment | (322) | (1,803) |
| Investment in other real estate owned | (614) | - |
| Proceeds from the sale of other real estate owned | 1,120 | - |
| Purchase of Federal Home Loan Bank stock | (1,742) | (377) |
| Net cash used in investing activities | (43,919) | (41,427) |
| Financing activities | | |
| Net (decrease) increase in deposits | (6,191) | 33,652 |
| Stock compensation tax benefit | 90 | 48 |

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| | | |
|---|-----------|-----------|
| Net increase in escrowed funds | 167 | 131 |
| Proceeds from long-term advances | 30,622 | 6,642 |
| Repayments of long-term advances | (3,763) | (6,329) |
| Proceeds of short-term advances | 10,550 | 6,175 |
| Proceeds of securities sold under agreements to repurchase | 5,000 | 3,000 |
| Repayments of loans payable | - | (2,000) |
| Purchase of treasury stock | (489) | (1,360) |
| Net cash provided by financing activities | 35,986 | 39,959 |
| Net decrease in cash and cash equivalents | (1,431) | (165) |
| Cash and cash equivalents, beginning of period | 5,233 | 6,017 |
| Cash and cash equivalents, end of period | \$ 3,802 | \$ 5,852 |
| Supplemental disclosures of cash flow information | | |
| Cash paid for | | |
| Interest | \$ 11,842 | \$ 11,512 |
| Income taxes | \$ 134 | \$ 510 |
| Non-cash investing activities | | |
| Real estate acquired in full satisfaction of loans in foreclosure | \$ 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 - ORGANIZATION

Magyar Bancorp, Inc. (the "Company") was organized on January 23, 2006 as a Delaware corporation to serve as the mid-tier stock holding company of Magyar Bank (the "Bank"). In connection with the organization of the Company, the Bank's corporate structure was changed from a mutual savings bank to the mutual holding company form of ownership. Magyar Bank became a New Jersey-chartered stock savings bank subsidiary of the Company. The Company is a majority-owned subsidiary of Magyar Bancorp, MHC, a New Jersey-chartered mutual holding company.

Magyar Bancorp, MHC owns 3,200,450 shares, or 54.03%, of the outstanding shares of common stock of the Company. The remaining 2,723,292 shares, or 45.97%, are held by public stockholders, including a charitable foundation organized by the Bank. The gross offering proceeds from the sale of common stock in the Company's initial public offering were \$27,233,000 and the net proceeds were \$25,829,000. So long as Magyar Bancorp, MHC exists, it will be required to own a majority of the voting stock of the Company.

Three wholly owned, non-bank subsidiaries exist under Magyar Bank. Magyar Service Corporation, a New Jersey corporation, operates under the name Magyar Financial Services and receives commissions from annuity and life insurance sales referred to a licensed financial planner. Hungaria Urban Renewal, LLC, a Delaware corporation, is a real-estate holding company whose only holding is Magyar Bank's corporate headquarters in New Brunswick. MagBank Investment Company, a New Jersey corporation, operates as an investment holding company. MagBank Investment Company meets the requirements to elect New Jersey Investment Company status and therefore is subject to a New Jersey state tax rate of 3.6% compared with a 9.0% corporate business tax rate for New Jersey corporations.

Magyar Bank is subject to regulations issued by the New Jersey Department of Banking and Insurance and the Federal Deposit Insurance Corporation. The Company is subject to comprehensive regulation and examination by the Board of Governors of the Federal Reserve System and the New Jersey Department of Banking and Insurance.

NOTE B – BASIS OF PRESENTATION

The consolidated financial statements include the accounts of 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 nine months ended June 30, 2008 are not necessarily indicative of the results that may be expected for the year ending September 30, 2008. The September 30, 2007 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

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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 C- RECENT ACCOUNTING PRONOUNCEMENTS

The Company adopted the provisions of FASB Interpretation 48, Accounting for Uncertainty in Income Taxes, on October 1, 2007. Previously, the Company had accounted for tax contingencies in accordance with Statement of Financial Accounting Standards 5, Accounting for Contingencies. As required by Interpretation 48, which clarifies Statement 109, Accounting for Income Taxes, the Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. Tax regulations within each jurisdiction are subject to the interpretation of the related tax laws and regulations and require significant judgment to apply.

The Company applied Interpretation 48 to all tax positions for which the statute of limitations remained open. The adoption of Interpretation 48 did not have a material impact on the results of operations or financial condition of the Company (refer to “Note L - Income Taxes”).

NOTE D - 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 E - EARNINGS PER SHARE

Basic earnings per share for the three and nine months ended June 30, 2008 was 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 nine months ended June 30, 2008 and 2007. The following table shows the company’s earnings per share for the periods presented:

| | For the Three Months Ended June 30, | | For the Nine Months Ended June 30, | |
|--|--|---------|---------------------------------------|---------|
| | 2008 | 2007 | 2008 | 2007 |
| | (In thousands except for per share data) | | | |
| Income applicable to common shares | \$ 252 | \$ 194 | \$ 96 | \$ 625 |
| Weighted average number of common shares outstanding - basic | 5,785 | 5,882 | 5,798 | 5,910 |
| Stock options and restricted stock | - | - | - | - |
| Weighted average number of common shares and common share equivalents - diluted | 5,785 | 5,882 | 5,798 | 5,910 |
| Basic earnings per share | \$ 0.04 | \$ 0.03 | \$ 0.02 | \$ 0.11 |

| | | | | | | | | |
|----------------------------|----|------|----|------|----|------|----|------|
| Diluted earnings per share | \$ | 0.04 | \$ | 0.03 | \$ | 0.02 | \$ | 0.11 |
|----------------------------|----|------|----|------|----|------|----|------|

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Options to purchase 217,826 shares of common stock at a weighted average of \$14.61 were outstanding and not included in the computation of diluted earnings per share for the three months ended June 30, 2008 because the option price was greater than the average market price during the period. Options to purchase 217,826 shares of common stock at an average price of \$14.61 were outstanding and not included in the computation of diluted earnings per share for the three months ended June 30, 2007 because the option price was greater than the average market price during the period.

Options to purchase 217,826 shares of common stock at a weighted average of \$14.61 were outstanding and not included in the computation of diluted earnings per share for the nine months ended June 30, 2008 because the option price was greater than the average market price during the period. Options to purchase 217,826 shares of common stock at an average price of \$14.61 were outstanding and not included in the computation of diluted earnings per share for the nine months ended June 30, 2007 because the option price was greater than the average market price during the period.

NOTE F – STOCK-BASED COMPENSATION

The Company accounts for its share-based compensation in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 123R, “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. 123R 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 Staff Accounting Bulletin (“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.

The following is a summary of the status of the Company’s stock option activity and related information for its option plan for the nine months ended June 30, 2008:

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| | Number of Stock Options | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life | Aggregate Intrinsic Value |
|-------------------------------|----------------------------|--|---|---------------------------------|
| Balance at September 30, 2007 | 217,826 | \$ 14.61 | | |
| Granted | - | - | | |
| Exercised | - | - | | |
| Forfeited | - | - | | |
| Balance at June 30, 2008 | 217,826 | \$ 14.61 | 8.7 years | \$ - |
| Exercisable at June 30, 2008 | 43,565 | \$ 14.61 | 8.7 years | \$ - |

The following is a summary of the status of the Company's non-vested options as of June 30, 2008:

| | Number of Stock Options | Weighted Average Grant Date Fair Value |
|-------------------------------------|----------------------------|---|
| Balance at September 30, 2007 | 217,826 | \$ 3.91 |
| Granted | - | - |
| Exercised | - | - |
| Forfeited | - | - |
| Balance at June 30, 2008 | 217,826 | \$ 3.91 |

The following is a summary of the status of the Company's restricted shares as of September 30, 2007 and changes during the nine months ended June 30, 2008:

| | Number of Stock Awards | Weighted Average Grant Date Fair Value |
|-------------------------------------|---------------------------|---|
| Balance at September 30, 2007 | 103,479 | \$ 14.55 |
| Granted | 1,000 | 10.83 |
| Forfeited | - | - |
| Balance at June 30, 2008 | 104,479 | \$ 14.51 |

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Stock option and stock award expenses included with compensation expense were \$121,000 and \$227,000, respectively, for the nine months ended June 30, 2008.

The Company completed its first stock repurchase program of 130,927 shares in November 2007 and announced a second repurchase program of up to 5% of its publicly-held outstanding shares of common stock, or 129,924 shares. At June 30, 2008, the Company had repurchased a total of 172,697 shares of its common stock at an average cost of \$12.91 per share. Under the stock repurchase program, 88,154 shares of the 129,924 shares authorized remained available for repurchase as of June 30, 2008. 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, 2008, recipients of stock awards under the 2006 Equity Incentive Plan were entitled to 20% of the shares awarded, or 20,696 shares. Accordingly, these shares were distributed from the Company's treasury stock in March 2008.

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 to the Prime Rate (currently 7.25%) 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 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. The Company's contribution expense for the ESOP was \$199,000 and \$255,000 for the nine months ended June 30, 2008 and 2007, respectively.

The following table presents the components of the ESOP shares:

| | June 30, 2008 |
|--------------------------------|------------------|
| Shares released for allocation | 44,807 |
| Unreleased shares | 173,056 |
| Total ESOP shares | 217,863 |

NOTE G - COMPREHENSIVE INCOME (LOSS)

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

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| | Three Months Ended June 30, | | | | | |
|--|-----------------------------|-------------------------------------|-------------------------|-------------------------|-------------------------------------|-------------------------|
| | Before Tax Amount | 2008 Tax Benefit (Expense) | Net of Tax Amount | Before Tax Amount | 2007 Tax Benefit (Expense) | Net of Tax Amount |
| Unrealized holding gains (losses) arising during period on: | | | | | | |
| Available-for-sale investments | \$ (371) | \$ 144 | \$ (227) | \$ (250) | \$ 76 | \$ (174) |
| Less reclassification adjustment for losses realized in net income | - | - | - | - | - | - |
| Interest rate derivatives | (367) | 147 | (220) | (208) | 83 | (125) |
| Other comprehensive income (loss), net | \$ (738) | \$ 291 | \$ (447) | \$ (458) | \$ 159 | \$ (299) |

| | Nine Months Ended June 30, | | | | | |
|---|----------------------------|-------------------------------------|-------------------------|-------------------------|-------------------------------------|-------------------------|
| | Before Tax Amount | 2008 Tax Benefit (Expense) | Net of Tax Amount | Before Tax Amount | 2007 Tax Benefit (Expense) | Net of Tax Amount |
| Unrealized holding gains (losses) arising during period on: | | | | | | |
| Available-for-sale investments | \$ (239) | \$ 103 | \$ (136) | \$ (73) | \$ 13 | \$ (61) |
| Less reclassification adjustment for losses realized in net income | 8 | (3) | 5 | - | - | - |
| Interest rate derivatives | 517 | (206) | 311 | (223) | 30 | (193) |
| Other comprehensive income (loss), net | \$ 286 | \$ (106) | \$ 180 | \$ (296) | \$ 43 | \$ (254) |

NOTE H - INVESTMENT SECURITIES

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

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| | June 30, 2008 (Unaudited) | | September 30, 2007 | |
|--|---------------------------------|------------------|-----------------------|------------------|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Securities available for sale: | | | | |
| U.S. government and agency obligations | \$ 2,236 | \$ 2,155 | \$ - | \$ - |
| Municipal bonds | 3,212 | 3,178 | 3,214 | 3,216 |
| Mortgage-backed securities | 45,460 | 45,286 | 24,217 | 24,157 |
| Total securities available for sale | \$ 50,908 | \$ 50,619 | \$ 27,431 | \$ 27,373 |
| Securities held to maturity: | | | | |
| U.S. government and agency obligations | \$ 101 | \$ 99 | \$ 2,133 | \$ 2,119 |
| Municipal bonds | 132 | 140 | 137 | 143 |
| Mortgage-backed securities | 9,933 | 9,929 | 15,846 | 15,695 |
| Total securities held to maturity | \$ 10,166 | \$ 10,168 | \$ 18,116 | \$ 17,957 |

NOTE I – LOANS RECEIVABLE, NET

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

| | June 30, 2008 (Unaudited) | September 30, 2007 |
|------------------------------------|---------------------------------|-----------------------|
| One -to-four family residential | \$ 154,829 | \$ 152,474 |
| Commercial real estate | 86,918 | 81,275 |
| Construction | 95,744 | 97,150 |
| Home equity lines of credit | 14,078 | 12,894 |
| Commercial business | 37,101 | 26,630 |
| Other | 14,891 | 15,159 |
| Total loans receivable | 403,561 | 385,582 |
| Deferred loan fees | (51) | (214) |
| Allowance for loan losses | (4,377) | (3,754) |
| Total loans receivable, net | \$ 399,133 | \$ 381,614 |

At June 30, 2008 and September 30, 2007, non-performing loans had a total principal balance of \$5,288,000 and \$8,048,000, respectively. The amount of interest income not recognized on loans was \$459,000 and \$591,000 for the nine month periods ended June 30, 2008 and 2007, respectively.

NOTE J - OTHER REAL ESTATE OWNED

The Company held \$5.6 million of real estate owned properties at June 30, 2008 and \$2.2 million of real estate owned properties at September 30, 2007. During the nine months ended June 30, 2008, the Company

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sold \$1,283,000 of real estate owned at September 30, 2007 and incurred \$87,000 in losses on the sales. In February 2008, the Company foreclosed on the real estate property securing a \$4.2 million construction loan. The real estate consists of nine approved lots located in Rumson, NJ on which the Company is in the process of completing site improvements that will enable the Company to market the lots to home builders.

The Company did not incur any write downs on foreclosed properties during the nine months ended June 30, 2008. There was no impairment on these properties at June 30, 2008. Further declines in real estate values may result in increased foreclosed real estate expense in the future. Routine holding costs are charged to expense as incurred and improvements to real estate owned that enhance the value of the real estate are capitalized.

NOTE K - DEPOSITS

A summary of deposits by type of account are summarized as follows (in thousands):

| | June 30, 2008 (Unaudited) | September 30, 2007 |
|----------------------------|---------------------------------|-----------------------|
| Demand accounts | \$ 25,697 | \$ 21,514 |
| Savings accounts | 35,010 | 35,577 |
| NOW accounts | 36,918 | 32,158 |
| Money market accounts | 80,488 | 78,979 |
| Certificates of deposit | 155,929 | 172,063 |
| Retirement accounts | 28,544 | 28,486 |
| | \$ 362,586 | \$ 368,777 |

NOTE L – INCOME TAXES

The Company adopted the provisions of FASB Interpretation 48, “Accounting for Uncertainty in Income Taxes” (FIN 48), on October 1, 2007. As a result of the implementation of FIN 48, the Company recognized an increase of \$416,000 in deferred tax assets and a decrease of \$187,000 in the liability for unrecognized tax benefits, which was accounted for as a \$603,000 increase to the October 1, 2007 balance of retained earnings.

In the nine months ended June 30, 2008, there is approximately \$90,000 of additional tax benefit recorded. This relates to the reversal of a recorded liability on which the statute of limitations has expired. In addition, management has evaluated the valuation allowance associated with the deductibility of the charitable foundation contribution and as a result of the evaluation has increased the allowance \$60,000 to \$135,000.

NOTE M - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments are commitments to extend credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the balance sheets.

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| | June 30, 2008 (Unaudited) | September 30, 2007 |
|---|---------------------------------|--------------------------|
| Financial instruments whose contract amounts represent credit risk (in thousands) | | |
| Letters of credit | \$ 1,120 | \$ 1,047 |
| Unused line of credits | 37,260 | 33,173 |
| Fixed rate loan commitments | 18,265 | 9,765 |
| Variable rate loan commitments | 22,429 | 31,446 |
| | \$ 79,074 | \$ 75,431 |

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Item 2. Management's Discussion and Analysis or Plan of Operation

Forward-Looking Statements

When used in this filing and in future filings by the Company with the Securities and Exchange Commission, in the Company's press releases or other public or shareholder communications, or in oral statements made with the approval of an authorized executive officer, the words or phrases, "anticipate," "would be," "will allow," "intends to," "will likely result," "are expected to," "will continue," "is anticipated," "estimated," "projected," or similar expressions are intended to identify "forward looking statements." Forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to, those risks previously disclosed in the Company's filings with the SEC, general economic conditions, changes in interest rates, regulatory considerations, competition, technological developments, retention and recruitment of qualified personnel, and market acceptance of the Company's pricing, products and services, and with respect to the loans extended by the Bank to Solomon Dwek and real estate owned, the following: risks related to the economic environment in the market areas in which the Bank operates, particularly with respect to the real estate market in New Jersey; the risk that the value of the real estate securing these loans may decline in value; and the risk that significant expense may be incurred by the Company in connection with the resolution of these loans.

The Company wishes to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made, and advises readers that various factors, including regional and national economic conditions, substantial changes in levels of market interest rates, credit and other risks of lending and investing activities, and competitive and regulatory factors, could affect the Company's financial performance and could cause the Company's actual results for future periods to differ materially from those anticipated or projected.

The Company does not undertake, and specifically disclaims any obligation, to update any forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of such statements.

Critical Accounting Policies

Critical accounting policies are defined as those that involve significant judgments and uncertainties, and could potentially result in materially different results under different assumptions and conditions. We believe that the most critical accounting policy upon which our financial condition and results of operations depend, and which involves the most complex subjective decisions or assessments, is the allowance for loan losses.

The allowance for loan losses is the amount estimated by management as necessary to cover credit losses in the loan portfolio both probable and reasonably estimable at the balance sheet date. The allowance is established through the provision for loan losses which is charged against income. In determining the allowance for loan losses, management makes significant estimates and has identified this policy as one of our most critical. The methodology for determining the allowance for loan losses is considered a critical accounting policy by management due to the high degree of judgment involved, the subjectivity of the assumptions utilized and the potential for changes in the economic environment that could result in changes to the amount of the recorded allowance for loan losses.

As a substantial amount of our loan portfolio is collateralized by real estate, appraisals of the underlying value of property securing loans and discounted cash flow valuations of properties are critical in determining the amount of the allowance required for specific loans. Assumptions for appraisals and discounted cash flow valuations are instrumental in determining the value of properties. Overly optimistic assumptions or negative changes to assumptions could significantly affect the valuation of a property securing a loan and the related allowance. The assumptions supporting such appraisals and discounted cash flow

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valuations are carefully reviewed by management to determine that the resulting values reasonably reflect amounts realizable on the related loans.

Management performs a quarterly evaluation of the adequacy of the allowance for loan losses. We consider a variety of factors in establishing this estimate including, but not limited to, historical loss rates, current economic conditions, delinquency statistics, geographic and industry concentrations, the adequacy of the underlying collateral, the financial strength of the borrower, results of internal loan reviews and other relevant factors. This evaluation is inherently subjective as it requires material estimates by management that may be susceptible to significant change based on changes in economic and real estate market conditions.

Actual loan losses may be significantly more than the allowances we have established which could have a material negative effect on our financial results.

Comparison of Financial Condition at June 30, 2008 and September 30, 2007

Total assets increased \$36.9 million, or 7.8%, to \$510.1 million at June 30, 2008 from \$473.2 million at September 30, 2007, represented by significant growth in net loans receivable and in investment securities.

Net loans receivable increased \$17.5 million, or 4.6%, to \$399.1 million at June 30, 2008 from \$381.6 million at September 30, 2007. During the nine months ended June 30, 2008, commercial real estate and commercial business loans led the increase in net loans receivable with growth of \$16.1 million, or 14.9%, to \$124.0 million from \$107.9 million at September 30, 2007. Loans secured by one to four family residential properties increased \$2.4 million, or 1.5%, to \$154.8 million, while home equity lines of credit increased \$1.2 million, or 9.2%, to \$14.1 million from \$12.9 million at September 30, 2007. Construction loans decreased \$1.4 million, or 1.4%, to \$95.7 million at June 30, 2008 from \$97.2 million at September 30, 2007.

At June 30, 2008, the significant loan categories in terms of the percent of total loans were 38.4% in one-to-four family residential mortgage loans, 23.7% in construction loans and 21.5% in commercial real estate loans. At September 30, 2007 these categories in terms of the percent of total loans were 39.5% in one-to-four family residential mortgage loans, 25.2% in construction loans and 21.1% in commercial real estate loans. Throughout 2008 we expect to continue with our strategy of diversifying the Company's balance sheet with higher concentrations in commercial business and real estate loans.

Total non-performing loans decreased \$2.7 million to \$5.3 million at June 30, 2008 from \$8.0 million at September 30, 2007. The ratio of non-performing loans to total loans receivable was 1.31% at June 30, 2008 compared with 2.08% at September 30, 2007. The allowance for loan losses increased \$623,000 to \$4.4 million or 82.8% of non-performing loans at June 30, 2008 compared with \$3.8 million or 46.7% of non-performing loans at September 30, 2007. Provisions for loan loss during the nine months ended June 30, 2008 were \$924,000 while net charge-offs were \$301,000. The allowance for loan losses was 1.08% of gross loans outstanding at June 30, 2008 and 0.97% of gross loans outstanding at September 30, 2007.

Securities available-for-sale increased \$23.2 million, or 84.9%, to \$50.6 million at June 30, 2008 from \$27.3 million at September 30, 2007. The increase was the result of \$33.6 million in new security purchases, partially offset by \$7.3 million in principal amortization and \$2.9 million in sales of mortgage-backed securities. In addition, securities held-to-maturity decreased \$7.9 million, or 43.9%, to \$10.2 million at June 30, 2008 from \$18.1 million at September 30, 2007, resulting from \$3.6 million in principal amortization, \$2.3 million in sales of mortgage-backed securities, and \$2.0 million from calls of agency obligations. Management has concluded that none of the securities have impairments that are considered other than temporary.

Other real estate owned increased \$3.3 million during the nine months to \$5.6 million at June 30, 2008. The increase resulted from the foreclosure of the property securing a \$4.2 million loan made by the Bank to Solomon Dwek, whose real estate holdings were forced into bankruptcy in February 2007. The Bank has begun improving and marketing for sale all nine approved lots located in Rumson, NJ. At June 30, 2008, the

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Bank invested \$614,000 in site improvements into the project, bringing the Bank's total investment to \$4.8 million. At June 30, 2008, two of the six lots were under contract of sale. The increase in other real estate owned was offset by the sale of all ten real estate lots located in Stafford Township, NJ, totaling \$1.2 million at September 30, 2007. The sales of other real estate owned resulted in an \$88,000 loss. At June 30, 2008, in addition to the Rumson, NJ properties, the Bank also held all nine substantially vacant lots located in Little Egg Harbor, NJ. These lots are under contract of sale at June 30, 2008 for the carrying amount of \$955,000. We believe the carrying value of other real estate owned represents the Bank's net realizable value at June 30, 2008.

Total deposits decreased \$6.2 million, or 1.7%, to \$362.6 million at June 30, 2008. The decrease was primarily due to reduced balances of certificates of deposit, which decreased \$16.1 million, or 9.4%, to \$155.9 million at June 30, 2008 from \$172.1 million at September 30, 2007. Included with the certificates of deposit at June 30, 2008 were \$9.0 million of brokered deposits. Brokered deposits accounted for \$7.8 million of the decrease in time deposits during the nine month period. Saving accounts decreased \$567,000, or 1.59%, to \$35.0 million at June 30, 2008 from \$35.5 million at September 30, 2007. Other significant changes in total deposits over the nine month period included increases in non-interest bearing demand accounts of \$4.2 million, or 19.4%, to \$25.7 million, and interest-bearing NOW accounts of \$4.7 million, or 14.8%, to \$36.9 million.

Borrowings from the Federal Home Loan Bank of New York increased \$37.4 million, or 93.6% to \$77.4 million at June 30, 2008 from \$40.0 million at September 30, 2007 while securities sold under an agreement to repurchase with Citigroup Global Markets Inc. increased \$5.0 million, or 50.0%, to \$15.0 million at June 30, 2008 from \$10.0 million at September 30, 2007. Proceeds from the advances were used to fund loan growth as well as replace matured certificates of deposit during the nine month period.

Stockholders' equity increased \$937,000, or 1.9%, to \$49.1 million at June 30, 2008 from \$48.2 million at September 30, 2007. The increase was primarily attributable to the implementation of FIN 48, which resulted in an increase of \$603,000 to the beginning balance of retained earnings. In addition, accumulated other comprehensive gains of \$180,000 and net income of \$96,000 for the nine months ended June 30, 2008 were partially offset by repurchases of 47,897 shares of Company stock totaling \$489,000 during the period.

Average Balance Sheets for the Three and Nine Months Ended June 30, 2008 and 2007

The table on the following page presents certain information regarding the Company's financial condition and net interest income for the three and nine months ended June 30, 2008 and 2007. The table presents the annualized average yield on interest-earning assets and the annualized average cost of interest-bearing liabilities. We derived the yields and costs by dividing annualized income or expense by the average balance of interest-earning assets and interest-bearing liabilities, respectively, for the periods shown. We derived average balances from daily balances over the periods indicated. Interest income includes fees that we consider adjustments to yields.

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MAGYAR BANCORP, INC. AND SUBSIDIARY

Comparative Average Balance Sheets

(Dollars In Thousands)

For the Three Months Ended June 30,

| | Average Balance | 2008 Interest Income/ Expense | Yield/Cost (Annualized) | Average Balance | 2007 Interest Income/ Expense | Yield/Cost (Annualized) |
|--|--------------------|--|----------------------------|--------------------|--|----------------------------|
| | | | (Unaudited) | | | |
| Interest-earning assets: | | | | | | |
| Interest-earning deposits | \$ 306 | \$ 1 | 1.56% | \$ 273 | \$ 3 | 4.61% |
| Loans receivable, net | 400,703 | 6,251 | 6.26% | 379,854 | 6,923 | 7.31% |
| Securities | | | | | | |
| Taxable | 54,372 | 659 | 4.86% | 40,357 | 432 | 4.29% |
| Tax-exempt (1) | 3,398 | 50 | 5.83% | 3,321 | 44 | 5.31% |
| FHLB of NY stock | 4,102 | 77 | 7.51% | 3,453 | 68 | 7.90% |
| Total interest-earning assets | 462,881 | 7,038 | 6.10% | 427,258 | 7,470 | 7.01% |
| Noninterest-earning assets | 45,953 | | | 42,155 | | |
| Total assets | \$ 508,834 | | | \$ 469,413 | | |
| Interest-bearing liabilities: | | | | | | |
| Savings accounts (2) | \$ 34,773 | 60 | 0.69% | \$ 38,212 | 99 | 1.04% |
| NOW accounts (3) | 113,105 | 538 | 1.91% | 102,383 | 934 | 3.66% |
| Time deposits (4) | 188,869 | 1,830 | 3.89% | 187,401 | 2,185 | 4.68% |
| Total interest-bearing deposits | 336,747 | 2,428 | 2.89% | 327,996 | 3,218 | 3.94% |
| Borrowings | 93,194 | 843 | 3.63% | 65,112 | 832 | 5.13% |
| Total interest-bearing liabilities | 429,941 | 3,271 | 3.05% | 393,108 | 4,050 | 4.13% |
| Noninterest-bearing liabilities | | | | | | |
| | 29,167 | | | 27,936 | | |
| Total liabilities | 459,108 | | | 421,044 | | |
| Retained earnings | 49,726 | | | 48,369 | | |
| Total liabilities and retained earnings | \$ 508,834 | | | \$ 469,413 | | |
| Tax-equivalent basis adjustment | | | | | | |
| | | (17) | | | (11) | |
| Net interest income | | \$ 3,750 | | | \$ 3,409 | |
| Interest rate spread | | | 3.05% | | | 2.88% |
| Net interest-earning assets | \$ 32,940 | | | \$ 34,150 | | |
| Net interest margin (5) | | | 3.25% | | | 3.20% |
| Average interest-earning assets to average interest-bearing liabilities | | | | | | |
| | 107.66% | | | 108.69% | | |

- (1) Calculated using 34% tax rate for all periods.
- (2) Includes passbook savings, money market passbook and club accounts.
- (3) Includes interest-bearing checking and money market accounts.
- (4) Includes certificates of deposits and individual retirement accounts.
- (5) Calculated as annualized net interest income divided by average total interest-earning assets.

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MAGYAR BANCORP, INC. AND SUBSIDIARY

Comparative Average Balance Sheets

(Dollars In Thousands)

| | For the Nine Months Ended June 30, | | | | | |
|---|------------------------------------|--|----------------------------|--------------------|--|----------------------------|
| | Average Balance | 2008 Interest Income/ Expense | Yield/Cost (Annualized) | Average Balance | 2007 Interest Income/ Expense | Yield/Cost (Annualized) |
| Interest-earning assets: | | | | | | |
| Interest-earning deposits | \$ 286 | \$ 6 | 2.87% | \$ 244 | \$ 9 | 4.81% |
| Loans receivable, net | 393,075 | 19,713 | 6.68% | 369,127 | 20,120 | 7.29% |
| Securities | | | | | | |
| Taxable | 48,175 | 1,799 | 4.98% | 39,430 | 1,283 | 4.35% |
| Tax-exempt (1) | 3,370 | 148 | 5.87% | 2,821 | 112 | 5.31% |
| FHLB of NY stock | 3,251 | 192 | 7.85% | 3,089 | 168 | 7.27% |
| Total interest-earning assets | 448,157 | 21,858 | 6.50% | 414,711 | 21,692 | 6.99% |
| Noninterest-earning assets | 44,936 | | | 41,822 | | |
| Total assets | \$ 493,093 | | | \$ 456,533 | | |
| Interest-bearing liabilities: | | | | | | |
| Savings accounts (2) | \$ 34,527 | \$ 212 | 0.82% | \$ 39,454 | \$ 317 | 1.07% |
| NOW accounts (3) | 112,966 | 2,203 | 2.60% | 98,501 | 2,621 | 3.56% |
| Time deposits (4) | 193,104 | 6,350 | 4.38% | 184,533 | 6,260 | 4.54% |
| Total interest-bearing deposits | 340,597 | 8,765 | 3.43% | 322,488 | 9,198 | 3.81% |
| Borrowings | 73,872 | 2,260 | 4.07% | 57,606 | 2,200 | 5.11% |
| Total interest-bearing liabilities | 414,469 | 11,025 | 3.54% | 380,094 | 11,398 | 4.01% |
| Noninterest-bearing liabilities | 29,383 | | | 27,806 | | |
| Total liabilities | 443,852 | | | 407,900 | | |
| Retained earnings | 49,241 | | | 48,633 | | |
| Total liabilities and retained earnings | \$ 493,093 | | | \$ 456,533 | | |
| Tax-equivalent basis adjustment | | | | | | |
| | | (50) | | | (29) | |
| Net interest income | | \$ 10,783 | | | \$ 10,265 | |
| Interest rate spread | | | 2.96% | | | 2.98% |
| Net interest-earning assets | \$ 33,688 | | | \$ 34,617 | | |
| Net interest margin (5) | | | 3.21% | | | 3.31% |
| Average interest-earning assets to average interest-bearing liabilities | 108.13% | | | 109.11% | | |

- (1) Calculated using 34% tax rate for all periods.
- (2) Includes passbook savings, money market passbook and club accounts.
- (3) Includes interest-bearing checking and money market accounts.
- (4) Includes certificates of deposits and individual retirement accounts.
- (5) Calculated as annualized net interest income divided by average total interest-earning assets.

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Comparison of Operating Results for the Three Months Ended June 30, 2008 and 2007

Net Income. Net income increased \$58,000, or 29.9%, to \$252,000 for the three months ended June 30, 2008 from \$194,000 for the three months ended June 30, 2007.

Net Interest and Dividend Income. Net interest and dividend income increased \$341,000, or 10.0%, to \$3.8 million for the three months ended June 30, 2008 from \$3.4 million for the three months ended June 30, 2007. Total interest and dividend income decreased \$438,000 to \$7.0 million for the three month period ended June 30, 2008 while total interest expense decreased \$779,000 to \$3.3 million from the same three month period one year earlier. For the comparison period our interest rate spread increased 17 basis points to 3.05% from 2.88%. Foregone interest income on non-performing loans for the three months ended June 30, 2008 was \$163,000.

Interest Income. The decrease in interest income of \$438,000, or 5.9%, to \$7.0 million for the three months ended June 30, 2008 was primarily due to a decrease in the overall yield of interest-bearing assets to 6.10% from 7.01%, partially offset by an increase in the average balance of interest-earning assets of \$35.6 million to \$462.9 million from \$427.3 million. Interest earned on loans decreased to \$6.3 million for the three months ended June 30, 2008 from \$6.9 million for the prior year period. The decrease reflected a 105 basis point decrease in the average yield on such loans to 6.26% from 7.31%, partially offset by a \$20.8 million, or 5.5%, increase in the average balance of loans. The decrease in yield between the two periods was due primarily to adjustable-rate loans that are tied to the Prime Rate, which fell 325 basis points to 5.00% at June 30, 2008 from 8.25% at June 30, 2007.

Interest earned on our investment securities, excluding Federal Home Loan Bank of New York stock, increased \$232,000, or 48.7%, due to an \$14.1 million, or 32.3%, increase in the average balance of such securities as well as an increase in the average yield on such securities of 55 basis points to 4.92% for the three months ended June 30, 2008 from 4.37% for the three months ended June 30, 2007. The increased average balance of our investment securities reflected additional investment during the first half of fiscal 2008 and the reinvestment of proceeds from principal amortizations.

Interest Expense. Interest expense decreased \$779,000, or 19.2%, to \$3.3 million for the three months ended June 30, 2008 from \$4.1 million for the three months ended June 30, 2007. The decrease in interest expense was primarily due to a 108 basis point decrease in the average cost of such liabilities to 3.05% from 4.13%, partially offset by an increase in the average balance of interest-bearing liabilities of \$36.8 million, or 9.4%, to \$429.9 million from \$393.1 million.

The average balance of interest bearing deposits increased to \$336.7 million from \$328.0 million while the average cost of such deposits decreased to 2.89% from 3.94% in the lower market interest rate environment. As a result, interest paid on deposits decreased to \$2.4 million from \$3.2 million for the three months ended June 30, 2008 and 2007. Interest paid on advances and securities sold under agreements to repurchase increased to \$843,000 for the three months ended June 30, 2008 from \$832,000 for the prior year period. An increase in the average balance of such advances to \$93.2 million from \$65.1 million was largely offset by a 150 basis point decrease in the average cost of advances and securities sold under agreements to repurchase to 3.63% for the three months ended June 30, 2008 from 5.13% for the prior year period.

Provision for Loan Losses. We establish provisions for loan losses, which are charged to earnings, at a level necessary to absorb known and inherent losses that are both probable and reasonably estimable at the date of the financial statements. In evaluating the level of the allowance for loan losses, management considers historical loss experience, the types of loans and the amount of loans in the loan portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, peer group information and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision

as more information becomes available or as future events occur. After an evaluation of these factors, management recorded a provision of \$310,000 for the three months ended June 30, 2008 compared to a provision of \$75,000 for the prior year period. The increase in the

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provision was due primarily to the overall growth of the loan portfolio and the inherent risks within that growth, specifically the increase in the proportion of construction and commercial loans in our portfolio. During the three months ended June 30, 2008, non-performing loans increased \$2.0 million to \$5.3 million.

Determining the amount of the allowance for loan losses necessarily involves a high degree of judgment. Management reviews the level of the allowance on a quarterly basis, and establishes the provision for loan losses based on the factors set forth in the preceding paragraph. Historically, our loan portfolio has consisted primarily of one-to four-family residential mortgage loans. However, our current business plan calls for increases in construction, commercial real estate and commercial business loans. As management evaluates the allowance for loan losses, the increased risk associated with larger non-homogenous construction, commercial real estate and commercial business loans may result in larger additions to the allowance for loan losses in future periods.

Other Income. Non-interest income decreased \$79,000, or 17.0%, to \$387,000 for the three months ended June 30, 2008 from \$466,000 for the three months ended June 30, 2007. Service charges decreased \$135,000 while other operating income and gains on sale of loans increased \$34,000 and \$22,000, respectively. The decrease in service charges was due to fewer loan prepayment penalties received, partially offset by a \$10,000 increase in overdraft fees in the current year period compared with the prior year. The increase in other operating income was primarily due to greater appreciation in the cash surrender value of bank owned life insurance.

Other Expenses. Non-interest expenses increased \$222,000, or 6.3%, to \$3.7 million for the three months ended June 30, 2008 from \$3.5 million for the three months ended June 30, 2007.

Compensation and employee benefits increased \$37,000, or 1.8%, to \$2.1 million for the three months ended June 30, 2008. The increase reflected normal merit increases and increases in employee benefit costs. Professional fees increased \$47,000, or 27.8%, to \$216,000 due to increased audit and accounting fees related to the Sarbanes-Oxley Act and the first annual audit of the Magyar Bank 401(k) Profit Sharing Plan.

The higher non-interest expense was also due to other expenses, which increased \$110,000, or 25.5%, to \$541,000 for the three months ended June 30, 2008 from \$431,000 for the same period last year. The FDIC substantially increased its assessment rate for all insured banks in an effort to increase its reserve ratio, resulting in an increased expense of \$65,000 in the current quarter. In the wake of several recent bank failures, it is likely that the FDIC assessment will be increased further. Other expenses also increased \$29,000 in the current quarter for expenses related to other real estate owned such as legal expenses and property taxes.

Income Tax (Benefit) Expense. The Company recognized an income tax benefit of \$171,000 for the three months ended June 30, 2008 compared with \$82,000 of income tax expense for the three months ended June 30, 2007. Included in the current quarter's tax benefit was approximately \$90,000 of additional tax benefit relating to the reversal of a tax liability on which the statute of limitations expired in June 2008. The difference in the tax benefit in 2008 as compared to the tax expense in 2007 was also a result of the relative percentage of the permanent differences, such as income derived from tax-exempt municipal bonds and increases in the cash surrender value of bank owned life insurance, as compared to pretax income.

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Comparison of Operating Results for the Nine Months Ended June 30, 2008 and 2007

Net Income (Loss). The Company recorded net income of \$96,000 for the nine months ended June 30, 2008. Net income decreased \$529,000 from net income of \$625,000 for the nine months ended June 30, 2007.

Net Interest and Dividend Income. Net interest and dividend income increased \$518,000, or 5.0%, to \$10.8 million for the nine months ended June 30, 2008 from \$10.3 million for the nine months ended June 30, 2007. Total interest and dividend income increased \$145,000 to \$21.8 million for the nine month period ended June 30, 2008 while total interest expense decreased \$373,000 to \$11.0 million for the same nine month period. For the comparison period our interest rate spread decreased 2 basis points to 2.96% from 2.98%. Foregone interest income on non-performing loans for the nine months ended June 30, 2008 was \$459,000.

Interest Income. Interest income increased \$145,000, or 0.7%, to \$21.8 million for the nine months ended June 30, 2008 from \$21.7 million for the same period last year. The increase in interest income was primarily due to an increase in the average balance of interest-earning assets of \$33.4 million to \$448.1 million from \$414.7 million, partially offset by a decrease of 49 basis points in the average yield on such assets to 6.50% from 6.99%. Interest income on loans decreased 2.0% to \$19.7 million for the nine months ended June 30, 2008 from \$20.1 million for the prior year period, despite a \$23.9 million, or 6.5%, increase in the average balance of loans, partially offset by a 61 basis point decrease in the average yield on such loans to 6.68% from 7.29%. The decline in yield on loans reflected an overall lower interest rate environment for commercial business, commercial real estate and construction loans.

Interest earned on investment securities, excluding Federal Home Loan Bank of New York stock, increased 38.4% to \$1.9 million for the nine month period ended June 30, 2008 from \$1.4 million a year earlier. An increase in the average balance of such securities of \$9.3 million to \$51.5 million from \$42.2 million combined with a 63 basis point increase in the average yield on investment securities to 5.04% from 4.41% accounted for the increase in interest earned on investment securities. The increased average balance of our investment securities reflected the more favorable spreads available on such investments as compared with the prior year period when the interest yield curve was either flat or inverted.

Interest Expense. Interest expense decreased \$373,000, or 3.3%, to \$11.0 million for the nine months ended June 30, 2008 from \$11.4 million for the nine months ended June 30, 2007. The decrease in interest expense was due to a lower average cost of such liabilities that decreased to 3.54% from 4.01% in the lower interest rate environment.

The average balance of interest bearing deposits increased \$18.1 million to \$340.6 million for the nine months ended June 30, 2008 from \$322.5 million for the same period last year while the average cost of such deposits decreased 38 basis points to 3.43% from 3.81%. This resulted in a 4.7% decrease in interest paid on deposits to \$8.8 million from \$9.2 million for the nine months ended June 30, 2008 compared to the same period ended June 30, 2007. Interest paid on advances and securities sold under agreements to repurchase was \$2.3 million and \$2.2 million for the nine months ended June 30, 2008 and 2007, respectively. The decrease in interest expense from borrowings was due to a 104 basis point decrease in the average cost of advances and securities sold under agreements to repurchase to 4.07% for the nine months ended June 30, 2008 from 5.11% for the prior year period. The proceeds from the increase in the balance of deposits and advances were used to fund the increase in loans during the period.

Provision for Loan Losses. Management made a provision of \$924,000 for the nine months ended June 30, 2008 compared to a \$352,000 provision for the prior year period. The increase in the provision was due primarily to the overall growth of the loan portfolio and the inherent risks within that larger portfolio, specifically the increase in the proportion of construction and commercial loans in our portfolio. The allowance for loan losses was \$4.4 million, or 1.08% of gross loans outstanding at June 30, 2008, as compared to \$4.1 million, or 1.06% of gross loans outstanding at June 30, 2007. During the nine months ended June 30, 2008, non-performing loans decreased \$2.7 million to \$5.3

million.

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Other Income. Non-interest income decreased \$71,000 to \$1.0 million for the nine months ended June 30, 2008 from \$1.1 million for the nine months ended June 30, 2007.

Losses on the sale of other real estate owned and investment securities totaling \$88,000 and \$19,000, respectively, in the nine months ended June 30, 2008 partly accounted for the decrease in non-interest income between periods. Service charges decreased \$29,000 due to fewer loan prepayment penalties received, entirely offsetting a \$56,000 increase in overdraft fees in the current year period compared with the prior year period. A \$55,000 increase in other operating income was primarily due to \$42,000 in greater appreciation in the cash surrender value of bank owned life insurance and \$19,000 in commissions from the sale of non-deposit investment products.

Other Expenses. Non-interest expense increased \$834,000 to \$11.0 million for the nine months ended June 30, 2008 from \$10.2 million for the nine months ended June 30, 2007.

Compensation and employee benefits rose 9.2% or \$540,000 to \$6.4 million during the nine month period ended June 30, 2008 from \$5.9 million during the nine month period ended June 30, 2007. Stock awards and stock options granted in March 2007 under the Magyar Bancorp, Inc. 2006 Equity Incentive Plan accounted for \$194,000 of the increase in the current year period. The increase also reflected staff additions in conjunction with the opening of our fifth branch office in February 2007, as well as normal merit increases and increases in employee benefit costs.

Occupancy expenses increased \$129,000, or 7.0%, to \$2.0 million for the nine months ended June 30, 2008 from \$1.9 million for the prior year period primarily due to higher operating costs of the Bank's fifth branch office. Professional expenses increased \$81,000, or 17.9%, to \$533,000 for the nine months ended June 30, 2008 from \$452,000 for the prior year period due to increased audit and accounting fees in relation to the Company's annual audit, the Sarbanes-Oxley Act, and the first annual audit of the Magyar Bank 401(k) Profit Sharing Plan.

Other expenses increased \$60,000, or 4.3%, to \$1.5 million for the nine months ended June 30, 2008 from \$1.4 million for the same period last year primarily due to higher FDIC assessments. The FDIC substantially increased its assessment rate for all insured banks in an effort to increase its reserve ratio, resulting in an increased expense of \$120,000 in the current nine month period. Decreases in expenses related to the Company's second annual shareholder meeting partially offset the increased FDIC assessment.

Income Tax Expense (Benefit). The Company recognized an income tax benefit of \$199,000 for the nine months ended June 30, 2008 compared with a \$231,000 income tax expense for the nine months ended June 30, 2007. Included in the tax benefit for the nine months ended June 30, 2008 was approximately \$90,000 of additional tax benefit relating to the reversal of a tax liability on which the statute of limitations expired in June 2008. The difference in the tax benefit in 2008 as compared to the tax expense in 2007 was also a result of the relative percentage of the permanent differences, such as income derived from tax-exempt municipal bonds and increases in the cash surrender value of bank owned life insurance, as compared to pretax income.

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New Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements.” This Statement defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. This Statement applies to other accounting pronouncements that require or permit fair value measurements, but does not require any new fair value measurements. The Statement is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years (as of October 1, 2008 for the Company). The Company is evaluating the effect of SFAS No. 157 on its financial statements.

At its September 2006 meeting, the Emerging Issues Task Force (“EITF”) reached a final consensus on Issue 06-04, “Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements.” In accordance with the EITF consensus, an agreement by an employer to share a portion of the proceeds of a life insurance policy with an employee during the postretirement period is a postretirement benefit arrangement required to be accounted for under SFAS No. 106 and, therefore, a liability for the postretirement obligation must be recognized under SFAS No. 106 if the benefit is offered under an arrangement that constitutes a plan or under APB No. 12 if it is not part of a plan. The provisions of Issue 06-04 are to be applied through either a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption or retrospective application. Issue 06-04 is effective for annual or interim reporting periods beginning after December 15, 2007 (as of October 1, 2008 for the Company). The application of Issue 06-04 is not expected to have a material effect on the Company’s financial position or results of operations.

At its September 2006 meeting, the EITF reached a final consensus on Issue 06-05, “Accounting for Purchases of Life Insurance –Determining the Amount That Could be Realized in Accordance with FASB Technical Bulletin No. 85-4.” Issue 06-05 concludes that in determining the amount that could be realized under an insurance contract accounted for under FASB Technical Bulletin No. 85-4, “Accounting for Purchases of Life Insurance,” the policyholder should (1) consider any additional amounts included in the contractual terms of the policy; (2) assume the surrender value on an individual life-by individual-life policy basis; and (3) not discount the cash surrender value component of the amount that could be realized when contractual restrictions on the ability to surrender a policy exist. Issue 06-05 should be adopted through either (1) a change in accounting principle through a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption or (2) a change in accounting principle through retrospective application to all prior periods. Issue 06-05 is effective for fiscal years beginning after December 15, 2006 (as of October 1, 2007 for the Company). The application of Issue 06-05 did not have a material effect on the Company’s financial position or results of operations.

In February 2007, the FASB issued SFAS No. 159 “The Fair Value Option for Financial Assets and Financial Liabilities” which included an amendment of FASB Statement No. 115. Statement 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. Statement 159 is effective as of the beginning of an entity’s first fiscal year that begins after November 15, 2007, (as of October 1, 2008 for the Company). Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of FASB Statement No. 157, Fair Value Measurements. The Company has not made an early adoption election and SFAS No. 159 is currently under evaluation by the Company to determine the impact on the Company’s consolidated financial statements.

The Company adopted the provisions of FASB Interpretation 48, “Accounting for Uncertainty in Income Taxes” (FIN 48), on October 1, 2007. Previously, the Company had accounted for tax contingencies in accordance with SFAS No. 5, “Accounting for Contingencies.” As required by FIN 48, which clarifies SFAS No. 109, “Accounting for Income Taxes,” the Company recognizes the financial statement benefit of a tax position only after determining that the

relevant tax authority would more likely than not sustain the position

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following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. At the adoption date, the Company applied FIN 48 to all tax positions for which the statute of limitations remained open. As a result of the implementation of FIN 48, the Company recognized an increase of approximately \$416,000 in deferred tax assets and a decrease of approximately \$187,000 in the liability for unrecognized tax benefits, which was accounted for as a \$603,000 increase to the October 1, 2007 balance of retained earnings.

In December 2007, the FASB revised SFAS No. 141(R) "Business Combinations" to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. To accomplish that, SFAS No. 141(R) establishes principles and requirements for how the acquirer: 1) Recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree; 2) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and 3) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. This Statement 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 (as of October 1, 2009 for the Company). The Company is evaluating the effect of SFAS No. 141(R) on its financial statements.

In December 2007, the FASB issued SFAS No. 160 "Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51" to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards. This Statement applies to all entities that prepare consolidated financial statements, except not-for-profit organizations, but will affect only those entities that have an outstanding noncontrolling interest in one or more subsidiaries or that deconsolidate a subsidiary. Not-for-profit organizations should continue to apply the guidance in Accounting Research Bulletin No. 51, Consolidated Financial Statements, before the amendments made by this Statement, and any other applicable standards, until the Board issues interpretative guidance. This Statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008 (as of October 1, 2009 for the Company). The Company is evaluating the effect of SFAS No. 160 on its financial statements.

In December 2007, the U.S. Securities and Exchange Commission issued Staff Accounting Bulletin No. 110 ("SAB 110"). SAB 110 expresses the views of the staff regarding the use of a "simplified" method, as discussed in SAB No. 107 ("SAB 107"), in developing an estimate of expected term of "plain vanilla" share options in accordance with Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment. In particular, the staff indicated in SAB 107 that it will accept a company's election to use the simplified method, regardless of whether the company has sufficient information to make more refined estimates of expected term. At the time SAB 107 was issued, the staff believed that more detailed external information about employee exercise behavior (e.g., employee exercise patterns by industry and/or other categories of companies) would, over time, become readily available to companies. Therefore, the staff stated in SAB 107 that it would not expect a company to use the simplified method for share option grants after December 31, 2007. The staff understands that such detailed information about employee exercise behavior may not be widely available by December 31, 2007. Accordingly, the staff will continue to accept, under certain circumstances, the use of the simplified method beyond December 31, 2007.

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LIQUIDITY AND CAPITAL RESOURCES

Liquidity

The Company's liquidity is a measure of its ability to fund loans, pay withdrawals of deposits, and other cash outflows in an efficient, cost-effective manner. The Company's short-term sources of liquidity include maturity, repayment and sales of assets, excess cash and cash equivalents, new deposits, brokered deposits, other borrowings, and new advances from the Federal Home Loan Bank. There has been no material adverse change during the three month period ended June 30, 2008 in the ability of the Company and its subsidiaries to fund their operations.

At June 30, 2008, the Company had commitments outstanding under letters of credit of \$1.1 million, commitments to originate loans of \$40.7 million, and commitments to fund undisbursed balances of closed loans and unused lines of credit of \$37.3 million. There has been no material change during the nine months ended June 30, 2008 in any of the Company's other contractual obligations or commitments to make future payments.

Capital Requirements

The Bank was in compliance with all of its regulatory capital requirements as of June 30, 2008.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Asset and Liability Management

The Company's market risk exposure is predominately caused by interest rate risk, which is defined as the sensitivity of the Company's current and future earnings, the values of its assets and liabilities, and the value of its capital to changes in the level of market interest rates. The Company's balance sheet at June 30, 2008 reflected minimal sensitivity to changes in market interest rate movements in the next 12 months, with sensitivity to rising rates after 12 months. In an effort to reduce the anticipated negative effect on earnings from increases in market interest rates, reverse repurchase agreements with embedded interest rate caps of \$15 million were held by the Bank at June 30, 2008.

Management of the Company believes that there has not been a material adverse change in market risk during the three months ended June 30, 2008.

Item 3 – Controls and Procedures

An evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) or 15d-15(e) promulgated under the Securities and Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and regulations and are operating in an effective manner.

No change in our internal controls over financial reporting (as defined in Rules 13a-15(f) or 15(d)-15(f) under the Securities Exchange Act of 1934) occurred during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II - OTHER INFORMATION

Item 1. Legal proceedings

There are no material pending legal proceedings to which the Company or its subsidiaries is a party other than ordinary routine litigation incidental to their respective businesses.

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

a.) Not applicable.

b.) Not applicable.

c.) The following table presents a summary of the Company's shares repurchased during the quarter ended June 30, 2008:

| Period | Total Number of Shares Purchased | Average Price Paid Per Share | Remaining Number of Shares That May be Purchased Under the Plan (1) |
|--------------------------|----------------------------------|------------------------------|---|
| April 1 - April 30, 2008 | 3,200 | \$ 9.54 | 103,324 |
| May 1 - May 31, 2008 | 7,500 | \$ 10.00 | 95,824 |
| June 1 - June 30, 2008 | 7,670 | \$ 10.01 | 88,154 |
| | 18,370 | \$ 9.92 | |

(1) The Company completed its first stock repurchase program of 130,927 shares in November 2007. The Company announced a second repurchase program of 129,924 shares in November 2007, under which 41,770 shares had been repurchased as of June 30, 2008 at an average price of \$10.16.

Item 3. Defaults Upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 5. Other Information

a.) Not applicable.

b.) There were no material changes to the procedures by which security holders may recommend nominees to the Company's Board of Directors during the period covered by the Form 10-QSB.

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Item 6. Exhibits

Exhibits

31.1 Certification of Chief Executive Officer Pursuant to Rule 13a-14(a)

31.2 Certification of Chief Financial Officer Pursuant to Rule 13a-14(a)

32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MAGYAR BANCORP, INC.
(Registrant)

Date: August 11, 2008

/s/ Elizabeth E. Hance
Elizabeth E. Hance
President and Chief Executive Officer

Date: August 11, 2008

/s/ Jon R. Ansari
Jon R. Ansari
Senior Vice President and Chief Financial
Officer