PRUDENTIAL BANCORP INC OF PENNSYLVANIA
Form 10-Q
August 16, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2010

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number: 000-51214

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

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

(215) 755-1500
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

oYes oNo

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or smaller reporting company. See definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer o
Non-accelerated filer (Do not check if a smaller reporting company) o	Smaller reporting company x

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

o Yes x No

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practical date: as of August 5, 2010, 10,031,472 shares were issued and outstanding.

PRUDENTIAL BANCORP, INC. OF PENNSYLVANIA

TABLE OF CONTENTS

		PAGE
PART I	FINANCIAL INFORMATION:	
Item 1.	Consolidated Financial Statements	
	Unaudited Consolidated Statements of Financial Condition June 30, 2010 and September 30, 2009	2
	Unaudited Consolidated Statements of Operations for the Three And Nine Months Ended June 30, 2010 and 2009	3
	Unaudited Consolidated Statements of Changes in Stockholders' Equity and Comprehensive Income for the Nine Months Ended June 30, 2010 and 2009	4
	Unaudited Consolidated Statements of Cash Flows for the Nine Months Ended June 30, 2010 and 2009	5
	Notes to Unaudited Consolidated Financial Statements	6
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	24
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	38
Item 4T.	Controls and Procedures	38
PART II	OTHER INFORMATION	
Item 1.	Legal Proceedings	39
Item 1A.	Risk Factors	39
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	39
Item 3.	Defaults Upon Senior Securities	40
Item 4.	(Removed and Reserved)	40
Item 5.	Other Information	40
Item 6.	Exhibits	40
SIGNATURES		41

1

PRUDENTIAL BANCORP, INC. OF PENNSYLVANIA AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	June 30, 2010	September 30, 2009
	(Dollars in Thousands)	
ASSETS		
Cash and amounts due from depository institutions	$16,989	$4,088
Interest-bearing deposits	39,638	9,581
Total cash and cash equivalents	56,627	13,669
Investment and mortgage-backed securities held to maturity (fair value—June 30, 2010, $134,198; September 30, 2009, $161,968)	130,102	160,126
Investment and mortgage-backed securities available for sale (amortized cost—June 30, 2010, $71,157; September 30, 2009, $63,000)	72,893	62,407
Loans receivable—net of allowance for loan losses (June 30, 2010, $2,536; September 30, 2009, $2,732)	254,168	256,694
Accrued interest receivable:		
Loans receivable	1,428	1,419
Mortgage-backed securities	351	390
Investment securities	1,166	1,496
Real estate owned	3,197	3,622
Federal Home Loan Bank stock—at cost	3,545	3,545
Office properties and equipment—net	1,975	1,992
Bank owned life insurance	5,939	5,786
Prepaid expenses and other assets	5,133	1,272
Deferred tax asset-net	1,736	2,343
TOTAL ASSETS	$538,260	$514,761
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Deposits:		
Noninterest-bearing	$2,565	$2,848
Interest-bearing	459,824	429,526
Total deposits	462,389	432,374
Advances from Federal Home Loan Bank	13,626	19,659
Accrued interest payable	2,310	3,463
Advances from borrowers for taxes and insurance	1,837	1,214
Accounts payable and accrued expenses	1,159	1,703
Accrued dividend payable	502	491
Total liabilities	481,823	458,904
COMMITMENTS AND CONTINGENCIES (Note 8)		

STOCKHOLDERS' EQUITY:		
Preferred stock, $.01 par value, 10,000,000 shares authorized, none issued	-	-
Common stock, $.01 par value, 40,000,000 shares authorized, issued 12,563,750; outstanding - 10,031,472 at June 30, 2010; 10,331,866 at September 30, 2009	126	126
Additional paid-in capital	53,389	52,938
Unearned ESOP shares	(3,290)	(3,457)
Treasury stock, at cost: 2,532,278 shares at June 30, 2010; 2,231,884 shares at September 30, 2009	(31,576)	(28,652)
Retained earnings	36,642	35,293
Accumulated other comprehensive income (loss)	1,146	(391)
Total stockholders' equity	56,437	55,857
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$538,260	$514,761

See notes to unaudited consolidated financial statements.

2

PRUDENTIAL BANCORP, INC. OF PENNSYLVANIA AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2010	2009	2010	2009
	(Dollars in Thousands Except Per Share Amounts)		(Dollars in Thousands Except Per Share Amounts)	
INTEREST INCOME:				
Interest on loans	$ 3,706	$ 3,806	$ 11,176	$ 11,396
Interest on mortgage-backed securities	1,164	1,329	3,575	4,648
Interest and dividends on investments	1,442	1,485	4,338	4,708
Total interest income	6,312	6,620	19,089	20,752
INTEREST EXPENSE:				
Interest on deposits	2,152	2,972	6,509	9,333
Interest on borrowings	192	216	609	743
Total interest expense	2,344	3,188	7,118	10,076
NET INTEREST INCOME	3,968	3,432	11,971	10,676
PROVISION FOR LOAN LOSSES	110	810	495	1,173
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	3,858	2,622	11,476	9,503
NON-INTEREST INCOME (LOSS):				
Fees and other service charges	130	114	373	369
Total other-than-temporary impairment loss	(91)	(28)	(467)	(5,338)
Portion of loss recognized in other comprehensive income, before taxes	5	(228)	43	2,281
Net impairment loss recognized in earnings	(86)	(256)	(424)	(3,057)
Other	125	87	301	251
Total non-interest income (loss)	169	(55)	250	(2,437)
NON-INTEREST EXPENSE:				
Salaries and employee benefits	1,330	1,249	4,014	3,578
Data processing	118	126	378	427
Professional services	107	159	391	578
Office occupancy	90	89	293	294

Depreciation	91	79	268	245
Payroll taxes	61	63	223	205
Director compensation	65	80	215	201
Deposit insurance	195	467	532	763
Real estate owned expense	289	12	362	233
Advertising	107	116	319	323
Other	336	342	1,009	1,067
Total non-interest expense	2,789	2,782	8,004	7,914
INCOME (LOSS) BEFORE INCOME TAXES	1,238	(215)	3,722	(848)
INCOME TAXES:				
Current expense	291	259	1,100	1,112
Deferred expense benefit	(332)	(248)	(185)	(693)
Total income tax (benefit) expense	(41)	11	915	419
NET INCOME (LOSS)	$ 1,279	$ (226)	$2,807	$(1,267)
BASIC INCOME (LOSS) PER SHARE	$ 0.13	$ (0.02)	$0.29	$(0.12)
DILUTED INCOME (LOSS) PER SHARE	$ 0.13	$ (0.02)	$0.29	$(0.12)

See notes to unaudited consolidated financial statements.

PRUDENTIAL BANCORP, INC. OF PENNSYLVANIA AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)

	Common Stock	Additional Paid-In Capital	Unearned ESOP Shares	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity	Comprehensive Income
	(Dollars in Thousands except per share amounts)							
BALANCE, OCTOBER 1, 2009	$126	$52,938	$(3,457)	$(28,652)	$35,293	$ (391)	$ 55,857	
Comprehensive income:								
Net income					2,807		2,807	2,807
Net unrealized holding gain on available for sale securities arising during the period, net of income tax of $648						1,257	1,257	1,257
Reclassification adjustment for other than temporary impairment recognized in earnings net of tax of $144						280	280	280
Comprehensive income								$ 4,344
Cash dividends declared ($.15 per share)					(1,458)		(1,458)	
Treasury stock purchased (300,394 shares)				(2,924)			(2,924)	
		70					70	

Excess tax benefit from stock compensation							
Stock option expense		163					163
Recognition and Retention Plan expense		236					236
ESOP shares committed to be released (16,965 shares)	-	(18)	167	-	-	-	149
BALANCE, June 30, 2010	$126	$53,389	$(3,290)	$(31,576)	$36,642	$ 1,146	$ 56,437

	Common Stock	Additional Paid-In Capital	Unearned ESOP Shares	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity	Comprehensive Income (Loss)
	(Dollars in Thousands except per share amounts)							
BALANCE, OCTOBER 1, 2008	$126	$54,925	$(3,680)	$(19,481)	$37,288	$ (691)	$ 68,487	
Cumulative adjustment related to the adoption of EITF 06-10, net of tax					(256)		(256)	
Cumulative adjustment related to the adoption of Reognition and Presentation, of other-than-temporary impairment, net of income tax benefit of $390.					1,148	(758)	390	
Comprehensive income (loss):								
Net loss					(1,267)		(1,267)	(1,267)
Net unrealized holding loss on								

available for sale securities arising during the period, net of income tax benefit of $1,272						(2,081)	(2,081)	(2,081)
Reclassification adjustment for other than temporary impairment recognized in earnings net of tax of $1,039						2,018	2,018	2,018
Comprehensive loss								$ (1,330)
Treasury stock purchased (738,000 shares)				(9,171)			(9,171)	
Cash dividends declared ($.15 per share)					(1,565)		(1,565)	
Excess tax benefit and stock compensation		72					72	
Stock option expense		105					105	
Recognition and Retention Plan expense		121					121	
Acquisition of restricted stock plan shares (226,148 shares)		(2,465)					(2,465)	
ESOP shares committed to be released (16,965 shares)	-	17	167	-	-	-	184	
BALANCE, June 30, 2009	$126	$ 52,775	$(3,513)	$(28,652)	$35,348	$ (1,512)	$ 54,572	

See notes to unuadited consolidated financial statements

4

PRUDENTIAL BANCORP, INC. OF PENNSYLVANIA AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended June 30,	
	2010	2009
OPERATING ACTIVITIES:	(Dollars in Thousands)	
Net income (loss)	$2,807	$(1,267)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Provision for loan losses	495	1,173
Depreciation	268	245
Net accretion of premiums/discounts	(267)	(1,127)
Net accretion of deferred loan fees and costs	(88)	(90)
Impairment charge on investment and mortgage-backed securities	424	3,057
Share-based compensation expense	469	298
Real estate owned writedown	18	186
Compensation related to ESOP	148	184
Income from bank owned life insurance	(153)	(156)
Deferred income tax benefit	(185)	(693)
Excess tax benefit related to stock compensation	(70)	(72)
Changes in assets and liabilities which used cash:		
Accrued interest receivable	360	(165)
Prepaid expenses and other assets	(3,862)	256
Accrued interest payable	(1,153)	(371)
Accounts payable and accrued expenses	(544)	(4,796)
Net cash used in operating activities	(1,333)	(3,338)
INVESTING ACTIVITIES:		
Purchase of investment and mortgage-backed securities held to maturity	(33,989)	(91,992)
Purchase of investment and mortgage-backed securities available for sale	(18,886)	(10,792)
Loans originated or acquired	(40,431)	(51,453)
Principal collected on loans	40,858	38,582
Principal payments received on investment and mortgage-backed securities:		
Held-to-maturity	64,044	89,079
Available-for-sale	10,542	6,807
Acquisition of FHLB stock, net	-	(925)
Proceeds from sale of real estate owned	2,100	-
Purchases of equipment	(251)	(16)
Net cash provided by (used in) investing activities	23,987	(20,710)
FINANCING ACTIVITIES:		
Net increase in demand deposits, NOW accounts, and savings accounts	6,039	6,980
Net increase in certificates of deposit	23,976	48,407
Net repayment of advances from Federal Home Loan Bank	(6,033)	(12,031)
Increase in advances from borrowers for taxes and insurance	623	571
Excess tax benefit related to stock compensation	70	72
Acquisition of stock for Recognition and Retention Plan	-	(2,465)
Purchase of treasury stock	(2,924)	(9,171)

Cash dividend paid	(1,447)	(1,595)
Net cash provided by financing activities	20,304	30,768
NET INCREASE IN CASH AND CASH EQUIVALENTS	42,958	6,720
CASH AND CASH EQUIVALENTS—Beginning of period	13,669	9,454
CASH AND CASH EQUIVALENTS—End of period	$56,627	$16,174
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Interest paid on deposits and advances from Federal Home Loan Bank	$8,271	$10,447
Income taxes paid	$1,431	$1,779
SUPPLEMENTAL DISCLOSURES OF NONCASH ITEMS:		
Real estate acquired in settlement of loans	$1,692	$3,142

See notes to unaudited consolidated financial statements.

PRUDENTIAL BANCORP, INC. OF PENNSYLVANIA AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation –The accompanying unaudited consolidated financial statements were prepared pursuant to the rules and regulations of the United States Securities and Exchange Commission ("SEC") for interim information and therefore do not include all the information or footnotes necessary for a complete presentation of financial condition, results of operations, changes in equity and cash flows in conformity with accounting principles generally accepted in the United States of America ("GAAP"). However, all normal recurring adjustments that, in the opinion of management, are necessary for a fair presentation of the financial statements have been included. The results for the three and nine months ended June 30, 2010 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2010, or any other period. These financial statements should be read in conjunction with the audited consolidated financial statements of Prudential Bancorp, Inc. of Pennsylvania (the "Company") and the accompanying notes thereto for the fiscal year ended September 30, 2009 included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2009.

Use of Estimates in the Preparation of Financial Statements—The preparation of financial statements in conformity with GAAP in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. The most significant estimates and assumptions in the Company's consolidated financial statements are recorded in the allowance for loan losses, deferred income taxes, and the fair value measurement for investment securities available for sale. Actual results could differ from those estimates.

Dividend Payable – On June 16, 2010, the Company's Board of Directors declared a quarterly cash dividend of $.05 on the common stock of the Company payable on July 30, 2010 to the shareholders of record at the close of business on July 16, 2010 which resulted in a payable of $502,000 at June 30, 2010. A portion of the cash dividend was payable to Prudential Mutual Holding Company (the "MHC") due to its ownership of shares of the Company's common stock and totaled $371,000.

Employee Stock Ownership Plan – The Company maintains an employee stock ownership plan ("ESOP") for substantially all of its full-time employees. Using a loan from the Company, the ESOP purchased 452,295 shares of the Company's common stock for an aggregate cost of approximately $4.5 million in fiscal 2005. Shares of the Company's common stock purchased by the ESOP are held in a suspense account until released for allocation to participants. Shares are allocated to each eligible participant based on the ratio of each such participant's compensation, as defined in the ESOP, to the total compensation of all eligible plan participants for a given plan year. As the unearned shares are released from the suspense account as the loan is repaid, the Company recognizes compensation expense equal to the fair value of the ESOP shares during the periods in which they become committed to be released. To the extent that the fair value of the ESOP shares released differs from the cost of such shares, the difference is charged or credited to equity as additional paid-in capital. As of June 30, 2010, the Company had allocated a total of 107,445 shares from the suspense account to participants and committed to release an additional 11,310 shares. In addition, at such date the total number of shares of Company common stock held by the ESOP was 450,200. For the nine months ended June 30, 2010, the Company recognized $135,000 in compensation expense.

Share-Based Compensation – The Company accounts for stock-based compensation issued to employees, and, where appropriate, non-employees, based on fair value. Under fair value provisions, stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the appropriate vesting period using the straight-line method. The amount of stock-based compensation recognized at any date must at least equal the portion of the grant date fair value of the award that is vested at that date and as a result it may be necessary to recognize the expense using a ratable method. Determining the fair value of stock-based awards at the date of grant requires judgment, including estimating the expected term of the stock options and the expected volatility of the Company's stock. In addition, judgment is required in estimating the amount of stock-based awards that are expected to be forfeited. If actual results differ significantly from these estimates or different key assumptions were used, it could have a material effect on the Company's Consolidated Financial Statements.

Dividends with respect to non-vested share awards granted pursuant to the Company's Recognition and Retention Plan ("Plan") Trust (the "Trust") are held by the Trust for the benefit of the recipients and are paid out proportionately by the Trust to the recipients of stock awards granted pursuant to the Plan as soon as practicable after the stock awards are earned.

Treasury Stock – Stock held in treasury by the Company is accounted for using the cost method, which treats stock held in treasury as a reduction to total stockholders' equity. During February 2010, the Company completed its seventh stock repurchase program. Additionally, the Company repurchased an additional 271,000 shares during March 2010 in a separate transaction. The average cost per share of the approximately 2.5 million shares which have been repurchased by the Company through June 30, 2010 was $12.47. The repurchased shares are available for general corporate purposes. In addition, the MHC completed its third stock purchase plan during February 2010 and in June 2010 announced the its fourth stock purchase program covering 50,000 shares. As of June 30, 2010, the MHC had purchased a total of 505,564 shares at an average cost of $10.07 per share.

Comprehensive Income (Loss) —The Company presents in the unaudited consolidated statement of changes in stockholders' equity and comprehensive income those amounts arising from transactions and other events which currently are excluded from the statements of operations and are recorded directly to stockholders' equity. For the nine months ended June 30, 2010 and 2009, the only components of comprehensive income were net income (loss), unrealized holding gains and losses, net of income tax expense and benefit, on available for sale securities and reclassifications related to realized loss due to other than temporary impairment, net of tax.

FHLB Stock – Federal Home Loan Bank ("FHLB") stock is classified as a restricted equity security because ownership is restricted and there is not an established market for its resale. FHLB stock is carried at cost and is evaluated for impairment when certain conditions warrant further consideration. While the FHLB has recognized losses in recent periods, it is currently not probable that the Company will not realize its cost basis since the FHLB has maintained capital levels in excess of regulatory requirements. Management concluded that no impairment existed as of June 30, 2010.

Recent Accounting Pronouncements – In December 2009, the Financial Accounting Standards Board ("FASB") issued ASU 2009-16, Accounting for Transfer of Financial Assets. ASU 2009-16 provides guidance to improve the relevance, representational faithfulness, and comparability of the information that an entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets. ASU 2009-16 is effective for annual periods beginning after November 15, 2009 and for interim periods within those fiscal years. The adoption of this guidance is not expected to have a significant impact on the Company's financial statements.

In September 2009, the FASB issued new guidance impacting Topic 820 "Fair Value Measurement and Disclosures". This creates a practical expedient to measure the fair value of an alternative investment that does not have a readily determinable fair value. This guidance also requires certain additional disclosures. This guidance is effective for interim and annual periods ending after December 15, 2009. The adoption of this guidance did not have a material impact on the Company's financial position or results of operation.

In January 2010, the FASB issued ASU 2010-04, Accounting for Various Topics – Technical Corrections to SEC Paragraphs. ASU 2010-04 makes technical corrections to existing SEC guidance including the following topics: accounting for subsequent investments, termination of an interest rate swap, issuance of financial statements - subsequent events, use of residential method to value acquired assets other than goodwill, adjustments in assets and liabilities for holding gains and losses, and selections of discount rate used for measuring defined benefit

obligation. ASU 2010-04 became effective January 15, 2010. The adoption of this guidance did not have a material impact on the Company's financial position or results of operation.

In January 2010, the FASB issued ASU 2010-06, Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements, that describes amendments that require some new disclosures and clarifies some existing disclosure requirements about fair value measurement as set forth in ASC Topic 820-10. The FASB's objective is to improve these disclosures and, thus, increase the transparency in financial reporting. The amendments are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Early adoption is permitted. The adoption of this standard is not expected to have a material effect on the Company's results of operations or financial position.

In February 2010, the FASB issued ASU 2010-08, Technical Corrections to Various Topics. ASU 2010-08 clarifies guidance on embedded derivatives and hedging. ASU 2010-08 is effective for interim and annual periods beginning after December 15, 2009. The adoption of this guidance did not have a material impact on the Company's financial position or results of operation.

In March 2010, the FASB issued ASU 2010-11, Derivatives and Hedging. ASU 2010-11 provides clarification and related additional examples to improve financial reporting by resolving potential ambiguity about the breadth of the embedded credit derivative scope exception in ASC 815-15-15-8. ASU 2010-11 is effective at the beginning of the first fiscal quarter beginning after June 15, 2010. The adoption of this guidance is not expected to have a significant impact on the Company's financial statements.

In April 2010, the FASB issued ASU 2010-13, Compensation – Stock Compensation (Topic 718): Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades. ASU 2010-13 provides guidance on the classification of a share-based payment award as either equity or a liability. A share-based payment that contains a condition that is not a market, performance, or service condition is required to be classified as a liability. ASU 2010-13 is effective for fiscal years and interim periods within those fiscal years, beginning on or after December 15, 2010 and is not expected to have a significant impact on the Company's financial statements.

In April 2010, the FASB issued ASU 2010-18, Receivables (Topic 310): Effect of a Loan Modification When the Loan is a Part of a Pool That is Accounted for as a Single Asset – a consensus of the FASB Emerging Issues Task Force. ASU 2010-18 clarifies the treatment for a modified loan that was acquired as part of a pool of assets. Refinancing or restructuring the loan does not make it eligible for removal from the pool, the FASB said. The amendment will be effective for loans that are part of an asset pool and are modified during financial reporting periods that end July 15, 2010 or later. The Company is currently evaluating the impact the adoption of the standard will have on the Company's financial position or results of operations.

In July 2010, FASB issued ASU No. 2010-20, Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses. ASU 2010-20 is intended to provide additional information to assist financial statement users in assessing an entity's credit risk exposures and evaluating the adequacy of its allowance for credit losses. The disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The amendments in ASU 2010-20 encourage, but do not require, comparative disclosures for earlier reporting periods that ended before initial adoption. However, an entity should provide comparative disclosures for those reporting periods ending after initial adoption. The Company is currently evaluating the impact the adoption of this guidance will have on the Company's financial position or results of operations.

2. EARNINGS PER SHARE

Basic earnings per common share is computed by dividing net income available to common shareholders by the weighted average number of shares of common stock outstanding, net of any treasury shares, during the period. Diluted earnings per share is calculated by dividing net income available to common shareholders by the weighted average number of shares of common stock outstanding, net of any treasury shares, after consideration of the potential dilutive effect of common stock equivalents ("CSEs"), based upon the treasury stock method using an average market price for the period.

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

	Quarter Ended June 30,			
	2010		2009	
	Basic	Diluted	Basic	Diluted
	(Dollars in Thousands Except Per Share Data)			
Net income (loss)	$ 1,279	$ 1,279	$ (226)	$ (226)
Weighted average shares outstanding	9,502,722	9,502,722	10,359,243	10,359,243
Effect of common stock equivalents	-	88,742	-	200,852
Adjusted weighted average shares used in earnings per share computation	$ 9,502,722	$ 9,591,464	$ 10,359,243	$ 10,560,095
Income (loss) per share - basic and diluted	$ 0.13	$ 0.13	$ (0.02)	$ (0.02)

	Nine Months Ended June 30,			
	2010		2009	
	Basic	Diluted	Basic	Diluted
	(Dollars in Thousands Except Per Share Data)			
Net income (loss)	$ 2,807	$ 2,807	$ (1,267)	$ (1,267)
Weighted average shares outstanding	9,648,737	9,648,737	10,531,671	10,531,671
Effect of common stock equivalents	-	127,041	-	24,568
Adjusted weighted average shares used in earnings per share computation	$ 9,648,737	$ 9,775,778	$ 10,531,671	$ 10,556,239
Income (loss) per share - basic and diluted	$ 0.29	$ 0.29	$ (0.12)	$ (0.12)

3. INVESTMENT AND MORTGAGE-BACKED SECURITIES

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

	June 30, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities held to maturity:		(Dollars in Thousands)		
U.S. Government agency obligations	$ 101,245	$ 1,884	$ -	$ 103,129
Municipal obligations	475	1	-	476
Mortgage-backed securities - U.S. Government agencies	28,382	2,211	-	30,593
Total securities held to maturity	$ 130,102	$ 4,096	$ -	$ 134,198
Securities available for sale:				
U.S. Government agency obligations	$ 10,994	$ 218	$ -	$ 11,212
Mortgage-backed securities - U.S. Government agencies	51,567	3,059	(13)	54,613
Mortgage-backed securities - Non-agency	8,585	140	(1,668)	7,057
Total debt securities	71,146	3,417	(1,681)	72,882
FHLMC preferred stock	11	-	-	11
Total securities available for sale	$ 71,157	$ 3,417	$ (1,681)	$ 72,893

	September 30, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(Dollars in Thousands)		
Securities Held to Maturity:				
U.S. Government agency obligations	$ 123,923	$ 881	$ (645)	$ 124,159
Municipal obligations	1,970	6	-	1,976
Mortgage-backed securities - U.S. Government agencies	34,233	1,600	-	35,833
Total securities held to maturity	$ 160,126	$ 2,487	$ (645)	$ 161,968
Securities Available for Sale:				
U.S. Government agency obligations	$ 2,000	$ -	$ (18)	$ 1,982
Mortgage-backed securities - U.S. Government agencies	50,659	2,009	(57)	52,611
Mortgage-backed securities - Non-agency	10,325	6	(2,564)	7,767
Total debt securities	62,984	2,015	(2,639)	62,360

FHLMC preferred stock	16	31	-	47
Total securities available for sale	$ 63,000	$ 2,046	$ (2,639)	$ 62,407

10

The following table shows the gross unrealized losses and related fair values of the Company's investment securities, aggregated by investment category and length of time that individual securities had been in a continuous loss position at June 30, 2010:

	Less than 12 months		More than 12 months		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(Dollars in Thousands)					
Securities Available for Sale:						
Mortgage-backed securities - U.S. Government agencies	$ (13)	$ 1,924	$ -	$ -	$ (13)	$ 1,924
Mortgage-backed securities - Non-agency	(33)	204	(1,635)	4,480	(1,668)	4,684
Total securities available for sale	(46)	2,128	(1,635)	4,480	(1,681)	6,608

All equity securities, U.S. Government agency obligations, municipal bonds and mortgage-backed securities held to maturity were in an unrealized gain position as of June 30, 2010.

The following table shows the gross unrealized losses and related fair values of the Company's investment securities, aggregated by investment category and length of time that individual securities had been in a continuous loss position at September 30, 2009:

	Less than 12 months		More than 12 months		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(Dollars in Thousands)					
Securities Held to Maturity:						
U.S. Government and agency obligations	$ (643)	$ 52,854	$ (2)	$ 1,993	$ (645)	$ 54,847
Total securities held to maturity	(643)	52,854	(2)	1,993	(645)	54,847
Securities Available for Sale:						
U.S. Government and agency obligations	-	-	(18)	1,982	(18)	1,982
Mortgage-backed securities - U.S. Government agencies	(48)	2,886	(9)	400	(57)	3,286
Mortgage-backed securities - Non-agency	(1,310)	2,757	(1,254)	4,381	(2,564)	7,138

Total securities available for sale	(1,358)	5,643	(1,281)	6,763	(2,639)	12,406
Total	$ (2,001)	$ 58,497	$ (1,283)	$ 8,756	$ (3,284)	$ 67,253

All equity securities, municipal bonds and mortgage-backed securities held to maturity were in an unrealized gain position as of September 30, 2009.

Management has reviewed its investment securities and determined that for the nine months ended June 30, 2010 unrealized losses of $424,000 on a pre-tax basis for certain securities in the non-agency mortgage-backed portfolio classified as available for sale were deemed other than temporary.

Management evaluates securities for other-than-temporary impairment ("OTTI") at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. The Company determines whether the unrealized losses are temporary. The evaluation is based upon factors such as the creditworthiness of the issuers/guarantors, the underlying collateral, if applicable, and the continuing performance of the securities. Management also evaluates other facts and circumstances that may be indicative of an OTTI condition. This includes, but is not limited to, an evaluation of the type of security, length of time and extent to which the fair value has been less than cost, and near-term prospects of the issuer.

The Company assesses whether the credit loss existed by considering whether (1) the Company has the intent to sell the security, (2) it is more likely than not that it will be required to sell the security before recovery, or (3) it does not expect to recover the entire amortized cost basis of the security. The Company bifurcates the OTTI impact on impaired securities where impairment in value was deemed to be other than temporary between the component representing credit loss and the component representing loss related to other factors. The portion of the fair value decline attributable to credit loss must be recognized through a charge to earnings. The credit component is determined by comparing the present value of the cash flows expected to be collected, discounted at the rate in effect before recognizing any OTTI with the amortized cost basis of the debt security. The Company uses the cash flow expected to be realized from the security, which includes assumptions about interest rates, timing and severity of defaults, estimates of potential recoveries, the cash flow distribution from the bond indenture and other factors, then applies a discount rate equal to the effective yield of the security. The difference between the present value of the expected cash flows and the amortized book value is considered a credit loss. The fair market value of the security is determined using the same expected cash flows; the discount rate is a rate the Company determines from the open market and other sources as appropriate for the security. The difference between the fair market value and the security's remaining amortized cost is recognized in other comprehensive income.

The following is a rollforward for the nine months ended June 30, 2010 of the amounts recognized in earnings related to credit losses on securities which the Company has recorded OTTI charges through earnings and other comprehensive income.

	(Dollars in thousands)		
Credit component of OTTI as of October 1, 2009	$	2,859	
Additions for credit-related OTTI charges on previously unimpaired securities		7	
Reduction for securities liquidated		(106	)
Additional increases as a result of impairment charges recognized on investments for which an OTTI charge was previously recognized		417	
Credit component of OTTI as of June 30, 2010	$	3,177	

United States Treasury and Government Sponsored Enterprise and Agency Notes - The Company's investments in the preceding table in United States Government sponsored enterprise notes consist of debt obligations of the Federal Home Loan Bank ("FHLB"), Federal Home Loan Mortgage Corporation ("FHLMC"), Federal National Mortgage Association ("FNMA"), and Federal Farm Credit System ("FFCS"). FHLB debt securities are rated by both Moody's and Standard & Poor's. All long-term debt issued by the FHLB banks is rated Aaa by Moody's and AAA by Standard and Poor's. All short-term debt is rated "Prime-1" by Moody's and A-1+ by Standard & Poor's. FNMA and FHLMC senior debt securities are also currently rated "Aaa" by Moody's , short-term debt is rated "Prime-1", subordinated debt is rated "Aa2" and preferred stock ratings are currently "Aa3" with "Stable" outlooks. Farm Credit Designated Bonds are high credit quality, liquid and callable securities. None of U.S. treasury and government agency obligations were in an unrealized loss position as of June 30, 2010.

State and Municipal Obligations – The municipal bonds consist of obligations of entities located in Pennsylvania. None of the municipal bonds were in an unrealized loss position as of June 30, 2010.

US Agency Issued Mortgage-Backed Securities - At June 30, 2010, the gross unrealized loss in U.S. agency issued mortgage-backed securities in the category of less than 12 months was $13,000 or 0.03% from the Company's amortized cost basis and consisted of two securities. There were no gross unrealized losses in the category of more than 12 months. These securities represent asset-backed issues that are issued or guaranteed by a U.S. Government sponsored agency or carry the full faith and credit of the United States through a government agency and are currently rated AAA by at least one bond credit rating agency. In September 2008, the U.S. Department of the Treasury announced the establishment of the Government-Sponsored Enterprise Credit Facility to ensure credit availability to FNMA and FHLMC. The Treasury also entered into senior preferred stock purchase agreements, which ensure that each entity maintains a positive net worth and effectively support the holders of debt and mortgage-backed securities ("MBS") issued or guaranteed by FNMA and FHLMC. The Agreements enhance market stability by providing additional security to debt holders, senior and subordinated, thereby alleviating the concern of the credit driven impairment of the securities. The unrealized loss on these debt securities relates principally to the changes in market interest rates and a lack of liquidity currently in the financial markets and are not as a result of projected shortfall in cash flows. In addition, the Company does not intend to sell the securities and it is more likely than not that the Company will not be required to sell the securities. As such, the Company expects to recover the entire amortized cost basis of the securities. As a result, the Company does not consider these investments to be other-than-temporarily impaired at June 30, 2010.

Non-Agency Issued Mortgage-Backed Securities and Collateralized Mortgage Obligations - This portfolio was acquired through the redemption-in-kind of a mutual fund during 2008 and includes 70 collateralized mortgage obligations ("CMO") and MBS securities issued by large commercial financial institutions. For the nine months ended June 30, 2010 management recognized an OTTI charge related to a portion of the portfolio securities in the amount of $467,000 on a pre-tax basis due to the fact that, in management's judgment, the credit quality of the collateral pool underlying such securities had deteriorated during recent periods to the point that full recovery of the entire amortized cost of the investment was considered to be uncertain. This portfolio consists primarily of securities with underlying collateral of Alt-A loans and those collateralized by home equity lines of credit and other receivables as well as whole loans with more significant exposure to the declining markets accountable for the balance of the OTTI charges. For the overall portfolio of the securities, there was exposure to the declining real estate markets such as California, Nevada, Arizona and Florida and consequently, an additional OTTI charge was deemed to be warranted as of June 30, 2010. Of the recorded charge, a total of $424,000 was concluded to be credit related and recognized currently in earnings and $43,000 was concluded to be attributable to other factors and recognized in other accumulated comprehensive income.

As of June 30, 2010, with the exception of securities discussed above, there are no securities for which the Company currently believes it is not probable that it will collect all amounts due according to the contractual terms of the investment. Management concluded that an other-than-temporary impairment did not exist and the decline in value was attributed to the illiquidity in the financial markets. With respect to the $1.7 million in gross unrealized losses related to this portfolio, 41 securities had been in a loss position for longer than 12 months while six securities had been in a loss position for less than 12 months. However, the Company does not intend to sell these securities and it is more likely than not that the Company will not be required to sell these securities.

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

	June 30, 2010			
	Held to Maturity		Available for Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in thousands)			
Due within one year	$ -	$ -	$ -	$ -
Due after one through five years	475	476	-	-
Due after five through ten years	25,260	26,034	6,996	7,165
Due after ten years	75,985	77,095	3,998	4,047
Total	$ 101,720	$ 103,605	$ 10,994	$ 11,212

The maturity table above excludes mortgage-backed securities because the contractual maturities are not indicative of actual maturities due to significant prepayments.

4. LOANS RECEIVABLE

Loans receivable consist of the following:

	June 30, 2010	September 30, 2009
	(Dollars in Thousands)	
One-to-four family residential	$ 197,763	$ 201,396
Multi-family residential	4,046	4,178
Commercial real estate	19,531	19,907
Construction and land development	41,662	36,764
Commercial business	715	2,232
Consumer	600	586
Total loans	264,317	265,063
Undisbursed portion of loans-in-process	(8,212)	(6,281)
Deferred loan costs, net	599	644
Allowance for loan losses	(2,536)	(2,732)
Net loans	$ 254,168	$ 256,694

The following schedule summarizes the changes in the allowance for loan losses:

	Nine Months Ended June 30,	
	2010	2009
	(Dollars in Thousands)	
Balance, beginning of period	$ 2,732	$ 1,591
Provision for loan losses	495	1,173
Charge-offs	(691)	(262)
Recoveries	-	-

Balance, end of period	$ 2,536	$ 2,502

The Company established a provision for loan losses of $110,000 for the quarter ended June 30, 2010 and $495,000 for the nine month period ended June 30, 2010 as compared to $810,000 and $1.2 million for the comparable periods in 2009. The allowance for loan losses totaled $2.5 million, or 1.0% of total loans and 98.5% of non-performing loans at June 30, 2010.

At June 30, 2010, the Company's non-performing assets totaled $5.8 million or 1.1% of total assets as compared to $5.6 million or 1.1% of total assets at September 30, 2009. Non-performing assets consisted of four commercial real estate loans totaling $1.0 million, 12 one-to four-family residential mortgage loans totaling $1.3 million, one construction loan totaling $206,000 and six real estate owned properties totaling $3.2 million. The largest real estate owned property consists of a single-family residence and an adjacent lot with a book value of $1.2 million. This property is actively being marketed for sale. Four of the real estate owned properties totaling $1.7 million consist of four townhouses in the same development project. These properties are being rented at this time at sufficient levels to cover the Company's cost of operating the properties. The Company anticipates to be marketing the houses for sale when market conditions improve.

An impaired loan generally is one for which it is probable, based on current information, that the lender will not collect all the amounts due under the contractual terms of the loan. Large groups of smaller balance, homogeneous loans are collectively evaluated for impairment. Loans collectively evaluated for impairment include smaller balance commercial real estate loans, residential real estate loans and consumer loans. These loans are evaluated as a group because they have similar characteristics and performance experience. Larger commercial real estate, construction and commercial business loans are individually evaluated for impairment.

As of June 30, 2010 and September 30, 2009, the recorded investment in loans that are considered to be impaired was as follows:

	June 30, 2010	September 30, 2009
	(Dollars in thousands)	
Impaired loans with related allowance	$ 1,024	$ 1,661
Impaired loans without related allowance	$ -	$ -
Related allowance for loan losses	$ 286	$ 873

Other data for impaired loans as of June 30, 2010 and 2009 is as follow:

	For the Nine Months Ended June 30,	
	2010	2009
	(Dollars in thousands)	
Average impaired loans	$ 1,235	$ 3,678
Interest income recognized on impaired loans	$ 22	$ 54

5. DEPOSITS

Deposits consist of the following major classifications:

	June 30, 2010		September 30, 2009	
	Amount	Percent	Amount	Percent
	(Dollars in Thousands)			
Money market deposit accounts	$ 76,419	16.5 %	$ 75,349	17.4 %
NOW accounts	31,359	6.8	29,869	6.9
Passbook, club and statement savings	70,447	15.2	66,968	15.5
Certificates maturing in six months or less	74,988	16.2	120,636	27.9
Certificates maturing in more than six months	209,176	45.3	139,552	32.3
Total	$ 462,389	100.0 %	$ 432,374	100.0 %

Certificates of $100,000 and over totaled $108.5 million as of June 30, 2010 and $91.9 million as of September 30, 2009.

6. INCOME TAXES

Items that gave rise to significant portions of deferred income taxes are as follows:

	June 30, 2010	September 30, 2009
Deferred tax assets:	(Dollars in thousands)	
Unrealized loss on available for sale securities	$ -	$ 201
Deposit premium	131	167
Allowance for loan losses	910	974
Real estate owned expenses	274	469
Nonaccrual interest	-	15
Accrued vacation	54	44
Capital loss carryforward	1,873	1,873
Impairment loss	1,507	1,363
Split dollar life insurance	80	84
Post-retirement benefits	150	154
Employee benefit plans	252	246
Total deferred tax assets	5,231	5,590
Valuation allowance	(2,220)	(2,551)
Total deferred tax assets, net of valuation allowance	3,011	3,039
Deferred tax liabilities:		
Unrealized gain on available for sale securities	591	-
Property	478	480
Mortgage servicing rights	2	4

Deferred loan fees	204	212
Total deferred tax liabilities	1,275	696
Net deferred tax asset	$ 1,736	$ 2,343

16

The Company establishes a valuation allowance for deferred tax assets when management believes that the deferred tax assets are not likely to be realized either through a carry back to taxable income in prior years, future reversals of existing taxable temporary differences, and, to a lesser extent, future taxable income. The tax deduction generated by the redemption in kind of the shares of the mutual fund and the subsequent impairment charge on the assets acquired through the redemption in kind are considered a capital loss and can only be utilized to the extent of capital gains over a five year period, resulting in the establishment of a valuation allowance for the carryforward period which expires beginning in 2013. The valuation allowance totaled $2.2 million at June 30, 2010. The gross deferred asset related to impairment losses decreased by $144,000 during the nine months ended June 30, 2010 while the corresponding valuation allowance decreased by $331,000, resulting in an additional income tax benefit of $475,000 corresponding to the increase in value of available for sale mortgage-backed securities which may be sold in the future to generate capital gains.

There is currently no liability for uncertain tax positions and no known unrecognized tax benefits. The Company recognizes, when applicable, interest and penalties related to unrecognized tax benefits in the provision for income taxes in the Unaudited Consolidated Statement of Operations. During 2009, the Internal Revenue Service concluded an audit of the Company's tax returns for the year ended September 30, 2007 in which there was no change necessary to the Company's tax liability. The Company's federal and state income tax returns for taxable years through September 30, 2006 have been closed for purposes of examination by the Internal Revenue Service and the Pennsylvania Department of Revenue.

7. STOCK COMPENSATION PLANS

The Company maintains a Recognition and Retention Plan ("RRP") which is administered by a committee of the Board of Directors. The RRP provides for the grant of shares of common stock of the Company to certain officers, employees and directors of the Company. In order to fund the grant of shares under the RRP, the RRP Trust purchased 226,148 shares of the Company's common stock in the open market at a cost of approximately $2.5 million, at an average price per share of $10.85. The Company made sufficient contributions to the RRP Trust to fund these purchases. No additional purchases are expected to be made by the RRP Trust under this plan. Grants covering 178,882 shares have been awarded as part of the RRP; the remaining shares in the RRP Trust will be available for future awards. Shares subject to awards under the RRP will generally vest at the rate of 20% per year over five years. As of June 30, 2010, awards covering 34,646 shares were vested and no awards had been forfeited.

Compensation expense related to the shares subject to awards granted is recognized ratably over the five-year vesting period in an amount which totals the fair market value as of the grant date. During the three months and nine months ended June 30, 2010, $97,000 and $290,000, respectively, was recognized in compensation expense for the RRP. Tax benefits of $33,000 and $54,000, respectively, were recognized during the three and nine months ended June 30, 2010. During the three and nine months ended June 30, 2009, approximately $97,000 and $184,000, respectively, was recognized in compensation expense for the RRP. Tax benefits of $33,000 and $63,000, respectively, were recognized during the three and nine months ended June 30, 2009. At June 30, 2010, approximately $1.4 million in additional compensation expense for the shares awarded to date under the terms of the RRP remained unrecognized which is expected to be recognized over approximately the next 3.5 years.

A summary of the Company’s non-vested stock award activity for the six months ended June 30, 2010 is presented in the following table:

	Nine Months Ended June 30, 2010	
	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested stock awards at beginning of fiscal year	173,228	$ 11.17
Issued	5,654	9.53
Vested	(34,646)	11.17
Nonvested stock awards at the end of the period	144,236	$ 11.11

The Company also maintains a Stock Option Plan. The Stock Option Plan authorizes the grant of stock options to officers, employees and directors of the Company to acquire shares of common stock with an exercise price at least equal to the market value of the common stock on the grant date. Options will generally become vested and exercisable at the rate of 20% per year over five years and are generally exercisable for a period of ten years after the grant date. A total of 565,369 shares of common stock are available for future issuance pursuant to the Stock Option Plan. As of June30, 2010, 315,194 incentive stock options and 127,206 non-qualified stock options have been awarded under the plan. As of June 30, 2010, options covering 85,653 shares were vested and exercisable, while none had been forfeited.

A summary of the status of the Company’ stock options under the Stock Option Plan as of June 30, 2010 and changes during the nine month period ended June 30, 2010 are presented below:

	Nine Months Ended June 30, 2010	
	Number of Shares	Weighted Average Exercise Price
Outstanding at beginning of fiscal year	428,266	$ 11.17
Granted	14,134	9.53
Exercised	-	-
Forfeited	-	-
Outstanding at the end of the period	442,400	$ 11.12
Exercisable at the end of the period	85,653	$ 11.17

The weighted average remaining contractual term was approximately 8.5 years for options outstanding as of June 30, 2010.

The estimated fair value of options granted during fiscal 2010 was $2.76 per share. The fair value was estimated on the date of grant in accordance with FASB ASC Topic 718 using the Black-Scholes pricing model with the following weighted average assumptions used:

	June 30, 2010
Dividend yield	2.10%
Expected volatility	28.95%
Risk-free interest rate	3.10%
Expected life of options	6.5 years

Compensation expense related to the Stock Option Plan is recognized ratably over the five-year vesting period in an amount which totals the fair value at the date of grant. During the three months and nine months ended June 30, 2010, $61,000 and $181,000, respectively, was recognized in compensation expense. A tax benefit of $6,000 and $17,000, respectively, was recognized during the three and nine months ended June 30, 2010. During the three and nine months ended June 30, 2009, $59,000 and $115,000, respectively, was recognized in compensation expense for the Stock Option Plan. Tax benefits of $5,000 and $10,000, respectively, were recognized during the three and nine months ended June 30, 2009. At June 30, 2010, approximately $863,000 in additional compensation expense for options granted to date pursuant to the terms of the Stock Option Plan remained unrecognized. The weighted average period over which this expense will be recognized is approximately 3.5 years.

8. COMMITMENTS AND CONTINGENT LIABILITIES

At June 30, 2010, the Company had $7.3 million in outstanding commitments to originate fixed and variable-rate loans with market interest rates ranging from 5.00% to 7.00%. At September 30, 2009, the Company had $11.0 million in outstanding commitments to originate fixed and variable-rate loans with market interest rates ranging from 5.00% to 6.50%.

The aggregate undisbursed portion of loans-in-process amounted to $8.2 million and $6.3 million, at June 30, 2010 and September 30, 2009, respectively.

The Company also had commitments under unused lines of credit of $7.3 million and $7.7 million at June 30, 2010 and September 30, 2009, respectively, and letters of credit outstanding of $676,000 and $621,000 at June 30, 2010 and September 30, 2009, respectively.

Among the Company's contingent liabilities are exposures to limited recourse arrangements with respect to the Company's sales of whole loans and participation interests. At June 30, 2010, the exposure, which represents a portion of credit risk associated with the interests sold, amounted to $64,000. This exposure is for the life of the related loans and payables, on our proportionate share, as actual losses are incurred.

The Company is involved in various legal proceedings occurring in the ordinary course of business. Management of the Company, based on discussions with litigation counsel, believes that such proceedings will not have a material adverse effect on the financial condition, operations or cash flows of the Company. There can be no assurance that any of the outstanding legal proceedings to which the Company is a party will not be decided adversely to the Company's interests and have a material adverse effect on the financial condition and operations of the Company.

9. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is necessarily required to interpret market data to develop the estimates of fair value.

Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

	June 30, 2010		September 30, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(Dollars in thousands)			
Assets:				
Cash and cash equivalents	$ 56,627	$ 56,627	$ 13,669	$ 13,669
Investment and mortgage-backed securities held to maturity	130,102	134,198	160,126	161,968
Investment securities and mortgage-backed securities available for sale	72,893	72,893	62,407	62,407
Loans receivable, net	254,168	261,458	256,694	262,000
Accrued interest receivable:				
Loans receivable	1,428	1,428	1,419	1,419
Mortgage-backed securities	351	351	390	390
Investment securities	1,166	1,166	1,496	1,496
Federal Home Loan Bank stock	3,545	3,545	3,545	3,545
Liabilities:				
NOW accounts	31,359	31,359	29,869	29,869
Money market deposit accounts	76,419	76,419	75,349	75,349
Passbook, club and statement savings accounts	70,447	70,447	66,968	66,968
Certificates of deposit	284,164	290,190	260,188	266,192
Advances from Federal Home Loan Bank	13,626	13,757	19,659	20,294
Accrued interest payable	2,310	2,310	3,463	3,463

Cash and Cash Equivalents—For cash and cash equivalents, the carrying amount is a reasonable estimate of fair value.

Investments and Mortgage-Backed Securities—The fair value of investment securities and mortgage-backed securities is based on quoted market prices, dealer quotes, and prices obtained from independent pricing services that may be derivable from observable and unobservable market inputs.

Loans Receivable—The fair value of loans is estimated based on present value using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Accrued Interest Receivable – For accrued interest receivable, the carrying amount is a reasonable estimate of fair value.

Federal Home Loan Bank (FHLB) Stock—Although FHLB stock is an equity interest in an FHLB, it is carried at cost because it does not have a readily determinable fair value as its ownership is restricted and it lacks a market. The estimated fair value approximates the carrying amount.

NOW Accounts, Money Market Deposit Accounts, Passbook Accounts, Club Accounts, Statement Savings Accounts, and Certificates of Deposit—The fair value of passbook accounts, club accounts, statement savings accounts, NOW accounts, and money market deposit accounts is the amount reported in the financial statements. The fair value of certificates of deposit is based on a present value estimate using rates currently offered for deposits of similar remaining maturity.

Advances from Federal Home Loan Bank—The fair value of advances from FHLB is the amount payable on demand at the reporting date.

Accrued Interest Payable – For accrued interest payable, the carrying amount is a reasonable estimate of fair value.

Commitments to Extend Credit and Letters of Credit—The majority of the Bank's commitments to extend credit and letters of credit carry current market interest rates if converted to loans. Because commitments to extend credit and letters of credit are generally unassignable by either the Bank or the borrower, they only have value to the Bank and the borrower. The estimated fair value approximates the recorded deferred fee amounts, which are not significant.

10. FAIR VALUE MEASUREMENT

The fair value estimates presented herein are based on pertinent information available to management as of June 30, 2010 and September 30, 2009, respectively. Although management is not aware of any factors that would significantly affect the fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since that date and, therefore, current estimates of fair value may differ significantly from the amounts presented herein.

FASB ASC Topic 820 establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value.

The three broad levels defined by FASB ASC Topic 820 hierarchy are as follows:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Those assets which will continue to be measured at fair value on a recurring basis as of June 30, 2010 are as follows:

	Category Used for Fair Value Measurement			
	Level 1	Level 2	Level 3	Total
	(Dollars in Thousands)			
Assets:				
Securities available for sale:				
U.S. Government agency obligations	$ -	$ 11,212	$ -	$ 11,212
Mortgage-backed securities - U.S. Government agencies	-	54,613	-	$ 54,613
Mortgage-backed securities - Non-agency	-	6,982	75	7,057
FNMA and FHLMC preferred stock	11	-	-	11
Total	$ 11	$ 72,807	$ 75	$ 72,893

Those assets which continued to be measured at fair value on a recurring basis as of September 30, 2009 were as follows:

	Category Used for Fair Value Measurement			
	Level 1	Level 2	Level 3	Total
	(Dollars in Thousands)			
Assets:				
Securities available for sale:				
U.S. Government agency obligations	$ -	$ 1,982	$ -	$ 1,982
Mortgage-backed securities - U.S. Government agencies	-	52,611	-	$ 52,611
Mortgage-backed securities - Non-agency	-	7,685	82	7,767
FNMA and FHLMC preferred stock	47	-	-	47
Total	$ 47	$ 62,278	$ 82	$ 62,407

As a result of general market conditions and the illiquidity in the market for certain non-agency mortgage-backed securities, management deemed it necessary to classify certain securities as Level 3 assets. These securities were priced by a third party specialist utilizing recent prices for similar securities as inputs in the standard discounted cash flow model, adjusted for assumptions unobservable in the market.

The following provides details of the fair value measurement activity for Level 3 assets during the three months ended June 30, 2010:

	Measurements Using Significant Unobservable Inputs (Level 3) Non-agency mortgage-backed securities (Dollars in Thousands)
Balance, April 1, 2010:	$ 77
Total (losses) gains, realized/unrealized:	
Included in earnings	(5)
Included in accumulated other comprehensive loss	9
Purchases, maturities, prepayments and calls, net	(6)
Transfers from Level 3, net	-
Balance, June 30, 2010:	$ 75

22

The following provides details of the fair value measurement activity for Level 3 assets during the nine months ended June 30, 2010:

	Measurements Using Significant Unobservable Inputs (Level 3) Non-agency mortgage-backed securities (Dollars in Thousands)
Balance, October 1, 2009:	$ 82
Total (losses) gains, realized/unrealized:	
Included in earnings	(11)
Included in accumulated other comprehensive loss	25
Purchases, maturities, prepayments and calls, net	(21)
Transfers from Level 3, net	-
Balance, June 30, 2010:	$ 75

Certain assets are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). The Company measures impaired loans and loans or properties securing loans transferred into real estate owned at fair value on a non-recurring basis.

Impaired Loans

The Company considers loans to be impaired when it becomes probable that the Company will be unable to collect all amounts due in accordance with the contractual terms of the loan agreement. Under ASC 310-10-35 Receivables-Subsequent Measurement, collateral dependent impaired loans are based on the fair value of the collateral which is based on appraisals. In some cases, adjustments are made to the appraised values for various factors including age of the appraisal, age of the comparables included in the appraisal, and known changes in the market and in the collateral These adjustments are based upon unobservable inputs, and therefore, the fair value measurement has been categorized as a Level 2 measurement. Specific reserves were calculated for impaired loans with carrying amounts totaling $1.0 million at June 30, 2010. The collateral underlying these loans had a fair value of $738,000, resulting in specific reserves in the allowance for loan losses of $286,000.

Transfer of Impaired Loans into Real Estate Owned

Once an asset is determined to be uncollectible, the underlying collateral is repossessed and reclassified to foreclosed real estate and repossessed assets. These assets are carried at lower of cost or fair value of the collateral, less cost to sell. In some cases, adjustments are made to the appraised values for various factors

including age of the appraisal, age of the comparables included in the appraisal, and known changes in the market and in the collateral. These adjustments are based upon unobservable inputs, and therefore, the fair value measurement has been categorized as a Level 2 measurement.

Summary of Non-Recurring Fair Value Measurements

	At June 30, 2010 (Dollars in Thousands)			
	Level 1	Level 2	Level 3	Total
Impaired loans	$ -	$ 738	$ -	$ 738
Real estate owned	-	3,197	-	$ 3,197
Total	$ -	$ 3,935	$ -	$ 3,935

	At September 30, 2009 (Dollars in Thousands)			
	Level 1	Level 2	Level 3	Total
Impaired loans	$ -	$ 788	$ -	$ 788
Real estate owned	-	3,622	-	$ 3,622
Total	$ -	$ 4,410	$ -	$ 4,410

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our unaudited consolidated financial statements included elsewhere in this Form 10-Q and with our Annual Report on Form 10-K for the year ended September 30, 2009.

Overview. Prudential Bancorp, Inc. of Pennsylvania (the "Company") was formed by Prudential Savings Bank (the "Bank") in connection with the Bank's reorganization into the mutual holding company form of organization. The Company's results of operations are primarily dependent on the results of the Bank, which is a wholly owned subsidiary of the Company. The Company's results of operations depend to a large extent on net interest income, which primarily is the difference between the income earned on its loan and securities portfolios and the cost of funds, which is the interest paid on deposits and borrowings. Results of operations are also affected by our provisions for loan losses, non-interest income (which includes impairment charges) and non-interest expense. Non-interest expense principally consists of salaries and employee benefits, office occupancy, depreciation, data processing expense, payroll taxes and other expense. Our results of operations are also significantly affected by general economic and competitive conditions, particularly changes in interest rates, government policies and actions of regulatory authorities. Future changes in applicable laws, regulations or government policies may materially impact our financial condition and results of operations. The Bank is subject to regulation by the Federal Deposit Insurance Corporation ("FDIC") and the Pennsylvania Department of Banking (the "Department"). The Bank's main office is in Philadelphia, Pennsylvania, with six additional banking offices located in Philadelphia and Delaware Counties in Pennsylvania. The Bank's primary business consists of attracting deposits from the general public and using those funds together with borrowings to originate loans and to invest primarily in U.S. Government and agency securities and mortgage-backed securities. In November 2005, the Bank formed PSB Delaware, Inc., a Delaware corporation, as a subsidiary of the Bank. In March 2006, all mortgage-backed securities owned by the Company were transferred to PSB Delaware, Inc. PSB Delaware, Inc.'s. activities are included as part of the consolidated financial statements.

Critical Accounting Policies. In reviewing and understanding financial information for the Company, you are encouraged to read and understand the significant accounting policies used in preparing our financial statements. These policies are described in Note 2 of the Notes to Consolidated Financial Statements included in the Annual Report filed on Form 10-K for the year ended September 30, 2009. The accounting and financial reporting policies of the Company conform to accounting principles generally accepted in the United States of America ("GAAP") and to general practices within the banking industry. The preparation of the Company's consolidated financial statements 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. Management evaluates these estimates and assumptions on an ongoing basis. The following accounting policies comprise those that management believes are the most critical to aid in fully understanding and evaluating our reported financial results. These policies require numerous estimates or economic assumptions that may prove inaccurate or may be subject to variations which may significantly affect our reported results and financial condition for the period or in future periods.

24

Allowance for Loan Losses. The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged against the allowance for loan losses when management believes that the collectibility of the principal is unlikely. Subsequent recoveries are added to the allowance. The allowance for loan losses is maintained at a level that management considers adequate to provide for estimated losses and impairment based upon an evaluation of known and inherent risk in the loan portfolio. Loan impairment is evaluated based on the fair value of collateral or estimated net realizable value. It is the policy of management to provide for losses on unidentified loans in its portfolio in addition to classified loans.

Management monitors its allowance for loan losses at least quarterly and makes adjustments to the allowance through the provision for loan losses as economic conditions and other pertinent factors indicate. The quarterly review and adjustment of the qualitative factors employed in the allowance methodology and the updating of historic loss experience allow for timely reaction to emerging conditions and trends. In this context, a series of qualitative factors are used in a methodology as a measurement of how current circumstances are affecting the loan portfolio. Included in these qualitative factors are:

- Levels of past due, classified and non-accrual loans, troubled debt restructurings and modifications
- Nature and volume of loans
- Changes in lending policies and procedures, underwriting standards, collections, charge-offs and recoveries and for commercial loans, the level of loans being approved with exceptions to lending policy
- Experience, ability and depth of management and staff
- National and local economic and business conditions, including various market segments
- Quality of the Company’s loan review system and degree of Board oversight
- Concentrations of credit and changes in levels of such concentrations
- Effect of external factors on the level of estimated credit losses in the current portfolio

In determining the allowance for loan losses, management has established both specific and general pooled allowances. Values assigned to the qualitative factors and those developed from historic loss experience provide a dynamic basis for the calculation of reserve factors for both pass-rated loans (general pooled allowance) and those criticized and classified loans. Larger commercial real estate, construction and commercial business loans are individually evaluated for impairment. Loans not individually reviewed are evaluated as a group using reserve factor percentages based on historic loss experience and the qualitative factors described above. In determining the appropriate level of the general pooled allowance, management makes estimates based on internal risk ratings, which take into account such factors as debt service coverage, loan-to-value ratios, and external factors. Estimates are periodically measured against actual loss experience.

This evaluation is inherently subjective as it requires material estimates including, among others, exposure at default, the amount and timing of expected future cash flows on impaired loans, value of collateral, estimated losses on our commercial, construction and residential loan portfolios and historical loss experience. All of these estimates may be susceptible to significant change.

While management uses the best information available to make loan loss allowance evaluations, adjustments to the allowance may be necessary based on changes in economic and other conditions or changes in accounting guidance. Historically, our estimates of the allowance for loan loss have not required significant adjustments from management’s initial estimates. In addition, the Pennsylvania Department of Banking and the Federal Deposit Insurance Corporation, as an integral part of their examination processes, periodically review our allowance for loan losses. The Pennsylvania Department of Banking and the Federal Deposit Insurance Corporation may require the recognition of adjustments to the allowance for loan losses based on their judgment of information available to them at the time of their examinations. To the extent that actual outcomes differ from management’s estimates, additional provisions to the allowance for loan losses may be required that would adversely impact earnings in future periods.

Fair Value Measurements. Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated using quoted prices of securities with similar characteristics or discounted cash flows and are classified within Level 2 of the fair value hierarchy. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy. At June 30, 2009, the Company's investment in certain non-agency mortgage-backed securities were shifted from a Level 2 market value measurement to a Level 3 market value measurement. This Level 3 market value measurement included an internally developed discounted cash flow model combined with using market data points of similar securities with comparable credit ratings in addition to market yield curves with similar maturities in determining the discount rate.

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. The Company determines whether the unrealized losses are temporary in accordance with GAAP. The evaluation is based upon factors such as the creditworthiness of the issuers/guarantors, the underlying collateral, if applicable, and the continuing performance of the securities. In addition, the Company also considers the likelihood that the security will be required to be sold by a regulatory agency, our internal intent not to dispose of the security prior to maturity and whether the entire cost basis of the security is expected to be recovered. In determining whether the cost basis will be recovered, management evaluates other facts and circumstances that may be indicative of an other-than-temporary impairment condition. This includes, but is not limited to, an evaluation of the type of security, length of time and extent to which the fair value has been less than cost, and near-term prospects of the issuer.

In addition, certain assets are measured at fair value on a non-recurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). The Company measures impaired loans, FHLB stock and loans or properties transferred into real estate owned at fair value on a non-recurring basis.

Valuation techniques and models utilized for measuring financial assets and liabilities are reviewed and validated by the Company at least quarterly.

Income Taxes. The Company accounts for income taxes in accordance with GAAP. The Company records deferred income taxes that reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Management exercises significant judgment in the evaluation of the amount and timing of the recognition of the resulting tax assets and liabilities. The judgments and estimates required for the evaluation are updated based upon changes in business factors and the tax laws. If actual results differ from the assumptions and other considerations used in estimating the amount and timing of tax recognized, there can be no assurance that additional expenses will not be required in future periods.

In evaluating our ability to recover deferred tax assets, we consider all available positive and negative evidence, including our past operating results and our forecast of future taxable income. In determining future taxable income, we make assumptions for the amount of taxable income, the reversal of temporary differences and the implementation of feasible and prudent tax planning strategies. These assumptions require us to make judgments about our future taxable income and are consistent with the plans and estimates we use to manage our business. Any reduction in estimated future taxable income may require us to record an additional valuation allowance against our deferred tax assets. An increase in the valuation allowance would result in additional income tax expense in the period and could have a significant impact on our future earnings.

GAAP prescribes a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. The Company recognizes, when applicable, interest and penalties related to unrecognized tax benefits in the provision for income taxes in the consolidated income statement. Assessment of uncertain tax positions requires careful consideration of the technical merits of a position based on management's analysis of tax regulations and interpretations. Significant judgment may be involved in the assessment of the tax position.

Forward-looking Statements. In addition to historical information, this Quarterly Report on Form 10-Q includes certain "forward-looking statements" based on management's current expectations. The Company's actual results could differ materially, as such term is defined in the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, from management's expectations. Such forward-looking statements include statements regarding management's current intentions, beliefs or expectations as well as the assumptions on which such statements are based. These forward-looking statements are subject to significant business, economic and competitive

uncertainties and contingencies, many of which are not subject to the Company's control. You are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those contemplated by such forward-looking statements. Factors that could cause future results to vary from current management expectations include, but are not limited to, general economic conditions, legislative and regulatory changes, monetary and fiscal policies of the federal government, changes in tax policies, rates and regulations of federal, state and local tax authorities, changes in interest rates, deposit flows, the cost of funds, demand for loan products, demand for financial services, competition, changes in the quality or composition of the Company's loan and investment portfolios, changes in accounting principles, policies or guidelines and other economic, competitive, governmental and technological factors affecting the Company's operations, markets, products, services and fees.

The Company undertakes no obligation to update or revise any forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes to future operating results that occur subsequent to the date such forward-looking statements are made unless required by law or regulations.

Market Overview. The continued turbulence in the economy and the current financial crisis, which began in mid-2007, resulting in a housing-related credit decline, combined with a capital markets liquidity crisis that has affected the liquidity and valuation of many investment vehicles, remains a concern for the Company. The severity of the downturn in the economic conditions deteriorated into a recession during 2008 which continued through calendar 2009. Although there is growing evidence the U.S. economy is starting to recover, economic conditions remained weak during the first half of calendar 2010 with some evidence that the rate of recovery was slower than anticipated. One of the primary concerns for the Company is the slump in the housing market. While the Philadelphia area has not suffered wholesale declines in the value of residential real estate as have other areas of the country, this downturn has rippled through many parts of the economy, including construction lending and lending to contractors. Such conditions increase our exposure to the risk of non-performance in our construction and commercial loan portfolios. The Company continues to focus on the credit quality of its customers – closely monitoring the financial status of borrowers throughout the Company's markets, gathering information, working on early detection of potential problems, taking pre-emptive steps where necessary and performing the analysis required to maintain adequate reserves. These declines in real estate market values has also been a factor in determining the necessity to increase our allowance for loan losses through increased loan loss provisions.

The decline in real estate market values and the increase in defaults on the underlying collateral have caused illiquidity in the financial markets which has led to the devaluation in particular of certain non-agency securities. The Company continues to be impacted by continued pressure in the capital markets with respect to the value of our non-agency mortgage-backed securities and collateralized mortgage obligations, leading to the determination that the declines in the fair value were other-than-temporary resulting in the occurrence of other-than-temporary impairment ("OTTI") charges.

Despite the current market and economic conditions, the Company continues to maintain a strong capital position.

The following discussion provides further details on the financial condition and results of operations of the Company at and for the periods ended June 30, 2010.

COMPARISON OF FINANCIAL CONDITION AT JUNE 30, 2010 AND SEPTEMBER 30, 2009

At June 30, 2010, the Company's total assets were $538.3 million, an increase of $23.5 million from $514.8 million at September 30, 2009. The increase was almost exclusively due to an increase in cash and cash equivalents of $43.0 million, primarily due to the $30.0 million increase in deposits. Also contributing to the increase was a $3.9 increase in prepaid expenses and other assets due to an industry wide mandated pre-payment of FDIC deposit insurance premiums in fiscal 2010 with a current balance of $2.2 million and the establishment of an $1.8 million account receivable related to the sale of a real estate owned property which settled in June 2010. Partially offsetting the increases was a net decrease in the investment and mortgage-backed securities portfolio of $19.5 million due primarily to calls for redemption of investments. The proceeds were held as cash pending future deployment or used to reduce outstanding borrowings.

Total liabilities increased $22.9 million to $481.8 million at June 30, 2010 from $458.9 million at September 30, 2009 primarily as a result of a $30.0 million increase in deposits, primarily certificates of deposit. Partially offsetting the increase in deposits was a $6.0 million decrease in advances from the Federal Home Loan Bank of Pittsburgh.

Stockholders' equity increased by $580,000 to $56.4 million at June 30, 2010 from $55.9 million at September 30, 2009. The increase was primarily due to net income of $2.8 million combined with an increase in accumulated other comprehensive income of $1.5 million due to increases in market values of available for sale securities and an increase of $618,000 related to the amortization of stock benefit plans. These increases were partially offset by the cost of stock repurchases totaling $2.9 million and cash dividends on common stock aggregating $1.5 million.

COMPARISON OF RESULTS OF OPERATIONS FOR THE THREE AND NINE MONTHS ENDED JUNE 30, 2010 AND 2009

Net income. The Company reported net income of $1.3 million for the quarter ended June 30, 2010 as compared to a net loss of $226,000 for the same period in 2009. For the nine months ended June 30, 2010, the Company recognized net income of $2.8 million compared to a net loss of $1.3 million for the comparable period in 2009. The improved results of operations for the quarter and nine months ended June 30, 2010 reflected the effect of significantly reduced non-cash OTTI charges in the 2010 periods as compared to the 2009 periods with respect to certain of the non-agency mortgage-backed securities received as a result of the redemption in kind during fiscal 2008 of the Company's investment in a mutual fund. Also contributing to the improved results were reductions in the deferred tax asset valuation reserve, which reduced income tax expense incurred in the 2010 periods.

Net interest income. Net interest income increased $536,000 or 15.6% to $4.0 million for the three months ended June 30, 2010 as compared to $3.4 million for the same period in 2009. The increase reflected the effect of a $844,000 or 26.5% decrease in interest expense partially offset by a $308,000 or 4.7% decrease in interest income. The decrease in interest expense resulted primarily from an 82 basis point decrease to 2.02% in the weighted average rate paid on interest-bearing liabilities, reflecting the repricing downward of interest-bearing liabilities during the year, partially offset by a $15.8 million or 3.5% increase in the average balance of interest-bearing liabilities, primarily in certificates of deposit, for the three months ended June 30, 2010, as compared to the same period in 2009. The decrease in interest income resulted from a 29 basis point decrease to 5.13% in the weighted average yield earned on interest-earning assets partially offset by a $3.7 million or 0.8% increase in the average balance of interest-earning assets for the three months ended June 30, 2010, as compared to the same period in 2009.

For the nine months ended June 30, 2010, net interest income increased $1.3 million or 12.1% to $12.0 million as compared to $10.7 million for the same period in 2009. The increase was due to a $3.0 million or 29.4% decrease in interest expense partially offset by a $1.7 million or 8.0% decrease in interest income. The decrease in interest expense resulted primarily from a 99 basis point decrease to 2.10% in the weighted average rate paid on interest-bearing liabilities, reflecting the repricing downward of interest-bearing liabilities during the year, partially offset by a $17.7 million or 4.1% increase in the average balance of interest-bearing liabilities, primarily in certificates of deposit, for the nine months ended June 30, 2010, as compared to the same period in 2009. The decrease in interest income resulted primarily from a 49 basis point decrease to 5.23% in the weighted average yield earned on interest-earning assets partially offset by a $3.4 million or 0.7% increase in the average balance of interest-earning assets for the nine months ended June 30, 2010, as compared to the same period in 2009.

Average Balances, Net Interest Income, and Yields Earned and Rates Paid. The following table shows for the periods indicated the total dollar amount of interest from average interest-earning assets and the resulting yields, as well as the interest expense on average interest-bearing liabilities, expressed both in dollars and rates, and the net interest margin. Average yields and rates have been annualized. Tax-exempt income and yields have not been adjusted to a tax-equivalent basis. All average balances are based on monthly balances. Management does not believe that the monthly averages differ significantly from what the daily averages would be.

	Three Months Ended June 30,					
	2010			2009		
	Average Balance	Interest	Average Yield/Rate	Average Balance	Interest	Average Yield/Rate
	(Dollars in Thousands)					
Interest-earning assets:						
Investment securities	$ 123,223	$ 1,435	4.66 %	$ 125,073	$ 1,479	4.73 %
Mortgage-backed securities	91,100	1,164	5.11	93,661	1,329	5.68
Loans receivable(1)	252,876	3,706	5.86	253,435	3,806	6.01
Other interest-earning assets	24,912	7	0.11	16,235	6	0.15
Total interest-earning assets	492,111	6,312	5.13	488,404	6,620	5.42
Cash and non-interest-bearing balances	11,539			12,502		
Other non-interest-earning assets	21,608			18,454		
Total assets	$ 525,258			$ 519,360		
Interest-bearing liabilities:						
Savings accounts	$ 69,689	300	1.72	$ 65,083	313	1.92
Money market deposit and NOW accounts	105,478	283	1.07	98,892	410	1.66
Certificates of deposit	273,844	1,568	2.29	263,173	2,247	3.42
Total deposits	449,011	2,151	1.92	427,148	2,970	2.78
Advances from Federal Home Loan Bank	13,630	192	5.63	19,673	216	4.39
Advances from borrowers for taxes and insurance	1,644	1	0.24	1,661	2	0.48
Total interest-bearing liabilities	464,285	2,344	2.02	448,482	3,188	2.84
Non-interest-bearing liabilities:						
Non-interest-bearing demand accounts	2,334			3,181		
Other liabilities	3,317			6,484		

Total liabilities	469,936			458,147		
Stockholders' equity	55,322			61,213		
Total liabilities and stockholders' equity	$ 525,258			$ 519,360		
Net interest-earning assets	$ 27,826			$ 39,922		
Net interest income; interest rate spread		$ 3,968	3.11 %		$ 3,432	2.58 %
Net interest margin(2)			3.23 %			2.81 %
Average interest-earning assets to average interest-bearing liabilities		105.99 %			108.90 %	

(1) Includes non-accrual loans. Calculated net of unamortized deferred fees, undisbursed portion of loans-in-process and allowance for loan losses.

(2) Equals net interest income divided by average interest-earning assets.

	Nine Months Ended June 30,					
	2010			2009		
	Average Balance	Interest	Average Yield/Rate	Average Balance	Interest	Average Yield/Rate
	(Dollars in Thousands)					
Interest-earning assets:						
Investment securities	$123,273	$4,325	4.68 %	$124,396	$4,583	4.91 %
Mortgage-backed securities (1)	93,126	3,575	5.12	92,687	4,648	6.69
Loans receivable(2)	254,765	11,176	5.85	252,597	11,396	6.02
Other interest-earning assets (3)	15,764	13	0.11	13,896	125	1.20
Total interest-earning assets	486,928	19,089	5.23	483,576	20,752	5.72
Cash and non-interest-bearing balances	7,128			7,449		
Other non-interest-earning assets	20,258			15,377		
Total assets	$514,314			$506,402		
Interest-bearing liabilities:						
Savings accounts	$69,131	957	1.85	$64,937	1,186	2.44
Money market deposit and NOW accounts	106,210	861	1.08	95,054	1,552	2.18
Certificates of deposit	256,020	4,687	2.44	242,752	6,589	3.62
Total deposits	431,361	6,505	2.01	402,743	9,327	3.09
Advances from Federal Home Loan Bank	18,956	609	4.28	29,770	743	3.33
Advances from borrowers for taxes and insurance	1,627	4	0.33	1,733	6	0.46
Total interest-bearing liabilities	451,944	7,118	2.10	434,246	10,076	3.09
Non-interest-bearing liabilities:						
Non-interest-bearing demand accounts	2,176			3,657		
Other liabilities	4,321			3,890		
Total liabilities	458,441			441,793		
Stockholders' equity	55,873			64,609		
Total liabilities and stockholders' equity	$514,314			$506,402		
Net interest-earning assets	$34,984			$49,330		
Net interest income; interest rate spread		$11,971	3.13 %		$10,676	2.63 %
Net interest margin(4)			3.28 %			2.94 %
Average interest-earning assets to average interest-bearing liabilities		107.74 %			111.36 %	

(1)

The decrease in yield of the Company's mortgage-backed securities portfolio is primarily a result of changes in portfolio composition as well as in estimate of prepayment speed assumptions. The Company employs the effective yield method of accounting, which requires retrospective adjustments to the yield on the Company's assets, which in turn directly affects earnings. The Company estimates yield at the time of purchase of each asset. To the extent prepayment speeds assumptions differ from Company's estimates at the time of purchase, the Company is required to adjust the yield on that asset as well as the amortization of premium or discount taken to date on the asset. This cumulative "true up" of the amortization was taken through earnings in the 2009 period.

(2) Includes non-accrual loans. Calculated net of unamortized deferred fees, undisbursed portion of loans-in-process and allowance for loan losses.

(3) Yield substantially decreased due to declining overnight investment rates during the 2010 period as compared to the 2009 period.

(4) Equals net interest income divided by average interest-earning assets.

Provisions for loan losses. The allowance is maintained at a level sufficient to provide for estimated probable losses in the loan portfolio at each reporting date. At least quarterly, management performs an analysis to identify the inherent risk of loss in the Company's loan portfolio. This analysis includes a qualitative evaluation of concentrations of credit, past loss experience, current economic conditions, amount and composition of the loan portfolio (including loans being specifically monitored by management), estimated fair value of underlying collateral, delinquencies, and other factors.

Our methodology for assessing the adequacy of the allowance establishes both specific and general pooled allocations of the allowance. To determine the adequacy of the allowance and the need for potential changes to the allowance, we conduct a formal analysis quarterly to assess the risk within the loan portfolio. This assessment includes analyses of historical performance, past due trends, the level of nonperforming loans, reviews of certain impaired loans, loan activity since the last quarter, consideration of current economic conditions, and other pertinent information. Loans are assigned ratings, either individually for larger credits or in homogeneous pools, based on an internally developed grading system. The resulting conclusions are reviewed and approved by senior management.

The Company established a provision for loan losses of $110,000 for the quarter ended June 30, 2010 and $495,000 for the nine month period ended June 30, 2010 as compared to $810,000 and $1.2 million for the comparable periods in 2009. The allowance for loan losses totaled $2.5 million, or 1.0% of total loans and 98.5% of non-performing loans at June 30, 2010. At June 30, 2010, the Company's non-performing assets totaled $5.8 million or 1.1% of total assets as compared to $5.6 million or 1.1% of total assets at September 30, 2009. Non-performing assets consisted of four commercial real estate loans totaling $1.0 million, 12 one-to four-family residential mortgage loans totaling $1.3 million, one construction loan totaling $206,000 and six real estate owned properties totaling $3.2 million. The largest real estate owned property consists of a single-family residence and an adjacent lot with a book value of $1.2 million. This property is actively being marketed for sale. Four of the real estate owned properties totaling $1.7 million consist of four townhouses in the same development project. These properties are being rented at this time at sufficient levels to cover the Company's cost of operating the properties. The Company anticipates to be marketing the houses for sale when market conditions improve.

Non-interest income (loss). Non-interest income amounted to $169,000 and $250,000 for the three and nine month periods ended June 30, 2010, compared with losses of $55,000 and $2.4 million for the same periods in 2009. The losses incurred in the 2009 periods were due to OTTI charges related to the securities received as a result of the Company's redemption in kind in June 2008 of its entire investment in a mutual fund. The decline in the amount of losses recognized between the 2009 and 2010 periods reflected the decline in the amount of the OTTI charges from $256,000 and $3.1 million, respectively, for the three and nine months ended June 30, 2009 to $86,000 and $424,000, respectively, during the three and nine months ended June 30, 2010 related to the non-agency mortgage-backed securities received as part of the redemption in kind as the markets for such securities began to stabilize during the 2010 periods.

Non-interest expenses. For the quarter ended June 30, 2010, non-interest expense increased $7,000 compared to the same period in the prior year, while non-interest expense increased $90,000 for the nine month period ended June 30, 2010 compared to the same period in the prior year. The increase for the three month period ended June 30, 2010 primarily related to the loss on sale and expenses associated with a real estate owned property during the 2010 period, which were $277,000 in excess of the amount of such expenses incurred during the 2009 period. These expenses primarily related to the sale of a condominium project in which another bank had acted as the lead lender and which was classified as real estate owned during the quarter ended June 30, 2009. During the quarter ended June 30, 2010, the property was sold by the lead lender. This increase was partially offset by a decrease of $272,000 in deposit insurance premiums for the June 30, 2010 quarter from the comparable period in 2009 as there was a one-time special assessment during 2009. The increase for the nine month period ended June 30, 2010 was primarily due to increased costs related to an increase in actuarially computed contributions for the Company's defined benefit pension plan

which were $189,000 more than the amount recognized in the comparable period in 2009.   Also contributing to the higher level of non-interest expense were expenses related to the implementation and expensing of awards granted under the Company's stock benefit plans which were implemented in January 2009. These expenses were $171,000 higher in the 2010 period than the amount incurred in the comparable period in 2009 as these expense were only incurred for a portion of the 2009 period. These increases were partially offset by a decrease of $231,000 in deposit insurance premiums in June 30, 2010 from the comparable period in 2009 as the expenses in the 2009 period reflected the effect of a one-time special assessment by the FDIC.

Income tax expense. The Company recorded income an income tax benefit for the quarter ended June 30, 2010 of $41,000 and income tax expense of $915,000 for the nine month period ended June 30, 2010 compared to income tax expense of $11,000 and $419,000, respectively, for the quarter and nine months ended June 30, 2009. The benefit for the June 30, 2010 quarter was related to a reduction in the valuation allowance of the Company's deferred tax asset.

LIQUIDITY AND CAPITAL RESOURCES

The Company's liquidity, represented by cash and cash equivalents, is a product of its operating, investing and financing activities. Our primary sources of funds are from deposits, scheduled principal and interest payments on loans, loan prepayments and the maturity of loans, mortgage-backed securities and other investments, and other funds provided from operations. While scheduled payments from the amortization of loans and mortgage-backed securities and maturing investment securities are relatively predictable sources of funds, deposit flows and loan and securities prepayments can be greatly influenced by market rates of interest, economic conditions and competition. We also maintain excess funds in short-term, interest-bearing assets that provide additional liquidity. At June 30, 2010, our cash and cash equivalents amounted to $56.6 million. In addition, our available for sale investment and mortgage-backed securities amounted to an aggregate of $72.9 million at such date.

We use our liquidity to fund existing and future loan commitments, to fund maturing certificates of deposit and demand deposit withdrawals, to invest in other interest-earning assets, and to meet operating expenses. At June 30, 2010, the Company had $7.3 million in outstanding commitments to originate fixed and variable-rate loans, not including loans in process. The Company also had commitments under unused lines of credit of $7.3 million and letters of credit outstanding of $676,000 at June 30, 2010. Certificates of deposit at June 30, 2010 maturing in one year or less totaled $208.8 million. Based upon historical experience, we anticipate that a significant portion of the maturing certificates of deposit will be redeposited with us.

In addition to cash flows from loan and securities payments and prepayments as well as from sales of available for sale securities, we have significant borrowing capacity available to fund liquidity needs should the need arise. Our borrowings consist solely of advances from the Federal Home Loan Bank of Pittsburgh, of which we are a member. Under terms of the collateral agreement with the Federal Home Loan Bank, we pledge residential mortgage loans and mortgage-backed securities as well as our stock in the Federal Home Loan Bank as collateral for such advances. However, use of FHLB advances has been modest. At June 30, 2010, we had $13.6 million in outstanding FHLB advances and had the ability to obtain an additional $138.1 million in FHLB advances.

We anticipate that we will continue to have sufficient funds and alternative funding sources to meet our current commitments.

The following table summarizes the Company's and Bank's regulatory capital ratios as of June 30, 2010 and September 30, 2009 and compares them to current regulatory guidelines.

	Actual Ratio		Required for Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
June 30, 2010:						
Tier 1 capital (to average assets):						
Company	10.53	%	4.0	%	N/A	
Bank	9.58	%	4.0	%	5.0	%
Tier 1 capital (to risk weighted assets):						
Company	22.08	%	4.0	%	N/A	
Bank	20.09	%	4.0	%	6.0	%
Total capital (to risk weighted assets):						
Company	23.10	%	8.0	%	N/A	
Bank	21.10	%	8.0	%	10.0	%
September 30, 2009:						
Tier 1 capital (to average assets):						
Company	10.86	%	4.0	%	N/A	
Bank	9.99	%	4.0	%	5.0	%
Tier 1 capital (to risk weighted assets):						
Company	24.59	%	4.0	%	N/A	
Bank	22.61	%	4.0	%	6.0	%
Total capital (to risk weighted assets):						
Company	25.79	%	8.0	%	N/A	
Bank	23.81	%	8.0	%	10.0	%

IMPACT OF INFLATION AND CHANGING PRICES

The financial statements, accompanying notes, and related financial data of the Company presented herein have been prepared in accordance with generally accepted accounting principles which require the measurement of financial position and operating results in terms of historical dollars, without considering changes in the relative purchasing power of money over time due to inflation.

Unlike most industrial companies, substantially all of the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates have a more significant impact on a financial institution's performance than the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or in the same magnitude as the price of goods and services, since such prices are affected by inflation to a larger extent than interest rates. In the current interest rate environment, liquidity and the maturity structure of the Company's assets and liabilities are critical to the maintenance of acceptable performance levels.

How We Manage Market Risk. Market risk is the risk of loss from adverse changes in market prices and rates. Our market risk arises primarily from the interest rate risk which is inherent in our lending, investment and deposit gathering activities. To that end, management actively monitors and manages interest rate risk exposure. In addition to market risk, our primary risk is credit risk on our loan portfolio. We attempt to manage credit risk through our loan underwriting and oversight policies.

The principal objective of our interest rate risk management function is to evaluate the interest rate risk embedded in certain balance sheet accounts, determine the level of risk appropriate given our business strategy, operating environment, capital and liquidity requirements and performance objectives, and manage the risk consistent with approved guidelines. We seek to manage our exposure to risks from changes in interest rates while at the same time trying to improve our net interest spread. We monitor interest rate risk as such risk relates to our operating strategies. We have established an Asset/Liability Committee which is comprised of our President and Chief Executive Officer, Chief Financial Officer, Chief Lending Officer, Treasurer and Controller. The Asset/Liability Committee meets on a regular basis and is responsible for reviewing our asset/liability policies and interest rate risk position. Both the extent and direction of shifts in interest rates are uncertainties that could have a negative impact on future earnings.

In recent years, we primarily have reduced our exposure in callable agency bonds and increased our portfolio of agency issued mortgage-backed securities. However, notwithstanding the foregoing steps, we remain subject to a significant level of interest rate risk in a low interest rate environment due to the high proportion of our loan portfolio that consists of fixed-rate loans as well as our decision to invest a significant amount of our assets in long-term, fixed-rate investment and mortgage-backed securities.

Gap Analysis. The matching of assets and liabilities may be analyzed by examining the extent to which such assets and liabilities are “interest rate sensitive” and by monitoring a Company’s interest rate sensitivity “gap.” An asset or liability is said to be interest rate sensitive within a specific time period if it will mature or reprice within that time period. The interest rate sensitivity gap is defined as the difference between the amount of interest-earning assets maturing or repricing within a specific time period and the amount of interest-bearing liabilities maturing or repricing within that same time period. A gap is considered positive when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities. A gap is considered negative when the amount of interest rate sensitive liabilities exceeds the amount of interest rate sensitive assets. During a period of rising interest rates, a negative gap would tend to affect adversely net interest income while a positive gap would tend to result in an increase in net interest income. Conversely, during a period of falling interest rates, a negative gap would tend to result in an increase in net interest income while a positive gap would tend to affect adversely net interest income.

The following table sets forth the amounts of our interest-earning assets and interest-bearing liabilities outstanding at June 30, 2010, which we expect, based upon certain assumptions, to reprice or mature in each of the future time periods shown (the “GAP Table”). Except as stated below, the amounts of assets and liabilities shown which reprice or mature during a particular period were determined in accordance with the earlier of term to repricing or the contractual maturity of the asset or liability. The table sets forth an approximation of the projected repricing of assets and liabilities at June 30, 2010, on the basis of contractual maturities, anticipated prepayments, and scheduled rate adjustments within a three-month period and subsequent selected time intervals. The loan amounts in the table reflect principal balances expected to be redeployed and/or repriced as a result of contractual amortization and anticipated prepayments of adjustable-rate loans and fixed-rate loans, and as a result of contractual rate adjustments on adjustable-rate loans. Annual prepayment rates for adjustable-rate and fixed-rate single-family and multi-family residential and commercial mortgage loans are assumed to range from 7.6% to 30.0%. The annual prepayment rate for mortgage-backed securities is assumed to range from 0.5% to 85.0%. Money market deposit accounts, savings accounts and interest-bearing checking accounts are assumed to have annual rates of withdrawal, or “decay rates,” of 33.9%, 6.9% and 17.1%, respectively.

	3 Months or Less	More than 3 Months to 1 Year	More than 1 Year to 3 Years	More than 3 Years to 5 Years	More than 5 Years	Total Amount
	(Dollars in Thousands)					
Interest-earning assets(1):						
Investment and mortgage-backed securities(2)	$17,871	$33,003	$15,170	$17,690	$117,524	$201,258
Loans receivable(3)	28,001	62,313	79,288	46,967	39,536	256,105
Other interest-earning assets(4)	43,183	-	-	-	-	43,183
Total interest-earning assets	$89,055	$95,316	$94,458	$64,657	$157,060	$500,546
Interest-bearing liabilities:						
Savings accounts	$1,669	$3,679	$4,887	$2,611	$57,941	$70,787
Money market deposit and NOW accounts	2,557	7,673	20,464	23,584	50,595	104,873
Certificates of deposit	32,790	175,989	53,139	22,246	-	284,164
Advances from Federal Home Loan Bank	13,032	98	156	340	-	13,626
Advances from borrowers for taxes and insurance	1,837	-	-	-	-	1,837
Total interest-bearing liabilities	$51,885	$187,439	$78,646	$48,781	$108,536	$475,287
Interest-earning assets less interest-bearing liabilities	$37,170	$(92,123)	$15,812	$15,876	$48,524	$25,259
Cumulative interest-rate sensitivity gap (5)	$37,170	$(54,953)	$(39,141)	$(23,265)	$25,259	
Cumulative interest-rate gap as a percentage of total assets at June 30, 2010	6.91%	-10.21%	-7.27%	-4.32%	4.69%	
Cumulative interest-earning assets as a percentage of cumulative interest-bearing liabilities at June 30, 2010	171.64%	77.04%	87.69%	93.66%	105.31%	

(1) Interest-earning assets are included in the period in which the balances are expected to be redeployed and/or repriced as a result of anticipated prepayments, scheduled rate adjustments and contractual maturities.

(2) For purposes of the gap analysis, investment securities are stated at amortized cost.

(3) For purposes of the gap analysis, loans receivable includes non-performing loans and is gross of the allowance for loan losses and unamortized deferred loan fees, but net of the undisbursed portion of loans-in-process.

(4) Includes FHLB stock.

(5) Cumulative interest-rate sensitivity gap represents the difference between interest-earning assets and interest-bearing liabilities.

Certain shortcomings are inherent in the method of analysis presented in the foregoing table. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. Additionally, certain assets, such as adjustable-rate loans, have features which restrict changes in interest rates both on a short-term basis and over the life of the asset. Further, in the event of a change in interest rates, prepayment and early withdrawal levels would likely deviate significantly from those assumed in calculating the table. Finally, the ability of many borrowers to service their adjustable-rate loans may be adversely affected in the event of an interest rate increase.

Net Portfolio Value Analysis. Our interest rate sensitivity also is monitored by management through the use of a model which generates estimates of the changes in our net portfolio value ("NPV") over a range of interest rate scenarios. NPV is the present value of expected cash flows from assets, liabilities and off-balance sheet contracts. The NPV ratio, under any interest rate scenario, is defined as the NPV in that scenario divided by the market value of assets in the same scenario. The "Sensitivity Measure" is the decline in the NPV ratio, in basis points, caused by a 2% increase or decrease in rates, whichever produces a larger decline. The following table sets forth our NPV as of June 30, 2010 and reflects the changes to NPV as a result of immediate and sustained changes in interest rates as indicated.

Change in Interest Rates In Basis Points (Rate Shock)	Net Portfolio Value			NPV as % of Portfolio Value of Assets	
	Amount	$ Change	% Change	NPV Ratio	Change
	(Dollars in Thousands)				
300	$ 57,345	$ (34,090)	(37.28)%	11.82 %	(4.81)%
200	68,910	(22,525)	(24.63)%	13.61 %	(3.02)%
100	81,947	(9,488)	(10.38)%	15.48 %	(1.15)%
Static	91,435	-	-	16.63 %	-
(100)	89,117	(2,318)	(2.54)%	15.94 %	(0.69)%
(200)	86,105	(5,330)	(5.83)%	15.21 %	(1.42)%
(300)	83,278	(8,157)	(8.92)%	14.55 %	(2.08)%

At June 30, 2010, the Company's NPV was $91.4 million or 16.63% of the market value of assets. Following a 200 basis point increase in interest rates, the Company's "post shock" NPV would be $68.9 million or 13.61% of the market value of assets. The change in the NPV ratio or Company's sensitivity measure was a decline of 302 basis points.

At March 31, 2010, the Company's NPV was $62.6 million or 12.13% of the market value of assets. Following a 200 basis point increase in interest rates, the Company's "post shock" NPV would be $29.6 million or 6.30% of the market value of assets. The change in the NPV ratio or Company's sensitivity measure was a decline of 583 basis points.

As is the case with the GAP Table, certain shortcomings are inherent in the methodology used in the above interest rate risk measurements. Modeling changes in NPV requires the making of certain assumptions which may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. In this regard, the models presented assume that the composition of our interest sensitive assets and liabilities existing at the beginning of a period remains constant over the period being measured and also assumes that a particular change in interest rates is reflected uniformly across the yield curve regardless of the duration to maturity or repricing of specific assets and liabilities. Accordingly, although the NPV model provides an indication of interest rate risk exposure at a particular point in time, such model is not intended to and does not provide a precise forecast of the effect of changes in market interest rates on net interest income and will differ from actual results.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4T. CONTROLS AND PROCEDURES

Our management evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934) 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 Exchange 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 control over financial reporting (as defined in Rule 13a-15(f) or 15d-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.

PART II

Item 1. Legal Proceedings

No material changes in the matters previously disclosed in Item 3 of the Company's Annual Report on Form 10-K for the year ended September 30, 2009 has occurred.

The Company is involved in various legal proceedings occurring in the ordinary course of business. Management of the Company, based on discussions with litigation counsel, does not believe that such proceedings will have a material adverse effect on the financial condition or operations of the Company. There can be no assurance that any of the outstanding legal proceedings to which the Company is a party will not be decided adversely to the Company's interests and have a material adverse effect on the financial condition and operations of the Company.

Item 1A. Risk Factors

Not applicable

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

(a) Not applicable

(b) Not applicable

(c) There were no repurchases of common stock made during the quarter ended June 30, 2010

The Mutual Holding Company's purchases of Company common stock made during the quarter are set forth in the following table:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plan or Programs
April 1 – April 30, 2010	-	$ -	-	50,000
May 1 – May 31, 2010	-	-	-	50,000
June 1 - June 30, 2010	37,654	6.57	37,564	12,346
Total	37,654	$ 6.57	37,564	12,346

Item 3. Defaults Upon Senior Securities

Not applicable

Item 4. (Removed and Reserved)

Item 5. Other Information

Not applicable

Item 6. Exhibits

Exhibit No.	Description
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
32.0	Section 1350 Certifications

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.

PRUDENTIAL BANCORP, INC. OF PENNSYLVANIA

Date: August 16, 2010	By: /s/ Thomas A. Vento Thomas A. Vento President and Chief Executive Officer
Date: August 16, 2010	By: /s/ Joseph R. Corrato Joseph R. Corrato Executive Vice President and Chief Financial Officer