

PRUDENTIAL BANCORP INC OF PENNSYLVANIA
Form 10-Q
May 15, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2008
- OR
- 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
(State or Other Jurisdiction of Incorporation or Organization)

1834 Oregon Avenue
Philadelphia, Pennsylvania
(Address of Principal Executive Offices)

68-0593604
(I.R.S. Employer Identification No.)

19145
(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 No

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

Large accelerated Accelerated filer Non-accelerated filer Smaller reporting company

Edgar Filing: PRUDENTIAL BANCORP INC OF PENNSYLVANIA - Form 10-Q

filer

Non-accelerated (Do not check is smaller reporting Smaller reporting
filer company) company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes 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 May 9, 2008, 11,085,076 shares were issued and outstanding

PRUDENTIAL BANCORP, INC. OF PENNSYLVANIA AND SUBSIDIARIES

TABLE OF CONTENTS

	PAGE	
PART I FINANCIAL INFORMATION:		
Item 1.	Condensed Financial Statements	
	Unaudited Consolidated Statements of Financial Condition at March 31, 2008 and September 30, 2007	2
	Unaudited Consolidated Statements of Income for the Three and Six Months Ended March 31, 2008 and 2007	3
	Unaudited Consolidated Statement of Changes in Stockholders' Equity and Comprehensive Income for the Six Months Ended March 31, 2008 and 2007	4
	Unaudited Consolidated Statements of Cash Flows for the Six Months Ended March 31, 2008 and 2007	5
	Notes to Consolidated Unaudited Financial Statements	6
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	19
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	28
Item 4T.	Controls and Procedures	31
PART II OTHER INFORMATION		
Item 1.	Legal Proceedings	31
Item 1A.	Risk Factors	31
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	31
Item 3.	Defaults Upon Senior Securities	32
Item 4.	Submission of Matters to a Vote of Security Holders	33
Item 5.	Other Information	33
Item 6.	Exhibits	34
	SIGNATURES	35

PRUDENTIAL BANCORP, INC. OF PENNSYLVANIA AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	March 31 2008	September 30, 2007
	(Dollars in thousands)	
ASSETS		
Cash and amounts due from depository institutions	\$ 5,328	\$ 4,133
Interest-bearing deposits	14,055	8,136
Total cash and cash equivalents	19,383	12,269
Investment securities held to maturity (estimated fair value—March 31, 2008, \$121,763; September 30, 2007, \$133,693)	120,827	134,782
Investment securities available for sale (amortized cost—March 31, 2008, \$36,516; September 30, 2007, \$38,007)	37,139	38,343
Mortgage-backed securities held to maturity (estimated fair value—March 31, 2008, \$43,393; September 30, 2007, \$44,213)	42,936	45,534
Mortgage-backed securities available for sale (amortized cost—March 31, 2008, \$15,600; September 30, 2007, \$8,492)	15,931	8,549
Loans receivable—net of allowance for loan losses (March 31, 2008, \$658; September 30, 2007, \$1,011)	223,785	219,149
Accrued interest receivable:		
Loans receivable	1,241	1,264
Mortgage-backed securities	253	234
Investment securities	1,591	2,006
Real Estate Owned	1,598	-
Federal Home Loan Bank stock—at cost	2,063	2,397
Office properties and equipment—net	2,244	2,363
Prepaid expenses and other assets	9,053	7,274
Deferred tax asset-net	193	28
TOTAL ASSETS	\$ 478,237	\$ 474,192
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Deposits:		
Noninterest-bearing	\$ 4,735	\$ 4,480
Interest-bearing	369,664	349,558
Total deposits	374,399	354,038
Advances from Federal Home Loan Bank	22,722	33,743
Accrued interest payable	1,791	2,868
Advances from borrowers for taxes and insurance	1,249	1,117
Accounts payable and accrued expenses	2,141	913
Accrued dividend payable	509	552
Total liabilities	402,811	393,231

COMMITMENTS AND CONTINGENCIES (Note 8)

STOCKHOLDERS' EQUITY:

Preferred stock, \$.01 par value, 10,000,000 shares authorized, none issued	-	-
Common stock, \$.01 par value, 40,000,000 shares authorized, issued 12,563,750; outstanding - 11,087,766 at March 31, 2008; 11,478,366 at September 30, 2007	126	126
Additional paid-in capital	54,911	54,880
Unearned ESOP shares	(3,792)	(3,903)
Treasury stock, at cost: 1,475,984 shares at March 31, 2008; 1,085,384 shares at September 30, 2007	(19,265)	(14,372)
Retained earnings	42,817	43,971
Accumulated other comprehensive income	629	259
Total stockholders' equity	75,426	80,961
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 478,237	\$ 474,192

See notes to unaudited consolidated financial statements.

PRUDENTIAL BANCORP, INC. OF PENNSYLVANIA AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended March 31,		Six Months Ended March 31,	
	2008	2007	2008	2007
	(Dollars in Thousands Except Per Share Amounts)		(Dollars in Thousands Except Per Share Amounts)	
INTEREST INCOME:				
Interest on loans	\$ 3,589	\$ 3,786	\$ 7,224	\$ 7,611
Interest on mortgage-backed securities	757	702	1,480	1,413
Interest and dividends on investments	2,219	2,204	4,522	4,351
Total interest income	6,565	6,692	13,226	13,375
INTEREST EXPENSE:				
Interest on deposits	3,478	3,250	6,973	6,453
Interest on borrowings	289	324	689	715
Total interest expense	3,767	3,574	7,662	7,168
NET INTEREST INCOME	2,798	3,118	5,564	6,207
PROVISION FOR LOAN LOSSES	75	15	150	75
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	2,723	3,103	5,414	6,132
NON-INTEREST INCOME:				
Fees and other service charges	133	153	275	298
Impairment charge on investment securities	(1,492)	-	(1,492)	-
Other	80	68	160	233
Total non-interest income (charges)	(1,279)	221	(1,057)	531
NON-INTEREST EXPENSE:				
Salaries and employee benefits	1,158	1,147	2,311	2,263
Data processing	129	134	253	253
Professional services	472	215	557	443
Office occupancy	99	94	185	182
Depreciation	83	56	166	118
Payroll taxes	79	81	146	148
Director compensation	65	67	129	138
Other	424	328	778	599
Total non-interest expense	2,509	2,122	4,525	4,144

Edgar Filing: PRUDENTIAL BANCORP INC OF PENNSYLVANIA - Form 10-Q

(LOSS) INCOME BEFORE INCOME TAXES	(1,065)	1,202	(168)	2,519
INCOME TAXES:				
Current (benefit) expense	(71)	261	259	563
Deferred (benefit) expense	(312)	(24)	(355)	95
Total income tax (benefit) expense	(383)	237	(96)	658
NET (LOSS) INCOME	\$ (682)	\$ 965	\$ (72)	\$ 1,861
BASIC (LOSS) EARNINGS PER SHARE	\$ (0.06)	\$ 0.08	\$ (0.01)	\$ 0.16
DILUTED (LOSS) EARNINGS PER SHARE	\$ (0.06)	\$ 0.08	\$ (0.01)	\$ 0.16

See notes to unaudited consolidated financial statements.

3

PRUDENTIAL BANCORP, INC. OF PENNSYLVANIA AND SUBSIDIARIES

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

	Common Stock	Additional Paid-In Capital	Unearned ESOP Shares	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity	Comprehensive Income
(Dollars in Thousands)								
BALANCE, OCTOBER 1, 2007	\$ 126	\$ 54,880	\$ (3,903)	\$ (14,372)	\$ 43,971	\$ 259	\$ 80,961	
Comprehensive income:								
Net loss					(72)		(72)	(72)
Net unrealized holding loss on available for sale securities arising during the period, net of income tax benefit of \$317						(615)	(615)	(615)
Reclassification adjustment for other-than-temporary impairment net of tax of \$507						985	985	985
Comprehensive income								\$ 298
Treasury stock purchased				(4,893)			(4,893)	
Cash dividend declared (\$.10 per share)					(1,082)		(1,082)	
ESOP shares committed to be released	-	31	111	-	-	-	142	
BALANCE, March 31, 2008	\$ 126	\$ 54,911	\$ (3,792)	\$ (19,265)	\$ 42,817	\$ 629	\$ 75,426	

Edgar Filing: PRUDENTIAL BANCORP INC OF PENNSYLVANIA - Form 10-Q

	Common Stock	Additional Paid-In Capital	Unearned ESOP Shares	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity	Comprehensive Income
--	-----------------	----------------------------------	----------------------------	-------------------	----------------------	---	----------------------------------	-------------------------

(Dollars in thousands)

BALANCE, OCTOBER 1, 2006	\$ 126	\$ 54,798	\$ (4,127)	\$ (6,422)	\$ 42,539	\$ 534	\$ 87,448	
Comprehensive income:								
Net income					1,861		1,861	1,861
Net unrealized holding loss on available for sale securities arising during the period, net of income tax benefit of \$72						(119)	(119)	(119)
Comprehensive income								\$ 1,742
Treasury stock purchased				(3,415)			(3,415)	
Cash dividends declared (\$.09 per share)					(1,029)		(1,029)	
Cumulative adjustment related to the adoption of SAB 108					172		172	
ESOP shares committed to be released	-	42	112	-	-	-	154	
BALANCE, March 31, 2007	\$ 126	\$ 54,840	\$ (4,015)	\$ (9,837)	\$ 43,543	\$ 415	\$ 85,072	

See notes to unaudited consolidated financial statements.

4

PRUDENTIAL BANCORP, INC. OF PENNSYLVANIA AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended March 31,	
	2008	2007
(Dollars in Thousands)		
OPERATING ACTIVITIES:		
Net (loss) income	\$ (72)	\$ 1,861
Adjustments to reconcile net income to net cash used in operating activities:		
Provision for loan losses	150	75
Depreciation	166	118
Net accretion of premiums/discounts	(40)	(40)
Net accretion of deferred loan fees and costs	(134)	(201)
Impairment charge on investment securities	1,492	-
Amortization of ESOP	142	153
Income from bank owned life insurance	(98)	(106)
Deferred income tax (benefit) expense	(355)	95
Changes in assets and liabilities which used cash:		
Accounts payable and accrued expenses	1,228	(603)
Accrued interest payable	(1,077)	(1,345)
Prepaid expenses and other assets	(1,680)	(345)
Accrued interest receivable	419	(127)
Net cash provided by (used in) operating activities	141	(465)
INVESTING ACTIVITIES:		
Purchase of investment securities held to maturity	(57,943)	(14,994)
Purchase of investment available for sale	(2,000)	-
Purchase of mortgage-backed securities held to maturity	-	(1,992)
Purchase of mortgage-backed securities available for sale	(7,842)	-
Loans originated or acquired	(29,964)	(31,872)
Principal collected on loans	23,714	30,861
Principal payments received on mortgage-backed securities:		
held-to-maturity	2,621	3,769
available-for-sale	745	336
Proceeds from calls and maturities of investment securities held to maturity	71,903	15,787
Proceeds from calls and maturities of investment available for sale	1,999	-
Net proceeds from redemption of Federal Home Loan Bank stock	334	99
Purchases of equipment	(48)	(28)
Net cash provided by investing activities	3,519	1,966
FINANCING ACTIVITIES:		
Net increase (decrease) in demand deposits, NOW accounts, and savings accounts	2,412	(1,286)
Net increase in certificates of deposit	17,949	9,644
Net repayment of advances from Federal Home Loan Bank	(11,021)	(9,020)
Increase in advances from borrowers for taxes and insurance	132	38
Cash dividend paid	(1,125)	(927)
Purchase of treasury stock	(4,893)	(3,415)

Edgar Filing: PRUDENTIAL BANCORP INC OF PENNSYLVANIA - Form 10-Q

Net cash provided by (used in) financing activities	3,454	(4,966)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	7,114	(3,465)
CASH AND CASH EQUIVALENTS—Beginning of period	12,269	13,428
CASH AND CASH EQUIVALENTS—End of period	\$ 19,383	\$ 9,963
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Interest paid on deposits and advances from Federal Home Loan Bank	\$ 8,738	\$ 8,513
Income taxes paid	\$ 667	\$ 653
SUPPLEMENTAL DISCLOSURES OF NONCASH ITEMS:		
Real estate acquired in settlement of loans	\$ 1,598	\$ -

See notes to unaudited consolidated financial statements.

PRUDENTIAL BANCORP, INC. OF PENNSYLVANIA AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

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

Prudential Mutual Holding Company, a Pennsylvania-chartered mutual entity, is the mutual holding company parent of the Company. Prudential Mutual Holding Company owns 62.3% (6,910,062 shares) of the Company’s outstanding common stock as of March 31, 2008 and must always own at least a majority of the voting stock of the Company. In addition to the shares of the Company, Prudential Mutual Holding Company was capitalized with \$100,000 in cash from the Bank in connection with the completion of the reorganization. The consolidated financial statements of the Company include the accounts of the Company and the Bank. In addition, Prudential Mutual Holding Company receives dividends on the common stock of the Company that it holds. All intercompany balances and transactions have been eliminated.

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

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

The accompanying unaudited consolidated financial statements were prepared in accordance with the instructions to Form 10-Q, and therefore do not include all the information or footnotes necessary for complete financial statements in conformity with accounting principles generally accepted in the United States of America. However, all normal recurring adjustments that, in the opinion of management, are necessary for a fair presentation of the financial statements have been included. The results for the three and six months ended March 31, 2008 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2008, or any other period. These financial statements should be read in conjunction with the audited consolidated financial statements of the Company and the accompanying notes thereto for the year ended September 30, 2007 included in the Company’s Annual Report on Form 10-K for the fiscal year ended September 30, 2007.

Use of Estimates in the Preparation of Financial Statements—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. The most significant estimates and assumptions in the Company’s consolidated financial statements are

recorded in the allowance for loan losses and deferred income taxes. Actual results could differ from those estimates.

6

Dividend Payable – On March 19, 2008, the Company’s Board of Directors declared a quarterly cash dividend of \$.05 on the common stock of the Company payable on April 28, 2008 to the shareholders of record at the close of business on April 14, 2008 which resulted in a payable of \$509,000 at March 31, 2008. A portion of the cash dividend was payable to Prudential Mutual Holding Company on its shares of the Company’s common stock and totaled \$346,000.

Employee Stock Ownership Plan – In fiscal 2005, the Company established an employee stock ownership plan (“ESOP”) for substantially all of its full-time employees. The ESOP purchased 452,295 shares of the Company’s common stock for an aggregate cost of approximately \$4.5 million. Shares of the Company’s common stock purchased by the ESOP are held in a suspense account until released for allocation to participants. Shares are allocated to each eligible participant based on the ratio of each such participant’s compensation, as defined in the ESOP, to the total compensation of all eligible plan participants. As the unearned shares are released from the suspense account, the Company recognizes compensation expense equal to the fair value of the ESOP shares during the periods in which they become committed to be released. To the extent that the fair value of the ESOP shares released differs from the cost of such shares, the difference is charged or credited to equity as additional paid-in capital. As of March 31, 2008, the Company had allocated a total of 62,205 shares from the suspense account to participants and committed to release an additional 5,655 shares. In addition, at such date the amount of the shares of Company common stock held by the ESOP totaled 450,885. For the six months ended March 31, 2008, the Company recognized \$137,000 in compensation expense with respect to the ESOP.

Treasury Stock – Stock held in treasury by the Company is accounted for using the cost method, which treats stock held in treasury as a reduction to total stockholders’ equity.

Comprehensive Income—The Company presents in the unaudited consolidated statement of changes in stockholders’ equity and comprehensive income those amounts arising from transactions and other events which currently are excluded from the statement of income and are recorded directly to stockholders’ equity. For the six months March 31, 2008 and 2007, the only components of comprehensive income were net (loss) income and unrealized holding gains and losses, net of income tax expense and benefit, on available for sale securities. Comprehensive income totaled \$298,000 and \$1.7 million for the six months ended March 31, 2008 and 2007, respectively.

Recent Accounting Pronouncements – On July 13, 2006, the Financial Accounting Standards Board (“FASB”) issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"), which is effective for fiscal years beginning after December 15, 2006. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes." This Interpretation prescribes a comprehensive model for how a company should recognize, measure, present and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return. The Company adopted FIN 48 on October 1, 2007, and the adoption did not have an impact on the Company’s financial statements. The Company recognizes interest and/or penalties related to income tax matters in income tax expense. The Company did not have any amounts accrued for interest and penalties at March 31, 2008. As of October 1, 2007, the Company had no unrecognized tax benefits. The Company’s federal and state income tax returns for taxable years through September 30, 2003 have been closed for purposes of examination by the Internal Revenue Service (the “IRS”) or the Pennsylvania Department of Revenue. As of March 31, 2008, the Company is not currently being audited by and has no pending disputes with the IRS or the State of Pennsylvania on any tax matters.

In September 2006, the Emerging Issues Task Force (“EITF”) of FASB issued EITF Issue No. 06-4, “Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split Dollar Life Insurance Arrangements” (EITF 06-04). EITF 06-4 requires the recognition of a liability related to the postretirement benefits covered by an endorsement split-dollar life insurance arrangement. EITF 06-4 is effective for fiscal years beginning after December 15, 2007, with earlier application permitted. The Company is currently assessing the impact of the adoption of EITF 06-04 on its financial statements.

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

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

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

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

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

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

2.

EARNINGS PER SHARE

Basic earnings per common share is computed based on the weighted average number of shares outstanding. Diluted earnings per share is computed based on the weighted average number of shares outstanding and common share equivalents ("CSEs") that would arise from the exercise of dilutive securities. As of March 31, 2008, the Company did not issue and does not have any outstanding CSEs.

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

	For the Quarter Ended March 31, 2008		For the Quarter Ended March 31, 2007	
	Basic	Diluted	Basic	Diluted
	(Dollars in thousands except per share data)			
Net (loss) income	\$ (682)	\$ (682)	\$ 965	\$ 965
Weighted average shares outstanding used in basic earnings per share computation	10,886,071	10,886,071	11,542,235	11,542,235
Effect of CSEs	-	-	-	-
Adjusted weighted average shares used in diluted earnings per share computation	10,886,071	10,886,071	11,542,235	11,542,235
(Loss) earnings per share - basic and diluted	\$ (0.06)	\$ (0.06)	\$ 0.08	\$ 0.08
	For the Six Months Ended March 31, 2008		For the Six Months Ended March 31, 2007	
	Basic	Diluted	Basic	Diluted
	(Dollars in thousands except per share data)			
Net (loss) income	\$ (72)	\$ (72)	\$ 1,861	\$ 1,861
Weighted average shares outstanding used in basic earnings per share computation	10,972,074	10,972,074	11,585,158	11,585,158
Effect of CSEs	-	-	-	-
Adjusted weighted average shares used in diluted earnings per share computation	10,972,074	10,972,074	11,585,158	11,585,158
(Loss) earnings per share - basic and diluted	\$ (0.01)	\$ (0.01)	\$ 0.16	\$ 0.16

3. INVESTMENT SECURITIES

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

	Amortized Cost	March 31, 2008		Estimated Fair Value
		Gross Unrealized Gains (Dollars in Thousands)	Gross Unrealized Losses	
Securities held to maturity:				
Debt securities - U.S. Treasury securities and securities of U.S. Government agencies	\$ 118,377	\$ 948	\$ (17)	\$ 119,308
Debt securities - Municipal bonds	2,450	6	(1)	2,455
Total securities held to maturity	\$ 120,827	\$ 954	\$ (18)	\$ 121,763
Securities available for sale:				
Debt securities - U.S. Treasury securities and securities of U.S. Government agencies	\$ 3,000	\$ 1	\$ (24)	\$ 2,977
FNMA stock	-	3	-	3
Mutual fund	33,490	-	-	33,490
FHLMC preferred stock	26	643	-	669
Total securities available for sale	\$ 36,516	\$ 647	\$ (24)	\$ 37,139

	Amortized Cost	September 30, 2007		Estimated Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
Securities held to maturity:				
Debt securities - U.S. Treasury securities and securities of U.S. Government agencies	\$ 132,332	\$ 109	\$ (1,159)	\$ 131,282
Debt securities - Municipal bonds	2,450	1	(40)	2,411
Total securities held to maturity	\$ 134,782	\$ 110	\$ (1,199)	\$ 133,693

Securities available for
sale:

Debt securities - U.S.

Treasury securities
and securities of U.S.

Government agencies	\$	2,999	\$	-	\$	(30)	\$	2,969
FNMA stock		-		7		-		7
Mutual fund		34,982		-		(1,175)		33,807
FHLMC preferred stock		26		1,534		-		1,560
 Total securities available for sale	\$	38,007	\$	1,541	\$	(1,205)	\$	38,343

Edgar Filing: PRUDENTIAL BANCORP INC OF PENNSYLVANIA - Form 10-Q

The following table shows the gross unrealized losses and related estimated fair values of the Company's investment securities, aggregated by investment category and length of time that individual securities have been in a continuous loss position at March 31, 2008:

	Less than 12 months		More than 12 months	
	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value
(Dollars in Thousands)				
Securities held to maturity:				
U.S. Treasury and Government agencies	\$ 17	\$ 6,976	\$ -	\$ -
Municipal bonds	-	-	1	349
Total securities held to maturity	17	6,976	1	349
Securities available for sale:				
U.S. Treasury and Government agencies	24	1,977	-	-
Mutual fund	-	-	-	-
Total securities available for sale	24	1,977	-	-
Total	\$ 41	\$ 8,953	\$ 1	\$ 349

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

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

Total securities available for
sale

Total	\$	92	\$	14,899	\$	2,312	\$	121,090
-------	----	----	----	--------	----	-------	----	---------

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

At March 31, 2008, securities in a gross unrealized loss position for twelve months or longer consisted of 1 security having an aggregate depreciation of 0.4% from the Company's amortized cost basis. Securities in a gross unrealized loss position for less than twelve months consist of 6 securities having an aggregate depreciation of 0.5% from the Company's amortized cost basis. The unrealized losses disclosed above are primarily related to movement in market interest rates. Although the fair value will fluctuate as the market interest rates move, the majority of the Company's investment portfolio consists of low risk securities from U.S. government agencies or government sponsored enterprises. If held to maturity, the contractual principal and interest payments of such securities are expected to be received in full. As such, no loss in value is expected over the lives of the securities with stated maturities.

During the three month period ended March 31, 2008, due to continued decline in the market value of the mutual fund investment for a sustained period of time, the loss was deemed "other than temporary" and \$1.5 million was recorded as a reduction of non-interest income. The impairment charge was related to declines in fair value due to interest rate movements and the on-going turmoil being experienced in the mortgage markets leading to significantly reduced investor interest in mortgage-related securities.

On May 7, 2008, the asset manager of the mutual fund investment advised the Company that it has determined to activate the mutual fund's redemption-in-kind (RIK) provision to protect holders against the possibility that the mutual fund might be forced to liquidate securities at distressed price levels to satisfy redemption requests. The mutual fund has also advised the Company that it was temporarily discontinuing acceptance of new purchase orders for the fund, except for the reinvestment of dividends. This action was taken because certain mortgage-related securities held by the mutual fund have been downgraded below the funds investment guidelines applicable to purchases of securities designed for permissible investments by financial institutions.

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

	March 31, 2008			
	Held to Maturity		Available for Sale	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(Dollars in thousands)			
Due within one year	\$ 2,000	\$ 2,003	\$ -	\$ -
Due after one through five years	4,000	4,096	-	-
Due after five through ten years	30,423	30,746	-	-
Due after ten years	84,404	84,918	3,000	2,977
Total	\$ 120,827	\$ 121,763	\$ 3,000	\$ 2,977

Mutual funds had a cost and fair value of \$33.5 million as of March 31, 2008.

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

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

4. MORTGAGE-BACKED SECURITIES

Mortgage-backed securities are summarized as follows:

	March 31, 2008			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(Dollars in Thousands)			
Securities held to maturity				
GNMA pass-through certificates	\$ 39,989	\$ 592	\$ (157)	\$ 40,424
FNMA pass-through certificates	1,356	4	-	1,360
FHLMC pass-through certificates	1,591	18	-	1,609
Total securities held to maturity	\$ 42,936	\$ 614	\$ (157)	\$ 43,393
Securities available for sale				
GNMA pass-through certificates	\$ 6,842	\$ 91	\$ -	\$ 6,933
FNMA pass-through certificates	8,758	240	-	8,998
Total securities available for sale	\$ 15,600	\$ 331	\$ -	\$ 15,931

Edgar Filing: PRUDENTIAL BANCORP INC OF PENNSYLVANIA - Form 10-Q

	Amortized Cost	September 30, 2007		Estimated Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
		(Dollars in thousands)		
Securities held to maturity				
GNMA pass-through certificates	\$ 42,471	\$ 22	\$ (1,261)	\$ 41,232
FNMA pass-through certificates	1,370	-	(60)	1,310
FHLMC pass-through certificates	1,693	-	(22)	1,671
Total securities held to maturity	\$ 45,534	\$ 22	\$ (1,343)	\$ 44,213
Securities available for sale				
FNMA pass-through certificates	\$ 8,492	\$ 66	\$ (9)	\$ 8,549
Total securities available for sale	\$ 8,492	\$ 66	\$ (9)	\$ 8,549

The following table shows the gross unrealized losses and related estimated fair values of the Company's mortgage-backed securities and length of time that individual securities have been in a continuous loss position at March 31, 2008:

	Less than 12 months		More than 12 months	
	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value
	(Dollars in thousands)			
Securities held to maturity:				
GNMA pass-through certificates	\$ 7	\$ 527	\$ 150	\$ 6,251
FNMA pass-through certificates	-	-	-	-
FHLMC pass-through certificates	-	-	-	-
Total	\$ 7	\$ 527	\$ 150	\$ 6,251

At March 31, 2008, all mortgage-backed-securities available-for-sale were in an unrealized gain position.

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

	Less than 12 months		More than 12 months	
	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value
(Dollars in thousands)				
Securities held to maturity:				
GNMA pass-through certificates	\$ 129	\$ 7,968	\$ 1,132	\$ 31,050
FNMA pass-through certificates	-	-	60	1,310
FHLMC pass-through certificates	-	-	22	1,671
Total securities held to maturity	\$ 129	\$ 7,968	\$ 1,214	\$ 34,031
Securities available for sale:				
FNMA pass-through certificates		9	844	-
Total securities available for sale	\$ 9	\$ 844	\$ -	\$ -

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

At March 31, 2008, mortgage-backed securities in a gross unrealized loss position for twelve months or longer consist of 11 securities having an aggregate depreciation of 2.3% from the Company's amortized cost basis. Mortgage-backed securities in a gross unrealized loss position for less than twelve months at March 31, 2008 consists of 1 security with an aggregate depreciation of 1.3% from the Company's amortized cost basis. The unrealized losses disclosed above are primarily related to movement in market interest rates. Although the fair value will fluctuate as the market interest rates move, all of the Company's mortgage-backed securities portfolio consists of low-risk securities issued by U.S. government sponsored enterprises. If held to maturity, the contractual principal and interest payments of such securities are expected to be received in full. As such, no loss in value is expected over the lives of the securities. The Company has the ability to hold these securities until they mature and does not intend to sell the securities at a loss.

Based on the above, management believes that the unrealized losses are temporary. The determination of whether a decline in market value is temporary is necessarily a matter of subjective judgment. The timing and amount of any realized losses reported in the Company's financial statements could vary if conclusions other than those made by management were to determine whether an other-than-temporary impairment exists.

5. LOANS RECEIVABLE

Loans receivable consist of the following:

	March 31, 2008	September 30, 2007
	(Dollars in Thousands)	
One-to-four family residential	\$ 166,227	\$ 159,945
Multi-family residential	2,932	4,362
Commercial real estate	19,921	18,019
Construction and land development	51,028	52,429
Commercial business	357	155
Consumer	808	832
 Total loans	 241,273	 235,742
Undisbursed portion of loans-in-process	(17,141)	(15,897)
Deferred loan fees	311	315
Allowance for loan losses	(658)	(1,011)
 Net	 \$ 223,785	 \$ 219,149

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

	Six Months Ended March 31, 2008	September 30, 2007
	(Dollars in Thousands)	
Balance, beginning of period	\$ 1,011	\$ 618
Provision for loan losses	150	75
Charge-offs	(503)	-
Recoveries	-	-
 Balance, end of period	 \$ 658	 \$ 693

Nonperforming loans (which consist of nonaccrual loans and loans in excess of 90 days delinquent and still accruing interest) at March 31, 2008 and September 30, 2007 amounted to approximately \$297,000 and \$2.6 million, respectively.

6. DEPOSITS

Deposits consist of the following major classifications:

	March 31, 2008		September 30, 2007	
	Amount	Percent	Amount	Percent
	(Dollars in Thousands)			
Money market deposit accounts	\$ 68,487	18.3%	\$ 63,675	18.0%
NOW accounts	27,932	7.5	28,895	8.2
Passbook, club and statement savings	69,465	18.6	70,903	20.0
Certificates maturing in six months or less	100,925	27.0	101,615	28.7
Certificates maturing in more than six months	107,590	28.6	88,950	25.1
Total	\$ 374,399	100.0%	\$ 354,038	100.0%

At March 31, 2008 and September 30, 2007, the weighted average cost of deposits was 3.6% and 3.9%, respectively.

7. INCOME TAXES

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

	March 31, 2008	September 30, 2007
	(Dollars in thousands)	
Deferred tax assets:		
Securities impairment	\$ 507	\$ -
Deposit premium	241	265
Allowance for loan losses	259	378
Employee stock ownership plan	94	79
Total	1,101	722
Deferred tax liabilities:		
Unrealized gain on available for sale securities	324	134
Property	472	446
Mortgage servicing rights	7	8
Deferred loan fees	105	106
Total	908	694
Net deferred tax asset	\$ 193	\$ 28

8. COMMITMENTS AND CONTINGENT LIABILITIES

At March 31, 2008, the Company had \$11.7 million in outstanding commitments to originate fixed and variable-rate loans with market interest rates ranging from 5.5% to 8.5%. At September 30, 2007, the Company had \$10.4 million in outstanding commitments to originate fixed and variable-rate loans with market interest rates ranging from 6.625% to 9.25%.

The Company also had commitments under unused lines of credit of \$6.7 million and \$7.2 million at March 31, 2007 and September 30, 2007, respectively, and letters of credit outstanding of \$95,000 at both March 31, 2008 and September 30, 2007.

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 March 31, 2008, 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 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. For additional information, see Part II, Item I Legal Proceedings in this Form 10-Q.

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

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 in March 2005. 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 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 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 on Form 10-K for the year ended September 30, 2007 filed with the SEC. The accounting and financial reporting policies of the Company conform to accounting principles generally accepted in the United States of America 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.

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 is an amount that management believes will cover known and inherent losses in the loan portfolio, based on evaluations of the collectibility of loans. The evaluations take into consideration such factors as changes in the types and amount of loans in the loan portfolio, historical loss experience, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, estimated losses relating to specifically identified loans, and current economic conditions. 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 affected loans, value of collateral, estimated losses on our commercial, construction and residential loan portfolios and general amounts for 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 Department and the FDIC, as an integral part of their examination processes, periodically review our allowance for loan losses. The Department and the FDIC 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.

Income Taxes. We make estimates and judgments to calculate some of our tax liabilities and determine the recoverability of some of our deferred tax assets, which arise from temporary differences between the tax and financial statement recognition of revenues and expenses. We also estimate a reserve for deferred tax assets if, based on the available evidence, it is more likely than not that some portion or all of the recorded deferred tax assets will not be realized in future periods. These estimates and judgments are inherently subjective. In the past, our estimates and judgments to calculate our deferred tax accounts have not required significant revision to our initial estimates.

The Company accounts for income taxes in accordance with SFAS No. 109, Accounting for Income Taxes, and FASB Interpretation ("FIN") No. 48. SFAS No. 109 requires the recording of 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. On October 1, 2007, the Company incorporated FIN No. 48 with its existing accounting policy. FIN No. 48 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.

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.

COMPARISON OF FINANCIAL CONDITION AT MARCH 31, 2008 AND SEPTEMBER 30, 2007

At March 31, 2008, the Company's total assets were \$478.2 million, an increase of \$4.0 million from \$474.2 million at September 30, 2007. The increase was primarily attributable to an increase in interest-bearing deposits, mortgage-backed securities available for sale and net loans receivable offset in part by net repayments in the investment and mortgage-backed security portfolios. Management chose to use the proceeds from these repayments to repay higher cost short-term advances from the Federal Home Loan Bank (FHLB).

Total liabilities increased \$9.6 million to \$402.8 million at March 31, 2008 from \$393.2 million at September 30, 2007. The increase was primarily due to a \$20.4 million increase in deposits, mainly in certificates of deposit. The increase was offset by the repayment of FHLB advances which decreased by \$11.0 million, from \$33.7 million at September 30, 2007 to \$22.7 million at March 31, 2008.

Stockholders' equity decreased by \$5.5 million to \$75.4 million at March 31, 2008 as compared to \$81.0 million at September 30, 2007 primarily as a result of the \$4.9 million cost of repurchasing 390,600 shares of common stock during the six month period and the declaration of quarterly cash dividends totaling \$1.1 million.

COMPARISON OF RESULTS OF OPERATIONS FOR THE THREE AND SIX MONTHS ENDED MARCH 31, 2008 AND 2007

Net income. The Company reported a net loss of \$682,000 for the quarter ended March 31, 2008 as compared to net income of \$965,000 for the same period in 2007. For the six months ended March 31, 2008, the Company recognized a net loss of \$72,000 compared to net income of \$1.9 million for the comparable period in 2007. The net loss reported for both the three and six months ended March 31, 2008 was due to the recognition of a \$1.5 million (pre-tax) impairment charge taken with respect to the Company's \$35.0 million investment in a mutual fund. The impairment charge reflected the determination that the decline in fair value in such investment was other than temporary and reflected the continued decline in the value of the underlying mortgage-related securities held by such mutual fund during the first quarter of calendar 2008. The impairment charge was related to declines in fair value due to interest rate movements and the on-going turbulence being experienced in the mortgage markets leading to significantly reduced investor interest in mortgage-related securities. The impairment charge reduced earnings and earnings per share by \$985,000, or \$0.09 per share for the three and six month periods ended March 31, 2008. On May 7, 2008, the asset manager of the mutual fund investment advised the Company that it has determined to activate the mutual fund's redemption-in-kind (RIK) provision to protect holders against the possibility that the mutual fund might be forced to liquidate securities at distressed price levels to satisfy redemption requests. The mutual fund has also advised the Company that it was temporarily discontinuing acceptance of new purchase orders for the fund, except for the reinvestment of dividends. This action was taken because certain mortgage-related securities held by the mutual fund have been downgraded below the funds investment guidelines applicable to purchases of securities designed for permissible investments by financial institutions.

Net interest income. Net interest income decreased \$320,000 or 10.3% to \$2.8 million for the three months ended March 31, 2008 as compared to \$3.1 million for the same period in 2007. The decrease reflected the effects of a \$193,000 or 5.4% increase in interest expense combined with a \$127,000 or 1.9% decrease in interest income. The increase in interest expense resulted primarily from a \$15.7 million or 4.2% increase in the average balance of interest-bearing liabilities for the three months ended March 31, 2008, as compared to the same period in 2007. Also contributing to the increase in interest expense was a 5 basis point increase to 3.88% in the weighted average rate paid on interest-bearing liabilities, due primarily to the continued increase in the average balance of certificates of deposit, which generally pay a higher rate of interest than other deposit products. The decrease in interest income resulted primarily from a 17 basis point decrease in the weighted average yield earned on such assets to 5.77% for the quarter ended March 31, 2008 from the comparable period in 2007, partially offset by a \$4.5 million or 1.0% increase in the average balance of interest-earning assets for the three months ended March 31, 2008, as compared to the same period in 2007.

For the six months ended March 31, 2008, net interest income decreased \$643,000 or 10.4% to \$5.6 million as compared to \$6.2 million for the same period in 2007. The decrease was due to the combined effects of a \$494,000 or 6.9% increase in interest expense and a \$149,000 or 1.1% decrease in interest income. The increase in interest expense resulted primarily from a \$13.8 million or 3.7% increase in the average balance of interest-bearing liabilities for the six months ended March 31, 2008, as compared to the same period in 2007. Also contributing to the increase in interest expense was a 12 basis point increase to 3.97% in the weighted average rate paid on interest-bearing liabilities, due primarily to the continued increase in the average balance of certificates of deposit, which generally pay a higher rate of interest than other deposit products. The decrease in interest income resulted primarily from an 11 basis point decrease in the weighted average yield earned on such assets to 5.80% for the six months ended March 31, 2008 from the comparable period in 2007 partially offset by a \$3.4 million or 0.8% increase in the average balance of interest-earning assets for the six months ended March 31, 2008, as compared to the same period in 2007.

For the quarter ended March 31, 2008, the net interest margin was 2.46%, as compared to 2.77% for the comparable period in 2007. For the six months ended March 31, 2008, the net interest margin was 2.44%, as compared to 2.74% for the comparable period in 2007. The compression in the net interest margin primarily reflected an increase in the rate paid on the interest-bearing liabilities combined with a decrease in the yield earned on interest-earning assets. The decline in the yield earned on interest-earning assets reflected in large part the effects of the decline in market rates of interest in recent periods.

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. 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 March 31,					
	Average Balance	2008 Interest	Average Yield/Rate	Average Balance	2007 Interest	Average Yield/Rate
(Dollars in Thousands)						
Interest-earning assets:						
Investment securities	\$ 167,103	\$ 2,174	5.20%	\$ 171,141	\$ 2,153	5.03%
Mortgage-backed securities	57,086	757	5.30	53,732	702	5.23
Loans receivable(1)	223,496	3,589	6.42	220,080	3,786	6.88
Other interest-earning assets	7,667	45	2.35	5,868	51	3.48
Total interest-earning assets	455,352	6,565	5.77	450,821	6,692	5.94
Cash and non-interest-bearing balances	4,723			4,883		
Other non-interest-earning assets	12,254			11,300		
Total assets	\$ 472,329			\$ 467,004		
Interest-bearing liabilities:						
Savings accounts	\$ 66,526	399	2.40	\$ 72,223	526	2.91
Money market deposit and NOW accounts	91,741	748	3.26	95,909	837	3.49
Certificates of deposit	204,218	2,329	4.56	179,347	1,884	4.20
Total deposits	362,485	3,476	3.84	347,479	3,247	3.74
Advances from Federal Home Loan Bank	24,254	289	4.77	23,611	324	5.49
Advances from borrowers for taxes and insurance	1,820	2	0.44	1,782	3	0.67
Total interest-bearing liabilities	388,559	3,767	3.88	372,872	3,574	3.83
Non-interest-bearing liabilities:						
Non-interest-bearing demand accounts	4,807			4,850		
Other liabilities	723			2,181		
Total liabilities	394,089			379,903		

Edgar Filing: PRUDENTIAL BANCORP INC OF PENNSYLVANIA - Form 10-Q

Stockholders' equity	78,240		87,101	
Total liabilities and stockholders' equity	\$ 472,329		\$ 467,004	
Net interest-earning assets	\$ 66,793		\$ 77,949	
Net interest income; interest rate spread	\$ 2,798	1.89%	\$ 3,118	2.11%
Net interest margin(2)		2.46%		2.77%
Average interest-earning assets to average interest-bearing liabilities		117.19%		120.91%

(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.

Edgar Filing: PRUDENTIAL BANCORP INC OF PENNSYLVANIA - Form 10-Q

	Six Months Ended March 31,					
	2008			2007		
	Average Balance	Interest	Average Yield/Rate	Average Balance	Interest	Average Yield/Rate
(Dollars in Thousands)						
Interest-earning assets:						
Investment securities	\$ 169,794	\$ 4,411	5.20%	\$ 172,196	\$ 4,258	4.95%
Mortgage-backed securities	55,830	1,480	5.30%	54,035	1,413	5.23%
Loans receivable(1)	222,195	7,224	6.50%	220,652	7,611	6.90%
Other interest-earning assets	8,037	111	2.76%	5,530	93	3.36%
Total interest-earning assets	455,856	13,226	5.80%	452,413	13,375	5.91%
Cash and non-interest-bearing balances	4,379			4,636		
Other non-interest-earning assets	12,333			11,368		
Total assets	\$ 472,568			\$ 468,417		
Interest-bearing liabilities:						
Savings accounts	\$ 67,006	776	2.32%	\$ 73,667	1,114	3.02%
Money market deposit and NOW accounts	91,310	1,548	3.39%	95,060	1,673	3.52%
Certificates of deposit	199,059	4,645	4.67%	176,495	3,662	4.15%
Total deposits	357,375	6,969	3.90%	345,222	6,449	3.74%
Advances from Federal Home Loan Bank	27,456	689	5.02%	25,792	715	5.54%
Advances from borrowers for taxes and insurance	1,641	4	0.49%	1,614	4	0.50%
Total interest-bearing liabilities	386,472	7,662	3.97%	372,628	7,168	3.85%
Non-interest-bearing liabilities:						
Non-interest-bearing demand accounts	4,845			5,201		
Other liabilities	1,619			3,138		
Total liabilities	392,936			380,967		
Stockholders' equity	79,630			87,450		
Total liabilities and Stockholders' equity	\$ 472,566			\$ 468,417		
Net interest-earning assets	\$ 69,384			\$ 79,785		
Net interest income; interest rate spread		\$ 5,564	1.84%		\$ 6,207	2.06%
Net interest margin(2)			2.44%			2.74%
Average interest-earning assets to average interest-bearing liabilities						
		117.95%			121.41%	

(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.

23

Provisions for loan losses. Provisions for loan losses are charged to earnings to maintain the total allowance for loan losses at a level believed by management to cover all known and inherent losses in the loan portfolio which are both probable and reasonably estimable. Management's analysis includes consideration of the Company's historical experience, the volume and type of lending conducted by the Company, the amount of the Company's classified and criticized assets, the status of past due principal and interest payments, general economic conditions, particularly as they relate to the Company's primary market area, and other factors related to the collectibility of the Company's loan portfolio. The Company established a provision for loan losses of \$75,000 for the quarter ended March 31, 2008 and \$150,000 for the six month period ended March 31, 2008 as compared to \$15,000 and \$75,000 for the comparable periods in 2007. The provisions in the 2008 periods were primarily increased due to a \$2.1 million single family construction loan which became real estate owned during the quarter ended March 31, 2008 through execution of a deed in lieu of foreclosure. At the time the loan was re-classified as real estate owned, the allowance was charged \$68,000 to record the asset at its fair value.

At March 31, 2008, the Company's non-performing assets totaled \$1.9 million, or 0.4% of total assets and consisted of the one real estate owned property noted above recorded at \$1.6 million and four single-family residential real estate loans totaling \$297,000. The allowance for loan losses totaled \$658,000, or 0.3% of total loans and 221.55% of non-performing loans at March 31, 2008.

Management continues to review its loan portfolio to determine the extent, if any, to which further additional loss provisions may be deemed necessary. There can be no assurance that the allowance for losses will be adequate to cover losses which may in fact be realized in the future and that additional provisions for losses will not be required.

The secondary mortgage market has been adversely impacted in recent periods and through the filing date of this Form 10-Q by deteriorating investor demand for mortgage loan products, particularly with regard to subprime products, as investors are tightening credit standards and offering less favorable pricing. At both March 31, 2008 and September 30, 2007, the Company had no real estate loans that would be considered subprime loans, which are defined as mortgage loans advanced to borrowers who do not qualify for loans bearing market interest rates because of problems with their credit history. The Bank does not originate subprime loans. The Bank's lending standards are discussed in Item 1 of the Annual Report on Form 10-K for the fiscal year ended September 30, 2007.

Non-interest income (charges). Non-interest income decreased by \$1.5 million and \$1.6 million, respectively, for the three and six month periods of 2008 compared with the same periods in 2007. The decrease was due to the previously mentioned \$1.5 million non-cash impairment charge related to the determination that the decline in value of the Company's \$35.0 million mutual fund portfolio was other than temporary. The Company attributes the decrease in the Net Asset Value of the investment to a widening of the spreads in the bond market for mortgage related securities due to instability in the mortgage markets. The impairment charge was related to declines in fair value due to interest rate movements and the significant reduction in investor interest in mortgage-related securities in recent periods. As of May 12, 2008, the fair value of the fund shares held by the Company decreased by approximately an additional \$843,000 (pre-tax). The Company investment in the mutual fund earned an annualized return of 4.9% for the six months ended March 31, 2008 before giving effect to the impairment charge.

Non-interest expenses. For the quarter and six months ended March 31, 2008, non-interest expense increased \$387,000 and \$381,000, respectively, compared to the same periods in the prior year. The increases were primarily due to increases in professional fees and other non-interest expenses. The majority of the increase in professional fees and other non-interest expense was related to expenses associated with the defense of a previously disclosed lawsuit commenced in October 2006 by a shareholder, Stilwell Value Partners I, L.P., and increased costs incurred in connection with being a public company. As of March 31, 2008, claims for \$348,000 which have not yet been evaluated by the insurance carrier have been submitted for reimbursement which related to expenses incurred by the Company in defense of this lawsuit. In prior quarters, a substantial portion of the legal expenses were reimbursed by the insurance carrier. Any reimbursement from the insurance carrier with respect to such claims would be recorded as

a reduction in non-interest expense in the period received.

Income tax expense. The Company recognized income tax benefits for the quarter and six months ended March 31, 2008 of \$383,000 and \$96,000, respectively, compared to income tax expense of \$237,000 and \$658,000, respectively, for the quarter and six months ended March 31, 2007. The recognition of income tax benefits in the 2008 periods was primarily due to the net loss before taxes incurred as a result of the write-down of the value of the Company's mutual fund portfolio

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 March 31, 2008, our cash and cash equivalents amounted to \$19.4 million. In addition, our available for sale investment and mortgage-backed securities amounted to an aggregate of \$53.1 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 March 31, 2008, the Company had \$11.7 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 \$6.7 million and letters of credit outstanding of \$95,000 at March 31, 2008. Certificates of deposit at March 31, 2008 maturing in one year or less totaled \$153.0 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 flow 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 March 31, 2008, we had \$22.7 million in outstanding FHLB advances and we had \$258.0 million in additional FHLB advances available to us.

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

At March 31, 2008, the Company had no collateral underlying mortgage-backed securities that would be considered to be subprime loans. All mortgage-backed securities owned by the Company as of March 31, 2008 possessed the highest possible investment credit rating excluding certain mortgage-related securities held by the mutual fund which have been downgraded below the funds investment guidelines applicable to purchases of securities designed for permissible investments by financial institutions.

The following table summarizes the Company and Bank's regulatory capital ratios as of March 31, 2008 and September 30, 2007 and compares them to current regulatory guidelines.

	Actual Ratio	Required for Capital Adequacy Purposes	To Be Well Capitalized Under Prompt Corrective Action Provisions
March 31, 2008:			
Tier 1 capital (to average assets)			
The Company	15.84%	4.0%	N/A
The Bank	14.65%	4.0%	5.0%
Tier 1 capital (to risk weighted assets)			
The Company	35.90%	4.0%	N/A
The Bank	32.46%	4.0%	6.0%
Total capital (to risk weighted assets)			
The Company	36.36%	8.0%	N/A
The Bank	32.91%	8.0%	10.0%
September 30, 2007:			
Tier 1 capital (to average assets)			
The Company	17.08%	4.0%	N/A
The Bank	15.52%	4.0%	5.0%
Tier 1 capital (to risk weighted assets)			
The Company	37.88%	4.0%	N/A
The Bank	34.22%	4.0%	6.0%
Total capital (to risk weighted assets)			
The Company	38.43%	8.0%	N/A
The Bank	34.77%	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 requires 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.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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 utilized the following strategies in our efforts to manage interest rate risk:

- we have increased our originations of shorter term loans and/or loans with adjustable rates of interest, particularly construction and land development loans;

- we have invested in securities with “step-up” rate features providing for increased interest rates prior to maturity according to a pre-determined schedule and formula; and

- we have maintained moderate levels of short-term liquid assets.

However, notwithstanding the foregoing steps, we remain subject to a significant level of interest rate risk in a rising 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 designated as held to maturity. In addition, our interest rate spread and margin have been adversely affected due to the flat yield curve. Likewise, our unwillingness to originate long-term, fixed-rate residential mortgage loans at low rates has resulted in borrowers in many cases refinancing loans elsewhere, requiring us to reinvest the resulting proceeds from the loan payoffs at low current market rates of interest. Thus, both of these strategies have increased our interest rate risk.

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 March 31, 2008, 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 March 31, 2008, 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 8.8% to 20.0%. The annual prepayment rate for mortgage-backed securities is assumed to range from 0.9% to 62.5%. Money market deposit accounts, savings accounts and interest-bearing checking accounts are assumed to have annual rates of withdrawal, or "decay rates," based on information from the FDIC. For savings accounts and checking accounts, the decay rates are 60% in one to three years, 20% in three to five years and 20% in five to 10 years. For money market accounts, the decay rates are 50% in three to 12 months and 50% in 13 to 36 months.

	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 securities(2)	\$ 29,646	\$ 19,723	\$ 11,073	\$ 0	\$ 96,901	\$ 157,343
Mortgage-backed securities	2,760	7,490	15,028	10,411	22,847	58,536
Loans receivable(3)	40,660	39,982	60,238	35,275	47,977	224,132
Other interest earning assets	16,118	-	-	-	-	16,118
Total interest-earning assets	\$ 89,184	\$ 67,195	\$ 86,339	\$ 45,686	\$ 167,725	\$ 456,129
Interest-bearing liabilities:						
Savings accounts	\$ 333	\$ 228	\$ 40,124	\$ 13,375	\$ 13,375	\$ 67,435
Money market deposit and NOW accounts	-	34,243	49,385	5,048	5,048	93,724
Certificates of deposits	52,180	100,760	30,058	25,506	-	208,504
Advances from Federal Home Loan Bank	9,020	62	13,170	130	340	22,722
Advances from borrowers for taxes and insurance	1,249	-	-	-	-	1,249
Total interest-bearing liabilities	\$ 62,782	\$ 135,293	\$ 132,737	\$ 44,059	\$ 18,763	\$ 393,634
Interest-earning assets less interest-bearing liabilities	\$ 26,402	\$ (68,098)	\$ (46,398)	\$ 1,627	\$ 148,962	\$ 62,495
Cumulative interest-rate sensitivity gap (4)	\$ 26,402	\$ (41,696)	\$ (88,094)	\$ (86,467)	\$ 62,495	
Cumulative interest-rate gap as a						

percentage of total assets at March 31, 2008	5.52%	-8.72%	-18.42%	-18.08%	13.07%
---	-------	--------	---------	---------	--------

Cumulative interest-earning assets as a percentage of cumulative interest- bearing liabilities at March 31, 2008	142.05%	78.95%	73.37%	76.93%	115.88%
--	---------	--------	--------	--------	---------

- (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 undisbursed portion of loans-in-process.
- (4) Interest-rate sensitivity gap represents the difference between net 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 following table sets forth our NPV as of March 31, 2008 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	\$ 41,222	\$ (38,789)	(48.48)%	9.68%	(6.97)%
200	53,327	(26,684)	(33.35)%	12.03%	(4.62)%
100	66,874	(13,137)	(16.42)%	14.47%	(2.18)%
Static	80,011	-	-	16.65%	-
(100)	82,292	2,281	2.85%	16.85%	0.20%
(200)	79,071	(940)	(1.17)%	16.10%	(0.55)%
(300)	77,365	(2,646)	(3.31)%	15.65%	(1.00)%

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 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(e) 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

On October 4, 2006, Stilwell Value Partners I, L.P. (“Stilwell”) filed suit in the United States District Court for the Eastern District of Pennsylvania against Prudential Mutual Holding Company (the “MHC”), Prudential Bancorp, Inc. of Pennsylvania (the “Company”) and each of the directors of the MHC and the Company individually seeking equitable relief including (i) enjoining the Company and the directors from allowing the MHC to participate in any shareholder vote to consider the adoption of proposed stock option and stock recognition and retention plans (collectively, the “Stock Plans”) and (ii) enjoining MHC from participating in any shareholder vote to approve the Stock Plans. In the event that the MHC and the Company are not enjoined, Stilwell is seeking damages, the amount to be determined at trial.

Stilwell alleged that the Company’s prospectus used to solicit offers to purchase shares of the Company’s common stock in connection with the mutual holding reorganization of Prudential Savings Bank “promised” that the Stock Plans would be submitted for consideration only by the Company’s public shareholders and not by the MHC which controls a majority of the Company’s issued and outstanding shares of common stock and that Stilwell relied on such promise in determining to invest in the common stock of the Company (a “promissory estoppel” claim). Stilwell also alleged that the individual directors violated their fiduciary duties to Stilwell by delaying the consideration of the Stock Plans until such time that MHC could vote its shares on the Stock Plans assuring their approval by shareholders. In addition, Stilwell asserted claims for “unjust enrichment” and for “disenfranchisement.” On November 20, 2006, the Company, the MHC and the director defendants filed a motion to dismiss the complaint, asserting, among other things, that the prospectus contained no “promise,” implied or otherwise, that the MHC would never vote on the adoption of the Stock Plans and that the breach of fiduciary duty claim, with respect to the timing of any such vote, is legally insufficient. On August 15, 2007, the Court ruled that there was no express promise of the sort that would support a promissory estoppel claim, no “unconscionability” of the sort that would support an unjust enrichment claim, and no “fundamental unfairness” of the sort that would support a claim for “disenfranchisement.” The Court also ruled that Stilwell does not have standing to assert claims for breach of fiduciary duty against the directors individually. Accordingly, the Court dismissed all of the claims against the Company and the individual directors and all but one of the claims against the MHC. The Court dismissed the claims with prejudice which prevents Stilwell from reasserting such claims in amended form.

The only claim remaining is a breach of fiduciary duty claim asserted against the MHC as majority shareholder. Discovery has been substantially completed. Trial on the remaining claim has been scheduled to commence in June 2008.

The Company believes Stilwell's remaining claim is without merit and the remaining defendant, the MHC, intends to vigorously defend the case. However, no prediction can be made as to the outcome of the one remaining claim.

Other than the above referenced litigation, 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 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

There were no material changes from the risk factors described in the Company’s annual report on Form 10-K for the year ended September 30, 2007.

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

(a) Not applicable

31

(b) Not applicable

(c) Purchases of Equity Securities

The Company's repurchases of its 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(1)(2)
January 1 – January 31, 2008	34,000	\$ 12.34	34,000	266,840
February 1 – February 29, 2008	25,100	12.54	25,100	241,740
March 1 - March 31, 2008	223,840	12.55	223,840	17,900
Total	282,940	\$ 12.52	282,940	17,900

Notes to the table

- (1) On August 15, 2007, the Company announced its fifth stock repurchase program to repurchase 230,500 shares or approximately 5% of the Company's outstanding common stock held by shareholders other than Prudential Mutual Holding Company. Such program commenced in August 2007 and was completed during March 2008.
- (2) On January 22, 2008, the Company announced its sixth stock repurchase program to repurchase up to 220,000 shares or approximately 5% of the Company's outstanding common stock held by shareholders other than Prudential Mutual Holding Company. The program commenced upon completion of the fifth stock repurchase program. In addition, the Prudential Mutual Holding Company announced that its Board of Directors also approved the purchase of 220,000 shares or approximately 5% of the Company's common stock held by shareholders other than Prudential Mutual Holding Company.

Item 3. Defaults Upon Senior Securities

Not applicable

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

On February 4, 2008, the Company held its annual meeting of shareholders and submitted two proposals to shareholders on behalf of the Company's Board of Directors (the election of directors and the ratification of the appointment of the Company's independent registered public accounting firm for fiscal 2008). Shareholders of record as of December 19, 2007, received proxy materials and were considered eligible to on these proposals at the annual meeting. At the annual meeting, 11,393,306 shares of common stock of the Company were outstanding on the record date and eligible to be voted at the meeting. The Stilwell Group conducted a solicitation in opposition to the nominees for re-election as directors nominated by the Company's Board of Directors and in connection therewith solicited proxies withholding votes in favor of management's nominees. The Stilwell Group did not oppose the ratification of the appointment of Deloitte & Touche LLP as the Company's independent registered public accounting firm. Members of the Company's Board of Directors not up for election and continuing in office after the annual meeting were John P. Judge, Thomas A. Vento, Jerome R. Balka, Esq. and A.J. Fanelli.

A total of 10,564,723 shares of common were present in person or by proxy at the annual meeting. The following is a brief summary of each proposal and the result of the vote at the annual meeting:

1. The following directors were elected by the requisite plurality of the votes cast to serve on the Company's Board of Directors:

Nominees	For	Withheld
Francis V. Mulcahy	7,849,602	2,715,121
Joseph W. Packer, Jr.	7,646,365	2,918,358

2. To ratify the appointment of Deloitte & Touche LLP as the Company's independent registered public accounting firm for the fiscal year ended September 30, 2008.

For	Against	Abstain
10,537,451	22,153	5,119

There were no broker non-votes at the annual meeting

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

34

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: May 15, 2008

By: /s/ Thomas A. Vento
Thomas A. Vento
President and Chief
Executive Officer

Date: May 15, 2008

By: /s/ Joseph R. Corrato
Joseph R. Corrato
Executive Vice President and Chief Financial Officer