

Magyar Bancorp, Inc.  
Form 10QSB  
May 09, 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 March 31, 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 May 1, 2008
Common Stock, \$0.01 Par Value	5,786,911

Transitional Small Business Disclosure Format

Yes  No

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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)

	March 31, 2008 (Unaudited)	September 30, 2007
<b>Assets</b>		
Cash	\$ 4,282	\$ 5,132
Interest earning deposits with banks	163	101
Total cash and cash equivalents	4,445	5,233
Investment securities - available for sale, at fair value	45,944	27,373
Investment securities - held to maturity, at amortized cost (fair value of \$10,933 and \$17,957 at March 31, 2008 and September 30, 2007, respectively)	10,801	18,116
Federal Home Loan Bank of New York stock, at cost	3,777	2,325
Loans receivable, net of allowance for loan losses of \$4,064 and \$3,754 at March 31, 2008 and September 30, 2007, respectively	396,009	381,614
Bank owned life insurance	10,330	10,120
Accrued interest receivable	2,306	2,521
Premises and equipment, net	21,883	22,302
Other real estate owned	5,101	2,238
Other assets	3,396	1,335
Total assets	\$ 503,992	\$ 473,177
<b>Liabilities and Stockholders' Equity</b>		
<b>Liabilities</b>		
Deposits	\$ 361,928	\$ 368,777
Escrowed funds	1,257	1,172
Federal Home Loan Bank of New York advances	72,263	39,985
Securities sold under agreements to repurchase	15,000	10,000
Accrued interest payable	1,277	1,706
Accounts payable and other liabilities	2,938	3,344
Total liabilities	454,663	424,984
<b>Stockholders' equity</b>		
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		

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issued; 5,790,111 and 5,798,942 outstanding at March 31, 2008		
and September 30, 2007, respectively	59	59
Additional paid-in capital	25,990	26,082
Treasury stock 133,631 and 124,800 shares at March 31, 2008 and		
September 30, 2007, respectively	(1,766)	(1,740)
Unearned shares held by Employee Stock Ownership Plan	(1,687)	(1,845)
Retained earnings	26,185	25,717
Accumulated other comprehensive gain (loss), net	548	(80)
Total stockholders' equity	49,329	48,193
Total liabilities and stockholders' equity	\$ 503,992	\$ 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 March 31,		For the Six Months Ended March 31,	
	2008	2007	2008	2007
	(Unaudited)			
<b>Interest and dividend income</b>				
Loans, including fees	\$ 6,537	\$ 6,681	\$ 13,462	\$ 13,197
<b>Investment securities</b>				
Taxable	541	437	1,145	856
Tax-exempt	33	30	66	51
Federal Home Loan Bank of New York stock	62	56	114	100
<b>Total interest and dividend income</b>	<b>7,173</b>	<b>7,204</b>	<b>14,787</b>	<b>14,204</b>
<b>Interest expense</b>				
Deposits	2,954	3,036	6,337	5,980
Borrowings	750	724	1,416	1,367
<b>Total interest expense</b>	<b>3,704</b>	<b>3,760</b>	<b>7,753</b>	<b>7,347</b>
<b>Net interest and dividend income</b>	<b>3,469</b>	<b>3,444</b>	<b>7,034</b>	<b>6,857</b>
<b>Provision for loan losses</b>	<b>391</b>	<b>110</b>	<b>614</b>	<b>277</b>
<b>Net interest and dividend income after provision for loan losses</b>	<b>3,078</b>	<b>3,334</b>	<b>6,420</b>	<b>6,580</b>
<b>Other income</b>				
Service charges	233	195	515	409
Other operating income	144	114	253	231
Gains on sales of loans	-	10	-	12
Losses on the sales of investment securities	(19)	-	(19)	-
Loss on the sale of other real estate owned	(37)	-	(88)	-
<b>Total other income</b>	<b>321</b>	<b>319</b>	<b>661</b>	<b>652</b>
<b>Other expenses</b>				
Compensation and employee benefits	2,249	1,968	4,312	3,808
Occupancy expenses	656	617	1,317	1,208
Advertising	65	72	128	145
Professional fees	174	133	317	282
Service fees	144	127	282	249
Other expenses	457	531	909	960
<b>Total other expenses</b>	<b>3,745</b>	<b>3,448</b>	<b>7,265</b>	<b>6,652</b>

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Income (loss) before income tax expense (benefit)	(346)	205	(184)	580
Income tax expense (benefit)	(48)	46	(28)	149
Net income (loss)	\$ (298)	\$ 159	\$ (156)	\$ 431
Net income (loss) per share- basic and diluted	\$ (0.05)	\$ 0.03	\$ (0.03)	\$ 0.07

The accompanying notes are an integral part of these statements.

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MAGYAR BANCORP, INC. AND SUBSIDIARY  
Consolidated Statement of Changes in Stockholders' Equity  
Six Months Ended March 31, 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	-	-
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	-	-	-	-	-	(156)	-	(156)
Other comprehensive income, net of reclassification adjustments and taxes	-	-	-	-	-	-	628	628
Total comprehensive income								472
Purchase of treasury stock	(29,527)	-	-	(306)	-	-	-	(306)
Treasury stock used for restricted stock plan	20,696		(301)	280		21		-
Allocation of ESOP stock	-	-	(22)	-	158	-	-	136
Stock-based compensation expense	-	-	231	-	-	-	-	231
Balance, March 31, 2008	5,790,111	\$ 59	\$ 25,990	\$ (1,766)	\$ (1,687)	\$ 26,185	\$ 548	\$ 49,329

The accompanying notes are an integral part of this statement.





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

	For the Six Months Ended March 31,	
	2008	2007
	Unaudited	
<b>Operating activities</b>		
Net (loss) income	\$ (156)	\$ 431
Adjustment to reconcile net income (loss) to net cash used in operating activities		
Depreciation expense	578	563
Premium amortization on investment securities, net	23	75
Provision for loan losses	614	277
Gains on sale of loans	-	(12)
Losses on sale of investment securities	19	-
Losses on the sale of other real estate owned	88	-
ESOP compensation expense	136	214
Stock-based compensation expense	231	-
Deferred income tax provision	(202)	-
Decrease (increase) in accrued interest receivable	215	(110)
Increase in bank owned life insurance	(210)	(188)
Increase in other assets	(1,019)	(292)
Decrease in accrued interest payable	(429)	(257)
Decrease in accounts payable and other liabilities	(219)	(1,413)
Net cash used in operating activities	(331)	(712)
<b>Investing activities</b>		
Net increase in loans receivable	(19,009)	(30,710)
Purchases of investment securities available for sale	(26,094)	(6,685)
Sales of investment securities held to maturity	2,321	-
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	2,955	3,788
Principal repayments on investment securities available for sale	4,830	1,635
Purchases of premises and equipment	(159)	(1,740)
Investment in other real estate owned	(147)	-
Proceeds from the sale of other real estate owned	1,158	-
Purchase of Federal Home Loan Bank stock	(1,452)	(543)
Net cash used in investing activities	(30,767)	(34,113)
<b>Financing activities</b>		
Net (decrease) increase in deposits	(6,849)	22,991
Stock compensation tax benefit	102	12
Net decrease (increase) in escrowed funds	85	(146)

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Proceeds from long-term advances	12,959	2,228
Repayments of long-term advances	(506)	(1,083)
Proceeds of short-term advances	19,825	10,925
Proceeds of securities sold under agreements to repurchase	5,000	-
Purchase of treasury stock	(306)	-
Net cash provided by financing activities	30,310	34,927
Net (decrease) increase in cash and cash equivalents	(788)	102
Cash and cash equivalents, beginning of period	5,233	6,017
Cash and cash equivalents, end of period	\$ 4,445	\$ 6,119
Supplemental disclosures of cash flow information		
Cash paid for		
Interest	\$ 8,182	\$ 7,604
Income taxes	121	\$ 414
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 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 Magyar Bancorp, Inc., a Delaware-chartered holding company. Magyar Bancorp, Inc. owns 100% of the outstanding shares of common stock of Magyar Bank. Magyar Bancorp, Inc. 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 Magyar Bancorp, Inc. 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 (including \$1,047,000 in stock contributed to the charitable foundation). So long as Magyar Bancorp, MHC exists, it will be required to own a majority of the voting stock of Magyar Bancorp, Inc.

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, non-bank 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. The 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. Magyar Bancorp, Inc. 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 six months ended March 31, 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

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contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses.

## NOTE 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 from 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 six months ended March 31, 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 six months ended March 31, 2008 and 2007. The following table shows the company's earnings per share for the periods presented:

	For the Three Months Ended March 31,		For the Six Months Ended March 31,	
	2008	2007	2008	2007
	(In thousands except for per share data)			
Income (loss) applicable to common shares	\$ (298)	\$ 159	\$ (156)	\$ 431
Weighted average number of common shares				
outstanding - basic	5,800	5,924	5,805	5,924
Stock options and restricted stock	-	-	-	-
Weighted average number of common shares and common share equivalents - diluted	5,800	5,924	5,805	5,924

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Basic (loss) earnings per share	\$	(0.05)	\$	0.03	\$	(0.03)	\$	0.07
Diluted (loss) earnings per share	\$	(0.05)	\$	0.03	\$	(0.03)	\$	0.07

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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 loss per share for the three months ended March 31, 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 March 31, 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 loss per share for the six months ended March 31, 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 six months ended March 31, 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 is 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 six months ended March 31, 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 March 31, 2008	217,826	\$ 14.61	8.9 years	\$ -
Exercisable at March 31, 2008	-	-	N/A	N/A

The following is a summary of the status of the Company's non-vested options as of March 31, 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 March 31, 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 six months ended March 31, 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 March 31, 2008	104,479	\$ 14.51

Stock option and stock award expenses included with compensation expense were \$81,000 and \$151,000, respectively, for the six months ended March 31, 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 March 31, 2008, the Company had repurchased a total of 154,327 shares of its common stock at an average cost of \$13.22 per share. Under the stock repurchase program, 106,524 shares of the 129,924 shares authorized remained available for repurchase as of March 31, 2008. The

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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 at March 31, 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 Prime (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 \$135,000 and \$175,000 for the six months ended March 31, 2008 and 2007, respectively.

The following table presents the components of the ESOP shares:

	March 31, 2008
Shares released for allocation	44,807
Unreleased shares	173,056
Total ESOP shares	217,863

## NOTE G - COMPREHENSIVE INCOME

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

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	Three Months Ended March 31,					
	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 arising during period on:						
Available-for-sale investments	\$ 83	\$ (32)	\$ 51	\$ 120	\$ (44)	\$ 76
Less reclassification adjustment for losses realized in net income	-	-	-	-	-	-
Interest rate derivatives	516	(206)	310	17	(53)	(36)
Other comprehensive income, net	\$ 599	\$ (238)	\$ 361	\$ 137	\$ (97)	\$ 40

	Six Months Ended March 31,					
	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 arising during period on:						
Available-for-sale investments	\$ 139	\$ (42)	\$ 97	\$ 177	\$ (64)	\$ 113
Less reclassification adjustment for losses realized in net income	-	-	-	-	-	-
Interest rate derivatives	884	(353)	531	(15)	(53)	(68)
Other comprehensive income, net	\$ 1,023	\$ (395)	\$ 628	\$ 162	\$ (117)	\$ 45

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## NOTE H - INVESTMENT SECURITIES

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

	March 31, 2008 (Unaudited)		September 30, 2007	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
<b>Securities available for sale:</b>				
U.S. government and agency obligations	\$ 2,236	\$ 2,232	\$ -	\$ -
Municipal bonds	3,213	3,278	3,214	3,216
Equity securities	-	-	-	-
Mortgage-backed securities	40,414	40,434	24,217	24,157
<b>Total securities available for sale</b>	<b>\$ 45,863</b>	<b>\$ 45,944</b>	<b>\$ 27,431</b>	<b>\$ 27,373</b>
<b>Securities held to maturity:</b>				
U.S. government and agency obligations	\$ 102	\$ 101	\$ 2,133	\$ 2,119
Municipal bonds	132	143	137	143
Mortgage-backed securities	10,567	10,689	15,846	15,695
<b>Total securities held to maturity</b>	<b>\$ 10,801</b>	<b>\$ 10,933</b>	<b>\$ 18,116</b>	<b>\$ 17,957</b>

## NOTE I – LOANS RECEIVABLE, NET

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

	March 31, 2008 (Unaudited)	September 30, 2007
One -to-four family residential	\$ 150,540	\$ 152,474
Commercial real estate	81,717	81,275
Construction	107,609	97,150
Home equity lines of credit	12,925	12,894
Commercial business	33,166	26,630
Other	14,220	15,159
<b>Total loans receivable</b>	<b>400,177</b>	<b>385,582</b>
Deferred loan fees	(104)	(214)
Allowance for loan losses	(4,064)	(3,754)
	<b>\$ 396,009</b>	<b>\$ 381,614</b>

Total loans receivable,  
net

At March 31, 2008 and September 30, 2007, non-performing loans had a total principal balance of \$3,333,000 and \$8,048,000, respectively. The amount of interest income not recognized on loans was \$310,000 and \$613,000 for the six-month periods ended March 31, 2008 and 2007, respectively.

**NOTE J - OTHER REAL ESTATE OWNED**

The Company held \$5.1 million of real estate owned properties at March 31, 2008 and \$2.2 million of real estate owned properties at September 30, 2007. In November 2007, the Company sold real estate owned that was being carried at September 30, 2007 in the amount of \$958,000. The Company recorded

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a loss on the sale in the amount of \$50,000. In February 2008, the Company foreclosed on the real estate property securing a \$4.2 million construction loan. The real estate consists of six approved lots located in Rumson, NJ. In March 2008, the Company sold real estate owned that was being carried at September 30, 2007 in the amount of \$325,000. The Company recorded a loss on the sale in the amount of \$37,000.

The Company did not incur any write downs on foreclosed properties during the six months ended March 31, 2008. There was no impairment on these properties at March 31, 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):

	March 31, 2008 (Unaudited)	September 30, 2007
Demand accounts	\$ 22,817	\$ 21,514
Savings accounts	34,192	35,577
NOW accounts	33,588	32,158
Money market accounts	78,018	78,979
Certificates of deposit	164,476	172,063
Retirement accounts	28,837	28,486
	\$ 361,928	\$ 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.

## 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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	March 31, 2008 (Unaudited)	September 30, 2007
Financial instruments whose contract amounts represent credit risk (in thousands)		
Letters of credit	\$ 1,644	\$ 1,047
Unused line of credits	34,615	33,173
Fixed rate loan commitments	17,155	9,765
Variable rate loan commitments	27,693	31,446
	\$ 81,107	\$ 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 Magyar Bancorp, Inc. 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.

Magyar Bancorp, Inc. 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 Magyar Bancorp, Inc.'s financial performance and could cause Magyar Bancorp, Inc.'s actual results for future periods to differ materially from those anticipated or projected.

Magyar Bancorp, Inc. 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 are reflective of 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



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flow 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 March 31, 2008 and September 30, 2007

Total assets increased \$30.8 million, or 6.5%, to \$504.0 million at March 31, 2008 from \$473.2 million at September 30, 2007, represented by significant growth in net loans receivable and in investment securities available-for-sale.

Net loans receivable increased \$14.4 million, or 3.8%, to \$396.0 million at March 31, 2008 from \$381.6 million at September 30, 2007. During the six months ended March 31, 2008, construction loans led the increase in net loans receivable with growth of \$10.4 million, or 10.8%, to \$107.6 million from \$97.2 million at September 30, 2007. Commercial real estate and business loans increased \$7.0 million, or 6.5%, to \$114.9 million while loans secured by one to four family residential properties decreased \$1.9 million, or 1.2%, to \$150.5 million.

At March 31, 2008, the significant loan categories in terms of the percent of total loans were 37.6% in one-to-four family residential mortgage loans, 26.9% in construction loans and 20.4% 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 and construction loans.

Total non-performing loans decreased \$4.7 million to \$3.3 million at March 31, 2008 from \$8.0 million at September 30, 2007. The ratio of non-performing loans to total loans receivable was 0.83% at March 31, 2008 compared with 2.08% at September 30, 2007. The allowance for loan losses increased \$310,000 to \$4.1 million or 121.9% of non-performing loans at March 31, 2008 compared with \$3.8 million or 46.7% of non-performing loans at September 30, 2007. Provisions for loan loss during the six months ended March 31 2008 were \$614,000. The allowance for loan losses was 1.02% of gross loans outstanding at March 31, 2008 and 0.97% of gross loans outstanding at September 30, 2007.

Securities available-for-sale increased \$18.6 million, or 67.8%, to \$45.9 million at March 31, 2008 from \$27.4 million at September 30, 2007. The increase was the result of \$26.1 million in new security purchases, offset by \$4.8 million in principal amortization and \$2.5 million in sales of mortgage-backed securities. In addition, securities held-to-maturity decreased \$7.3 million, or 40.4%, to \$10.8 million at March 31, 2008 from \$18.1 million at September 30, 2007, resulting from \$3.0 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 \$2.9 million during the six months to \$5.1 million at March 31, 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

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Bank has begun improving and marketing for sale all six approved lots located in Rumson, NJ. 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 March 31, 2008, in addition to the Rumson, NJ properties, the Bank also held all nine substantially vacant lots located in Little Egg Harbor, NJ. We believe the carrying value of other real estate owned represents the Bank's net realizable value at March 31, 2008.

Total deposits decreased \$6.8 million, or 1.9%, to \$361.9 million at March 31, 2008. The decrease was primarily due to reduced balances of certificates of deposit, which decreased \$7.6 million, or 4.4%, to \$164.5 million at March 31, 2008 from \$172.1 million at September 30, 2007, and saving accounts, which decreased \$1.4 million, or 3.9%, to \$34.2 million at March 31, 2008 from \$35.5 million at September 30, 2007. Included with the certificates of deposit at March 31, 2008 were \$10.0 million of brokered deposits. Brokered deposits accounted for \$6.8 million of the decrease in time deposits during the six-month period. Other significant changes in total deposits over the six-month period included increases in non-interest bearing demand accounts of \$1.3 million, or 6.1% to \$22.8 million, and interest-bearing NOW accounts of \$1.4 million, or 4.4%, to \$33.6 million.

Borrowings from the Federal Home Loan Bank of New York increased \$32.3 million, or 80.7% to \$72.3 million at March 31, 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 March 31, 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 six-month period.

Stockholders' equity increased \$1.2 million, or 2.5%, to \$49.4 million at March 31, 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 \$627,000 were partially offset by a net loss during the period of \$235,000 and by repurchases of 29,527 shares of Company stock totaling \$306,000 during the period.

Average Balance Sheets for the Three and Six Months Ended March 31, 2008 and 2007

The table on the following page presents certain information regarding Magyar Bancorp, Inc.'s financial condition and net interest income for the three and six months ended March 31, 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 March 31,					
	Average Balance	2008 Interest Income/ Expense	Yield/Cost	Average Balance	2007 Interest Income/ Expense	Yield/Cost
(Unaudited)						
<b>Interest-earning assets:</b>						
Interest-earning deposits	\$ 336	\$ 3	3.00%	\$ 253	\$ 2	3.21%
Loans receivable, net	392,389	6,537	6.68%	370,537	6,681	7.31%
<b>Securities</b>						
Taxable	46,292	539	4.67%	38,624	435	4.57%
Tax-exempt (1)	3,348	49	5.92%	2,957	40	5.49%
FHLB of NY stock	3,088	62	8.08%	3,062	56	7.42%
Total interest-earning assets	445,453	7,190	6.47%	415,433	7,214	7.04%
Noninterest-earning assets	44,871			41,973		
Total assets	\$ 490,324			\$ 457,406		
<b>Interest-bearing liabilities:</b>						
Savings accounts (2)	\$ 33,958	68	0.81%	\$ 39,306	104	1.07%
NOW accounts (3)	113,151	720	2.55%	100,079	863	3.50%
Time deposits (4)	192,964	2,166	4.50%	184,558	2,069	4.55%
Total interest-bearing deposits	340,073	2,954	3.48%	323,943	3,036	3.80%
Borrowings	71,917	750	4.18%	57,290	724	5.13%
Total interest-bearing liabilities	411,990	3,704	3.61%	381,233	3,760	4.00%
<b>Noninterest-bearing liabilities</b>						
	28,837			27,441		
Total liabilities	440,827			408,674		
Retained earnings	49,497			48,732		
Total liabilities and retained earnings	\$ 490,324			\$ 457,406		
<b>Tax-equivalent basis adjustment</b>						
		(17)			(10)	
Net interest income		\$ 3,469			\$ 3,444	
Interest rate spread			2.86%			3.04%
Net interest-earning assets	\$ 33,463			\$ 34,200		
Net interest margin (5)			3.12%			3.36%
<b>Average interest-earning assets to average interest-bearing liabilities</b>						
	108.12%			108.97%		

- 
- (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 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 Six Months Ended March 31,					
	Average Balance	2008 Interest Income/ Expense	Yield/Cost	Average Balance	2007 Interest Income/ Expense	Yield/Cost
	(Unaudited)					
<b>Interest-earning assets:</b>						
Interest-earning deposits	\$ 271	\$ 5	3.66%	\$ 243	\$ 6	4.95%
Loans receivable, net	389,282	13,462	6.90%	363,764	13,197	7.28%
<b>Securities</b>						
Taxable	45,093	1,141	5.04%	38,966	850	4.37%
Tax-exempt (1)	3,356	99	5.88%	2,572	68	5.30%
FHLB of NY stock	2,828	114	8.09%	2,907	100	6.90%
Total interest-earning assets	440,830	14,821	6.71%	408,452	14,221	6.98%
Noninterest-earning assets	44,189			41,499		
Total assets	\$ 485,019			\$ 449,951		
<b>Interest-bearing liabilities:</b>						
Savings accounts (2)	\$ 34,405	\$ 152	0.88%	\$ 40,075	\$ 217	1.09%
NOW accounts (3)	112,896	1,665	2.94%	96,560	1,687	3.50%
Time deposits (4)	195,210	4,520	4.62%	183,100	4,076	4.46%
Total interest-bearing deposits	342,511	6,337	3.69%	319,735	5,980	3.75%
Borrowings	64,264	1,416	4.40%	53,853	1,367	5.09%
Total interest-bearing liabilities	406,775	7,753	3.80%	373,588	7,347	3.94%
Noninterest-bearing liabilities	29,327			27,806		
Total liabilities	436,102			401,394		
Retained earnings	48,917			48,557		
Total liabilities and retained earnings	\$ 485,019			\$ 449,951		
<b>Tax-equivalent basis adjustment</b>						
		(34)			(17)	
Net interest income		\$ 7,034			\$ 6,857	
Interest rate spread			2.91%			3.04%
Net interest-earning assets	\$ 34,055			\$ 34,864		
Net interest margin (5)			3.18%			3.37%
Average interest-earning assets to average interest-bearing liabilities	108.37%			109.33%		

(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 net interest income divided by average total interest-earning assets.

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Comparison of Operating Results for the Three Months Ended March 31, 2008 and 2007

**Net Income (Loss).** The Company recorded a net loss of \$298,000 for the three months ended March 31, 2008. Net income decreased \$457,000 from net income of \$159,000 for the three months ended March 31, 2007.

**Net Interest and Dividend Income.** Net interest and dividend income increased \$25,000, or 0.7%, to \$3.5 million for the three months ended March 31, 2008 from \$3.4 million for the three months ended March 31, 2007. Total interest and dividend income decreased \$31,000 to \$7.2 million for the three-month period ended March 31, 2008 while total interest expense decreased \$56,000 to \$3.7 million from the same three-month period one year earlier. For the comparison period our interest rate spread decreased 18 basis points to 2.86% from 3.04%.

**Interest Income.** The decrease in interest income of \$31,000, or 0.4%, to \$7.2 million for the three months ended March 31, 2008 was primarily due to a decrease in the overall yield of interest-bearing assets to 6.47% from 7.04%, partially offset by an increase in the average balance of interest-earning assets of \$30.0 million to \$445.5 million from \$415.4 million. Interest earned on loans decreased to \$6.5 million for the three months ended March 31, 2008 from \$6.7 million for the prior year period. The decrease reflected a 63 basis point decrease in the average yield on such loans to 6.68% from 7.31%, partially offset by a \$21.9 million, or 5.9%, 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 300 basis points to 5.25% by March 31, 2008 from 8.25% at March 31, 2007.

Interest earned on our investment securities, excluding Federal Home Loan Bank of New York stock, increased \$113,000, or 23.8%, due to an \$8.1 million, or 19.4%, increase in the average balance of such securities as well as an increase in the average yield on such securities of 12 basis points to 4.75% for the three months ended March 31, 2008 from 4.64% for the three months ended March 31, 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 \$56,000, or 1.5%, to \$3.7 million for the three months ended March 31, 2008 from \$3.8 million for the three months ended March 31, 2007. The decrease in interest expense was primarily due to a 39 basis point decrease in the average cost of such liabilities to 3.61% from 4.00%, partially offset by an increase in the average balances of interest-bearing liabilities of \$30.8 million, or 8.1%, to \$412.0 million from \$381.2 million.

The average balance of interest bearing deposits increased to \$340.1 million from \$323.9 million while the average cost of such deposits decreased to 3.48% from 3.80% in the lower market interest rate environment. As a result, interest paid on deposits remained unchanged at \$3.0 million for the three months ended March 31, 2008 and 2007. Interest paid on advances and securities sold under agreements to repurchase increased to \$750,000 for the three months ended March 31, 2008 from \$724,000 for the prior year period. An increase in the average balance of such advances to \$71.9 million from \$57.2 million was largely offset by a 95 basis point decrease in the average cost of advances and securities sold under agreements to repurchase to 4.18% for the three months ended March 31, 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 \$391,000 for

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the three months ended March 31, 2008 compared to a provision of \$110,000 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 growth, specifically the increase in the proportion of construction and commercial loans in our portfolio.

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 increased \$2,000, or 0.6%, to \$321,000 for the three months ended March 31, 2008 from \$319,000 for the three months ended March 31, 2007. The increase reflected an increase in service charges and other operating income of \$38,000 and \$30,000, respectively. The increase in service charges was due to higher levels of loan prepayment penalties and service charges related to the Bank's courtesy overdraft program. The increase in other operating income was primarily due to commissions received from the sales of non-deposit investment products, which the Bank began offering in 2008. Increases in other income were offset by a \$37,000 loss on the sale of \$325,000 in other real estate owned and a \$19,000 loss on the sale of \$5.2 million in investment securities during the three months ended March 31, 2008 compared to the prior year period.

Other Expenses. Non-interest expense increased to \$3.7 million for the three months ended March 31, 2008 from \$3.4 million for the three months ended March 31, 2007.

Compensation and employee benefits increased \$281,000, or 14.3% to \$2.2 million for the three months ended March 31, 2008 from \$2.0 million for the three months ended March 31, 2007. Stock award and stock option expenses related to the Magyar Bancorp, Inc. 2006 Equity Incentive Plan accounted for \$78,000 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.

The higher non-interest expense also was due to occupancy and professional expenses, which increased \$39,000, or 6.3%, to \$656,000 and \$41,000, or 30.8%, to \$174,000 for the three months ended March 31, 2008 from \$617,000 and \$133,000, respectively, for the prior year period. The increase in occupancy expenses primarily reflected higher operating costs of the Bank's fifth branch office while the increase in professional expenses was due to higher audit fees.

Other expenses decreased \$74,000, or 13.9%, to \$457,000 for the three months ended March 31, 2008 from \$531,000 for the same period last year primarily due to lower expenses associated with the Company's annual shareholder meeting and non-performing loans described above, partially offset by higher Federal Deposit Insurance Company assessments. The FDIC substantially increased its assessment rate for all insured banks in an effort to increase its reserve ratio.

Income Tax (Benefit) Expense. The Company recognized an income tax benefit of \$48,000 for the three months ended March 31, 2008 compared with \$46,000 of income tax expense for the three months ended March 31, 2007. The effective tax rate was 13.9% and 22.4% for the three month periods ended March 31, 2008 and 2007, respectively. The difference in the effective tax rate in 2008 as compared to 2007 was primarily 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 Six Months Ended March 31, 2008 and 2007

**Net Income (Loss).** The Company recorded a net loss of \$156,000 for the six months ended March 31, 2008. Net income decreased \$587,000 from net income of \$431,000 for the six months ended March 31, 2007.

**Net Interest and Dividend Income.** Net interest and dividend income increased \$177,000, or 2.6%, to \$7.0 million for the six months ended March 31, 2008 from \$6.9 million for the six months ended March 31, 2007. Total interest and dividend income increased \$583,000 to \$14.8 million for the six-month period ended March 31, 2008 while total interest expense increased \$406,000 to \$7.8 million for the same six-month period. For the comparison period our interest rate spread decreased 13 basis points to 2.91% from 3.04%.

**Interest Income.** Interest income increased \$583,000, or 4.1%, to \$14.8 million for the six months ended March 31, 2008 from \$14.2 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 \$32.4 million to \$440.8 million from \$408.5 million, partially offset by a decrease of 27 basis points in the average yield on such assets to 6.71% from 6.98%. Interest income on loans increased 2.0% to \$13.5 million for the six months ended March 31, 2008 from \$13.2 million for the prior year period, reflecting a \$25.5 million, or 7.0%, increase in the average balance of loans, partially offset by a 38 basis point decrease in the average yield on such loans to 6.90% from 7.28%. 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 33.5% to \$1.2 million for the six month period ended March 31, 2008 from \$918,000 a year earlier. An increase in the average balance of such securities of \$6.9 million to \$48.4 million from \$41.5 million was partially offset by a 67 basis point increase in the average yield on investment securities to 5.10% from 4.43%. 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 increased \$406,000, or 5.5%, to \$7.8 million for the six months ended March 31, 2008 from \$7.3 million for the six months ended March 31, 2007. The increase in interest expense was due to a \$33.2 million, or 8.9%, increase in the average balance of interest-bearing liabilities to \$406.8 million from \$373.6 million, partially offset by a lower average cost of such liabilities that decreased to 3.80% from 3.94% in the lower interest rate environment.

The average balance of interest bearing deposits increased \$22.8 million to \$342.5 million for the six months ended March 31, 2008 from \$319.7 million for the same period last year while the average cost of such deposits decreased 6 basis points to 3.69% from 3.75%. This resulted in a 6.0% increase in interest paid on deposits to \$6.3 million from \$6.0 million for the six months ended March 31, 2008 compared to the same period ended March 31, 2007. Interest paid on advances and securities sold under agreements to repurchase remained unchanged at \$1.4 million for the six months ended March 31, 2008 and 2007. The increase in advance interest expense was due to an increase in the average balance of such advances to \$64.3 million from \$53.9 million combined with a 69 basis point decrease in the average cost of advances and securities sold under agreements to repurchase to 4.40% for the six months ended March 31, 2008 from 5.09% 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 \$614,000 for the six months ended March 31, 2008 compared to a \$277,000 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 growth, specifically the increase in the proportion of construction and commercial loans in our portfolio. The





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allowance for loan losses was \$4.1 million, or 1.02% of gross loans outstanding at March 31, 2008, as compared to \$4.3 million, or 1.12% of gross loans outstanding at March 31, 2007.

Other Income. Non-interest income increased \$9,000 to \$661,000 for the six months ended March 31, 2008 from \$652,000 for the six months ended March 31, 2007. The increase reflected an increase in service charges and other operating income of \$106,000 and \$22,000, respectively. The increase in service charges was due to higher levels of loan prepayment penalties and service charges related to the Bank's courtesy overdraft program. The increase in other operating income was primarily due to commissions received from the sales of non-deposit investment products, which the Bank began offering in fiscal 2008. Increases in other income were offset by a \$88,000 loss on the sale of \$1.3 million in other real estate owned and a \$19,000 loss on the sale of \$5.2 million in investment securities for the six months ended March 31, 2008 compared to the prior six-month period.

Other Expenses. Non-interest expense increased \$613,000 to \$7.3 million for the six months ended March 31, 2008 from \$6.7 million for the six months ended March 31, 2007.

Compensation and employee benefits rose 13.2% or \$504,000 to \$4.3 million during the six-month period ended March 31, 2008 from \$3.8 million during the six-month period ended March 31, 2007. Stock award and stock option expenses related to the Magyar Bancorp, Inc. 2006 Equity Incentive Plan accounted for \$193,000 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.

The higher non-interest expense also was due to occupancy and professional expenses, which increased \$109,000, or 9.0%, to \$1.3 million and \$35,000, or 12.4%, to \$317,000 for the six months ended March 31, 2008 from \$1.2 million and \$282,000, respectively, for the prior year period. The increase in occupancy expenses primarily reflected higher operating costs of the Bank's fifth branch office while the increase in professional expenses was due to higher audit fees.

Other expenses decreased \$51,000, or 5.3%, to \$909,000 for the six months ended March 31, 2008 from \$960,000 for the same period last year primarily due to lower expenses associated with the Company's annual shareholder meeting and non-performing loans described above, partially offset by higher Federal Deposit Insurance Company assessments.

Income Tax Expense (Benefit). The Company recognized an income tax benefit of \$28,000 for the six months ended March 31, 2008 compared with a \$149,000 income tax expense for the six months ended March 31, 2007. The effective tax rate was 15.2% and 25.7% for the six month periods ended March 31, 2008 and 2007, respectively. The difference in the effective tax rate in 2008 as compared to 2007 was primarily a result of the relative percentage of the permanent differences, such as 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.

## 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.



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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 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.



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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.

## 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 March 31, 2008 in the ability of the Company and its subsidiaries to fund their operations.

At March 31, 2008, the Company had commitments outstanding under letters of credit of \$1.6 million, commitments to originate loans of \$44.8 million, and commitments to fund undisbursed balances of



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closed loans and unused lines of credit of \$34.6 million. There has been no material change during the six months ended March 31, 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 March 31, 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 March 31, 2008 reflected sensitivity to increases in market interest rate movements. 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 March 31, 2008.

Management of the Company believes that there has not been a material adverse change in market risk during the three months ended March 31, 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 March 31, 2008:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Remaining Number of Shares That May be Purchased Under the Plan (1)
January 1 - January 31, 2008	8,500	\$ 10.62	119,624
February 1 - February 29, 2008	1,500	\$ 10.62	118,124
March 1 - March 31, 2008	11,600	\$ 9.98	106,524
	21,600	\$ 10.28	

<sup>(1)</sup>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 23,400 shares had been repurchased as of March 31, 2008 at an average price of \$10.31.

## 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: May 9, 2008

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

Date: May 9, 2008

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