Magyar Bancorp, Inc.
Form 10QSB
August 10, 2007

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

# FORM 10-QSB

x QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2007

Commission File Number **000-51726**

MAGYAR BANCORP, INC.
(Exact name of small business issuer as specified in its charter)

| | |
|---|---|
| Delaware | 20-4154978 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification Number) |

| | |
|---|---|
| 400 Somerset Street<br>New Brunswick, New Jersey | 08901 |
| (Address of principal executive offices) | (Zip Code) |

Issuer's telephone number, including area code (732) 342-7600

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 ý NO ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
YES ¨ NO ý

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 10, 2007 |
|---|---|
| Common Stock, $0.01 Par Value | 5,831,642 |

Transitional Small Business Disclosure Format YES ¨ NO ý

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, 2007 (Unaudited) | | September 30, 2006 |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash | $ | 5,661 | $ | 5,912 |
| Interest earning deposits with banks | | 191 | | 105 |
| Total cash and cash equivalents | | 5,852 | | 6,017 |
| | | | | |
| Investment securities - available for sale, at fair value | | 28,157 | | 18,169 |
| Investment securities - held to maturity, at amortized cost (fair value of $18,808 and $23,358 at June 30, 2007 and September 30, 2006, respectively) | | 19,201 | | 23,895 |
| | | | | |
| Federal Home Loan Bank of New York stock, at cost | | 3,247 | | 2,870 |
| Loans receivable, net of allowance for loan losses of $4,067 and $3,892 at June 30, 2007 and September 30, 2006, respectively | | 380,116 | | 347,969 |
| Bank owned life insurance | | 9,879 | | 9,606 |
| Accrued interest receivable | | 2,477 | | 2,218 |
| Premises and equipment, net | | 22,635 | | 21,690 |
| Other real estate | | 1,283 | | - |
| Other assets | | 1,576 | | 1,770 |
| | | | | |
| Total assets | $ | 474,423 | $ | 434,204 |
| **Liabilities and Stockholders' Equity** | | | | |
| Liabilities | | | | |
| Deposits | $ | 359,254 | $ | 325,602 |
| Escrowed funds | | 1,289 | | 1,158 |
| Federal Home Loan Bank of New York advances | | 54,484 | | 47,996 |
| Securities sold under agreements to repurchase | | 6,000 | | 5,000 |
| Accrued interest payable | | 1,027 | | 1,141 |
| Accounts payable and other liabilities | | 4,736 | | 5,095 |
| | | | | |
| Total liabilities | | 426,790 | | 385,992 |
| | | | | |
| Stockholders' equity | | | | |
| Preferred stock: $.01 Par Value, 1,000,000 shares authorized; no shares issued | | - | | - |
| | | | | |

| | | | | |
|---|---|---|---|---|
| Common stock: $.01 Par Value, 8,000,000 shares authorized; 5,923,742 issued | | | | |
| at June 30, 2007 and September 30, 2006. | | 59 | | 59 |
| Additional paid-in capital | | 25,980 | | 25,786 |
| Treasury stock; 92,100 shares at June 30, 2007 | | (1,360) | | - |
| Unearned shares held by Employee Stock Ownership Plan | | (1,918) | | (2,133) |
| Retained earnings | | 25,626 | | 25,001 |
| Accumulated other comprehensive loss, net | | (754) | | (501) |
| Total stockholders' equity | | 47,633 | | 48,212 |
| Total liabilities and stockholders' equity | $ | 474,423 | $ | 434,204 |

The accompanying notes are an integral part of these statements.

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

| | For the Three Months Ended June 30, 2007 | For the Three Months Ended June 30, 2006 | For the Nine Months Ended June 30, 2007 | For the Nine Months Ended June 30, 2006 |
|---|---|---|---|---|
| | (Unaudited) | | | |
| Interest and dividend income | | | | |
| Loans, including fees | $ 6,923 | $ 5,624 | $ 20,120 | $ 15,267 |
| Investment securities | 468 | 465 | 1,375 | 1,530 |
| Federal Home Loan Bank of New York stock | 68 | 30 | 168 | 84 |
| Total interest and dividend income | 7,459 | 6,119 | 21,663 | 16,881 |
| Interest expense | | | | |
| Deposits | 3,218 | 2,242 | 9,198 | 5,871 |
| Borrowed money | 832 | 458 | 2,200 | 1,391 |
| Total interest expense | 4,050 | 2,700 | 11,398 | 7,262 |
| Net interest and dividend income | 3,409 | 3,419 | 10,265 | 9,619 |
| Provision for loan losses | 75 | 240 | 352 | 600 |
| Net interest and dividend income after provision for loan losses | 3,334 | 3,179 | 9,913 | 9,019 |
| Other income | | | | |
| Service charges | 354 | 206 | 763 | 571 |
| Other operating income | 107 | 99 | 339 | 237 |
| Gains on sales of loans | 5 | 9 | 17 | 9 |
| Losses on the sales of investment securities | - | (104) | - | (104) |
| Total other income | 466 | 210 | 1,119 | 713 |
| Other expenses | | | | |
| Compensation and employee benefits | 2,072 | 1,825 | 5,881 | 5,183 |
| Occupancy expenses | 647 | 436 | 1,855 | 1,347 |
| Advertising | 82 | 58 | 226 | 263 |
| Professional fees | 169 | 180 | 452 | 518 |
| Service fees | 123 | 112 | 372 | 329 |
| Contribution to charitable foundation | - | - | - | 1,547 |
| Other expenses | 431 | 380 | 1,390 | 1,060 |
| Total other expenses | 3,524 | 2,991 | 10,176 | 10,247 |
| Income (loss) before income tax expense | 276 | 398 | 856 | (515) |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Income tax expense (benefit) | | 82 | | 122 | | 231 | | (284) |
| Net income (loss) | $ | 194 | $ | 276 | $ | 625 | $ | (231) |
| Earnings (loss) per share- basic and diluted | $ | 0.03 | $ | 0.05 | $ | 0.11 | | N/A |

The accompanying notes are an integral part of these statements.

**MAGYAR BANCORP, INC. AND SUBSIDIARY**
Consolidated Statement of Changes in Stockholders' Equity
Nine months ended June 30, 2007
(In Thousands, Except for Share Amounts)
(Unaudited)

| | Common Stock Shares Issued | Par Value | Additional Paid-In Capital | Treasury Stock | Unearned ESOP Shares | Retained Earnings | Accumulated Other Comprehensive Income/(Loss) | Total |
|---|---|---|---|---|---|---|---|---|
| Balance, September 30, 2006 | 5,923,742 | $ 59 | $ 25,786 | $ - | $ (2,133) | $ 25,001 | $ (501) | $ 48,212 |
| Net income | - | - | - | | - | 625 | - | 625 |
| Other comprehensive loss, net of reclassification adjustments and taxes | - | - | - | | - | - | (253) | (253) |
| Total comprehensive income | | | | | | | | 372 |
| Treasury stock, at cost (92,100 shares) | - | | | (1,360) | | | | (1,360) |
| Allocation of ESOP stock | - | - | 40 | | 215 | - | - | 255 |
| Compensation cost for stock options and restricted stock | - | - | 154 | - | - | - | - | 154 |
| Balance, June 30, 2007 | 5,923,742 | $ 59 | $ 25,980 | $ (1,360) | $ (1,918) | $ 25,626 | $ (754) | $ 47,633 |

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, 2007 | 2006 |
|---|---|---|
| | (Unaudited) | |
| Operating activities | | |
| Net income (loss) | $ 625 | $ (231) |
| Adjustment to reconcile net income (loss) to net cash provided by operating activities | | |
| Contribution of stock to charitable foundation | - | 1,047 |
| Depreciation expense | 858 | 742 |
| Premium amortization on investment securities, net | 115 | 126 |
| Proceeds from mortgage loan sales | - | 2,817 |
| Provision for loan losses | 352 | 600 |
| Gains on sale of loans | (17) | (9) |
| Losses on sale of investment securities | - | 104 |
| ESOP and share-based compensation expense | 409 | 122 |
| Increase in accrued interest receivable | (259) | (460) |
| Increase in bank owned life insurance | (273) | (190) |
| (Increase) decrease in other assets | (34) | 3,898 |
| (Decrease) increase in accrued interest payable | (114) | 656 |
| Decrease in accounts payable and other liabilities | (359) | (523) |
| Net cash provided by operating activities | 1,303 | 8,699 |
| Investing activities | | |
| Net increase in loans receivable | (33,765) | (60,392) |
| Purchases of investment securities available for sale | (13,772) | (5,488) |
| Sales of investment securities available for sale | 142 | 3,896 |
| Proceeds from maturities/calls of investment securities held to maturity | - | 2,010 |
| Proceeds from maturities/calls of investment securities available for sale | - | 2,518 |
| Principal repayments on investment securities held to maturity | 4,642 | 4,801 |
| Principal repayments on investment securities available for sale | 3,506 | 2,554 |
| Purchases of bank owned life insurance | - | (3,570) |
| Purchases of premises and equipment | (1,803) | (2,626) |
| (Purchase) redemption of Federal Home Loan Bank of New York stock | (377) | 248 |
| Net cash used in investing activities | (41,427) | (56,049) |
| Financing activities | | |
| Net increase in deposits | 33,652 | 40,503 |

| | | | | |
|---|---|---|---|---|
| Net proceeds from issurance of common stock | | - | | 24,782 |
| Net purchase of common stock for ESOP | | - | | (2,306) |
| Stock compensation tax benefit | | 48 | | - |
| Net increase in escrowed funds | | 131 | | 119 |
| Proceeds from long-term Federal Home Loan Bank of New York advances | | 6,642 | | - |
| Repayments of long-term Federal Home Loan Bank of New York advances | | (6,329) | | (1,458) |
| Proceeds of short-term Federal Home Loan Bank of New York advances | | 6,175 | | - |
| Repayments of short-term Federal Home Loan Bank of New York advances | | - | | (4,400) |
| Proceeds (repayments) of securities sold under agreements to repurchase | | 3,000 | | (5,000) |
| Repayments of loans payable | | (2,000) | | (2,497) |
| Purchase of treasury stock | | (1,360) | | - |
| Net cash provided by financing activities | | 39,959 | | 49,743 |
| | | | | |
| Net (decrease) increase in cash and cash equivalents | | (165) | | 2,393 |
| | | | | |
| Cash and cash equivalents, beginning of period | | 6,017 | | 3,209 |
| | | | | |
| Cash and cash equivalents, end of period | $ | 5,852 | $ | 5,602 |
| | | | | |
| Supplemental disclosures of cash flow information | | | | |
| Cash paid for | | | | |
| Interest | $ | 11,512 | $ | 6,606 |
| Income taxes | $ | 510 | $ | 23 |

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"). 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, and a New Jersey-chartered mutual holding company.

Magyar Bancorp, MHC owns 3,200,450 shares, or 54.03%, of the issued shares of common stock of Magyar Bancorp, Inc. The remaining 2,723,292 shares, or 45.97%, were sold to public stockholders, including a charitable foundation organized by the Bank. The gross offering proceeds from the sale 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 nine months ended June 30, 2007 are not necessarily indicative of the results that may be expected for the year ending September 30, 2007. The September 30, 2006 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.

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The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates. A material estimate that is particularly susceptible to significant change in the near term relates to the determination of the allowance for loan losses.

NOTE C - CONTINGENCIES

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

NOTE D - EARNINGS PER SHARE

Basic earnings per share for the three and nine months ended June 30, 2007 and three months ended June 30, 2006 were calculated by dividing net income by the weighted average number of common shares outstanding during the respective periods. Earnings per share was not meaningful for the nine month period ended June 30, 2006, as the Company did not have publicly-held shares outstanding during each day of the period.

Diluted earnings per share for the three and nine months ended June 30, 2007 was calculated by dividing net income by the weighted average number of common shares outstanding, plus the weighted-average number of net shares that would be issued upon exercise of dilutive stock options and grants pursuant to the treasury stock method.

NOTE E – SHARE-BASED COMPENSATION

At the annual meeting held on February 12, 2007, stockholders of the Company approved the Magyar Bancorp, Inc. 2006 Equity Incentive Plan. On March 1, 2007, directors, senior officers and certain employees of the Company were granted in aggregate 217,826 stock options and 103,479 shares of restricted stock.

Effective October 1, 2006, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 123R, "Share-Based Payments". Statement 123 (R) covers a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. Statement 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. 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

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SAB 107. 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, which have graded vesting, on a straight-line basis over the requisite service period of the awards.

The common stock transactions are valued using the Black-Scholes model using the following assumptions:

| | |
|---|---|
| Expected life | 6.5 years |
| Discount rate | 4.51% |
| Volatility | 16.67% |
| Dividend yield | 0.71% |

Restricted shares generally vest over a five- year service period. 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, 2007:

| | Number of Stock Options | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Balance at September 30, 2006 | - | - | | |
| Granted | 217,826 | $ 14.61 | | |
| Exercised | - | - | | |
| Forfeited | - | - | | |
| Balance at June 30, 2007 | 217,826 | $ 14.61 | 9.7 years | $ - |
| | | | | |
| Exercisable at June 30, 2007 | - | - | N/A | N/A |

The following is a summary of the status of the Company's non-vested options as of September 30, 2006 and changes during the nine months ended June 30, 2007:

| | Number of Stock Options | Weighted Average Grant Date Fair Value |
|---|---|---|
| Balance at September 30, 2006 | - | - |
| Granted | 217,826 | $ 3.91 |
| Exercised | - | - |
| Forfeited | - | - |
| Balance at June 30, 2007 | 217,826 | $ 3.91 |

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The following is a summary of the status of the Company’s restricted shares as of September 30, 2006 and changes during the nine months ended June 30, 2007:

| | Number of Stock Awards | Weighted Average Grant Date Fair Value |
|---|---|---|
| Balance at September 30, 2006 | - | - |
| Granted | 103,479 | $ 14.55 |
| Forfeited | - | - |
| Balance at June 30, 2007 | 103,479 | $ 14.55 |

Stock option and stock award expenses included with compensation expense was $116,000 and $154,000 for the three and nine month periods ended June 30, 2007.

The Company also has an Employee Stock Ownership Plan ("ESOP") for the benefit of employees 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 equal to the Prime Rate (currently 8.25%) with principal and interest payable annually in equal installments over thirty years. The loan is secured by the shares of the stock purchased.

As the debt is repaid, shares are released as collateral and allocated to qualified employees. Accordingly, the shares pledged as collateral are reported as unearned ESOP shares in the Consolidated Balance Sheet. 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 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 $255,000 and $122,000 for the nine months ended June 30, 2007 and 2006, respectively.

The following table presents the components of the ESOP shares:

| | June 30, 2007 |
|---|---|
| Shares released for allocation | 17,936 |
| Unreleased shares | 199,927 |
| | |
| | 217,863 |

Total
ESOP
shares

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NOTE F - COMPREHENSIVE INCOME (LOSS)

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

| | Three Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2007 | | | 2006 | | |
| | Before Tax Amount | Tax Benefit | Net of Tax Amount | Before Tax Amount | Tax Benefit | Net of Tax Amount |
| | (Unaudited) | | | | | |
| Unrealized holding gains (losses) arising during period on: | | | | | | |
| Available-for-sale investments | $ (250) | $ 76 | $ (174) | $ (3) | $ 1 | $ (2) |
| Less reclassification adjustment for losses realized in net income | - | - | - | - | - | - |
| Minimum pension liability | - | - | - | - | - | - |
| Interest rate derivatives | (208) | 83 | (125) | (20) | - | (20) |
| Other comprehensive income (loss), net | $ (458) | $ 159 | $ (299) | $ (23) | $ 1 | $ (22) |

| | Nine Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2007 | | | 2006 | | |
| | Before Tax Amount | Tax Benefit | Net of Tax Amount | Before Tax Amount | Tax Benefit | Net of Tax Amount |
| | (Unaudited) | | | | | |
| Unrealized holding gains (losses) arising during period on: | | | | | | |
| Available-for-sale investments | $ (73) | $ 13 | $ (61) | $ (44) | $ 330 | $ 286 |
| Less reclassification adjustment for losses realized in net income | - | - | - | - | - | - |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Minimum pension liability | | - | | - | | - | | (650) | | - | | (650) |
| Interest rate derivatives | | (223) | | 30 | | (193) | | (70) | | - | | (70) |
| Other comprehensive income (loss), net | $ | (296) | $ | 43 | $ | (254) | $ | (764) | $ | 330 | $ | (434) |

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NOTE G - INVESTMENT SECURITIES

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

| | June 30, 2007 | | September 30, 2006 | |
|---|---|---|---|---|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| | (Unaudited) | | | |
| Securities available for sale: | | | | |
| U.S. government and agency obligations | $ - | $ - | $ - | $ - |
| Municipal bonds | 3,215 | 3,163 | 2,049 | 2,066 |
| Equity securities | - | - | 142 | 142 |
| Mortgage-backed securities | 25,295 | 24,994 | 16,258 | 15,961 |
| Total securities available for sale | $ 28,510 | $ 28,157 | $ 18,449 | $ 18,169 |
| Securities held to maturity: | | | | |
| U.S. government and agency obligations | $ 2,139 | $ 2,094 | $ 2,157 | $ 2,105 |
| Municipal bonds | 137 | 143 | 137 | 145 |
| Mortgage-backed securities | 16,925 | 16,571 | 21,601 | 21,108 |
| Total securities held to maturity | $ 19,201 | $ 18,808 | $ 23,895 | $ 23,358 |

NOTE H – LOANS RECEIVABLE, NET

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

| | June 30, 2007 (Unaudited) | September 30, 2006 |
|---|---|---|
| One -to-four family residential | $ 146,479 | $ 143,245 |
| Commercial real estate | 79,700 | 68,567 |
| Construction | 100,495 | 90,342 |
| Home equity lines of credit | 12,805 | 10,843 |
| Commercial business | 28,942 | 24,510 |
| Other | 16,006 | 14,846 |
| Total loans receivable | 384,427 | 352,353 |
| Deferred loan fees | (244) | (492) |
| Allowance for loan losses | (4,067) | (3,892) |

| | | | | |
|---|---|---|---|---|
| Total loans receivable, net | $ | 380,116 | $ | 347,969 |

At June 30, 2007 and September 30, 2006, non-performing loans had a total principal balance of $8,998,000 and $7,400,000, respectively. Unrecorded interest on the non-performing loans during the nine-month period ended June 30, 2007 totaled $591,000.

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NOTE I - DEPOSITS

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

| | June 30, 2007 (Unaudited) | September 30, 2006 |
|---|---|---|
| Demand accounts | $ 21,541 | $ 20,491 |
| Savings accounts | 37,181 | 43,127 |
| NOW accounts | 28,952 | 30,519 |
| Money market accounts | 76,194 | 56,107 |
| Certificates of deposit | 167,774 | 149,811 |
| Retirement accounts | 27,612 | 25,547 |
| | $ 359,254 | $ 325,602 |

NOTE J - 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.

| | June 30, 2007 (Unaudited) | September 30, 2006 |
|---|---|---|
| Financial instruments whose contract amounts represent credit risk (in thousands) | | |
| Unused lines of credit | $ 33,173 | $ 30,977 |
| Fixed rate loan commitments | $ 11,489 | $ 6,499 |
| Variable rate loan commitments | $ 41,488 | $ 32,634 |

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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,” “wi likely result,” “are expected to,” “will continue,” “is anticipated,” “estimated,” “projected,” or similar expressions are intende identify “forward looking statements.” Such statements are subject to risks and uncertainties, including but not limited to changes in economic conditions in Magyar Bancorp, Inc.’s market area, changes in policies by regulatory agencies, fluctuations in interest rates, demand for loans in Magyar Bancorp, Inc.’s market area, changes in the position of banking regulators on the adequacy of our allowance for loan losses, and competition, all or some of which could cause actual results to differ materially from historical earnings and those presently anticipated or projected.

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

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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, 2007 and September 30, 2006**

Total assets increased $40.2 million, or 9.3%, to $474.4 million at June 30, 2007 from $434.2 million at September 30, 2006, represented by significant growth in net loans receivable.

Net loans receivable increased $32.1 million, or 9.2%, to $380.1 million at June 30, 2007 from $348.0 million at September 30, 2006. Loan growth was primarily due to an increase in commercial real estate loans of $11.1 million, or 16.2%, to $79.7 million, an increase in construction loans of $10.2 million, or 11.2%, to $100.5 million, and an increase in commercial business loans of $4.4 million, or 18.1%, to $28.9 million. In addition, one-to-four family residential mortgage loans increased $3.2 million, or 2.3%, to $146.5 million.

At June 30, 2007, the significant loan categories in terms of the percent of total loans were 38.1% in one-to-four family residential mortgage loans, 26.1% in construction loans and 20.7% in commercial real estate loans. At June 30, 2006 these categories in terms of the percent of total loans were 42.2% in one-to-four family residential mortgage loans, 23.2% in construction loans and 20.1% in commercial real estate loans. For the remainder of calendar year 2007, 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 increased by $1.6 million to $9.0 million at June 30, 2007 from $7.4 million at September 30, 2006. The ratio of non-performing loans to total loans receivable was 2.3% at June 30, 2007 compared with 2.1% at September 30, 2006. The allowance for loan losses was increased $175,000 to $4.1 million or 45.2% of non-performing loans at June 30, 2007 compared with $3.9 million or 52.6% of non-performing loans at September 30, 2006. The allowance for loan losses was 1.1% of gross loans outstanding at both June 30, 2007 and September 30, 2006.

The Bank's interest in loans on the Dwek Properties and Sugar Maple Estates (reported in the Company's Current Report on Form 8-K dated June 27, 2006) remained $745,000 and $4.2 million, respectively, at June 30, 2007. The real estate holdings of Solomon Dwek were forced into bankruptcy in February 2007, resulting in the cessation of interest payments on both loans. Accordingly, the loans were considered non-performing at June 30, 2007. The "as-is condition" contract of sale in the amount of $1.46 million previously approved by the Superior Court for the sale of property securing the Dwek Properties loan did not occur in February as a result of the bankruptcy.

Total non-performing loans at June 30, 2007 also included a construction loan to bankrupt builder Kara Homes, Inc. (reported in the Company's Current Report on Form 8-K dated October 10, 2006). On January 8, 2007 the Bankruptcy Court approved a motion to begin a bidding process through the Bankruptcy Court for all four Kara Homes properties. The Bank made an initial offer on each of the four projects to proceed with a Bankruptcy Code Section 363 sale of the properties to the Bank (free and clear of all liens, claims and encumbrances with the exception of real estate taxes). The auction was held

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March 27, 2007 in which the Bank was the high bidder on three of the four projects. The auction was approved by the Bankruptcy Court on April 9, 2007.

Of the $5.1 million lending relationship with Kara Homes, Inc. at September 30, 2006, $1.2 million remained in loans receivable at June 30, 2007 and $1.3 million was recorded as other real estate owned. Two of the four projects were sold in June, netting the Bank $2.4 million, or $172,000 less than the amount lent on the projects. Including a $125,000 charge-off on the property purchased by the Bank, total charge-offs on the three loans were $297,000. Provisions for loan loss recorded during the year ended September 30, 2006 were sufficient to cover the amounts charged-off. Settlement of the fourth and final project is expected to occur during the next quarter.

Although management believes that the Bank's position in the Dwek Properties, Sugar Maple Estates, and Kara Homes, Inc. loans are well collateralized, there can be no assurance that losses will not occur or that significant additional expenses will not be incurred in the process of the resolution of the loans.

Securities available-for-sale increased $10.0 million, or 55.0%, to $28.2 million at June 30, 2007 from $18.2 million at September 30, 2006. The increase was the result of $13.8 million in security purchases, partially offset by $3.5 million in principal amortization and $142,000 in sales of a money market mutual fund. In addition, securities held-to-maturity decreased $4.7 million, or 19.6%, to $19.2 million at June 30, 2007 from $23.9 million at September 30, 2006, resulting from principal amortization.

Total deposits increased $33.7 million, or 10.3%, to $359.3 million at June 30, 2007. The increase was primarily the result of money market accounts, which increased $20.1 million, or 35.8%, to $76.2 million at June 30, 2007 from $56.1 million at September 30, 2006, and certificate of deposit accounts, which increased $18.0 million, or 12.0%, to $167.8 million at June 30, 2007 from $149.8 million at September 30, 2006. Other significant changes in total deposits over the nine-month period included a decrease in savings accounts of $5.9 million, or 13.8%, to $37.2 million and an increase in retirement accounts of $2.1 million, or 8.1%, to $27.6 million.

Borrowings from the Federal Home Loan Bank of New York increased $7.5 million, or 14.1% to $60.5 million at June 30, 2007 from $53.0 million at September 30, 2006.

Stockholders' equity decreased $579,000, or 1.2%, to $47.6 million at June 30, 2007 from $48.2 million at September 30, 2006. The decrease was attributable to stock repurchases totaling $1.4 million and a decrease in accumulated other comprehensive loss of $253,000, partially offset by net income during the period of $625,000, the release of shares from the ESOP totaling $255,000, and the release of stock options and restricted stock in accordance with FAS 123R totaling $154,000. Unrealized losses on investment securities available-for-sale were related to increases in interest rates since the investment securities were purchased. Management has concluded that none of the securities have impairments that are considered other than temporary.

On April 27, 2007 the Company announced its first stock repurchase program and authorized the repurchase of up to 5% of its publicly-held outstanding shares of common stock, or approximately 130,927 shares. During the three month period ended June 30, 2007, the Company repurchased 92,100 shares of its common stock at an average cost of $14.76 per share. Under the current stock repurchase program, 38,827 shares of the 130,927 shares authorized remain available for repurchase.

**Average Balance Sheets for the Three and Nine Months Ended June 30, 2007 and 2006**

The tables on the following pages present certain information regarding Magyar Bancorp, Inc.'s financial condition and net interest income for the three and nine months ended June 30, 2007 and 2006.

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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**