Magyar Bancorp, Inc.
Form 10-Q
August 12, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

þ QUARTERLY REPORT UNDER SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2016

Commission File Number **000-51726**

Magyar Bancorp, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**20-4154978**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)
400 Somerset Street, New Brunswick, New Jersey	**08901**
(Address of Principal Executive Office)	(Zip Code)

(732) 342-7600

(Issuer'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 past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes þ No o

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

Yes þ No o

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 the definitions of “large accelerated filer,” “accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

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

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

Yes o No þ

State the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at August 1, 2016
Common Stock, $0.01 Par Value	5,820,746

MAGYAR BANCORP, INC.

Form 10-Q Quarterly Report

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PART I. FINANCIAL INFORMATION

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

MAGYAR BANCORP, INC. AND SUBSIDIARY

Consolidated Balance Sheets

(In Thousands, Except Share and Per Share Data)

	June 30, 2016 (Unaudited)	September 30, 2015
Assets		
Cash	$ 1,227	$ 1,081
Interest earning deposits with banks	14,685	17,027
Total cash and cash equivalents	15,912	18,108
Investment securities - available for sale, at fair value	5,565	6,064
Investment securities - held to maturity, at amortized cost (fair value of $56,495 and $53,248 at June 30, 2016 and September 30, 2015, respectively)	55,391	52,614
Federal Home Loan Bank of New York stock, at cost	2,464	2,025
Loans receivable, net of allowance for loan losses of $2,900 and $2,886 at June 30, 2016 and September 30, 2015, respectively	439,533	420,596
Bank owned life insurance	11,184	10,962
Accrued interest receivable	1,741	1,703
Premises and equipment, net	18,259	17,818
Other real estate owned ("OREO")	13,725	16,192
Other assets	4,395	4,483
Total assets	$ 568,169	$ 550,565
Liabilities and Stockholders' Equity		
Liabilities		
Deposits	$ 472,146	$ 466,269
Escrowed funds	1,706	1,301
Federal Home Loan Bank of New York advances	41,040	31,594
Accrued interest payable	142	102
Accounts payable and other liabilities	5,632	4,630

Total liabilities	520,666	503,896
Stockholders' equity		
Preferred stock: $.01 Par Value, 1,000,000 shares authorized; none issued	—	—
Common stock: $.01 Par Value, 8,000,000 shares authorized; 5,923,742 issued; 5,820,746 and 5,819,494 shares outstanding at June 30, 2016 and September 30, 2015, respectively	59	59
Additional paid-in capital	26,271	26,275
Treasury stock: 102,996 and 104,248 shares at June 30, 2016 and September 30, 2015, respectively, at cost	(1,152)	(1,166)
Unearned Employee Stock Ownership Plan shares	(658)	(752)
Retained earnings	23,983	23,252
Accumulated other comprehensive loss	(1,000)	(999)
Total stockholders' equity	47,503	46,669
Total liabilities and stockholders' equity	$ 568,169	$ 550,565

The accompanying notes are an integral part of these consolidated financial statements.

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MAGYAR BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Operations

(In Thousands, Except Per Share Data)

	For the Three Months Ended June 30,		For the Nine Months Ended June 30,	
	2016	2015	2016	2015
	(Unaudited)			
Interest and dividend income				
Loans, including fees	$4,767	$4,476	$13,870	$13,359
Investment securities				
Taxable	397	347	1,216	1,008
Federal Home Loan Bank of New York stock	22	19	70	62
Total interest and dividend income	5,186	4,842	15,156	14,429
Interest expense				
Deposits	682	605	2,078	1,802
Borrowings	185	174	547	555
Total interest expense	867	779	2,625	2,357
Net interest and dividend income	4,319	4,063	12,531	12,072
Provision for loan losses	420	346	889	936
Net interest and dividend income after provision for loan losses	3,899	3,717	11,642	11,136
Other income				
Service charges	233	297	775	738
Income on bank owned life insurance	73	77	221	229
Other operating income	34	35	101	91
Gains on sales of loans	223	90	466	415
Gains on sales of investment securities	10	—	72	42
Total other income	573	499	1,635	1,515
Other expenses				
Compensation and employee benefits	2,140	2,030	6,335	6,090
Occupancy expenses	679	701	2,013	2,137
Professional fees	247	270	747	823

Data processing expenses	118	109	362	403
OREO expenses	239	107	743	349
FDIC deposit insurance premiums	193	178	570	535
Loan servicing expenses	46	65	160	222
Insurance expense	66	61	188	175
Other expenses	343	331	975	1,100
Total other expenses	4,071	3,852	12,093	11,834
Income before income tax expense	401	364	1,184	817
Income tax expense	149	119	444	243
Net income	$252	$245	$740	$574
Net income per share-basic and diluted	$0.04	$0.04	$0.13	$0.10

The accompanying notes are an integral part of these consolidated financial statements.

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MAGYAR BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Comprehensive Income

(In Thousands)

	For the Three Months Ended June 30,		For the Nine Months Ended June 30,	
	2016	2015	2016	2015
	(Unaudited)			
Net income	$252	$245	$740	$574
Other comprehensive (loss) income				
Net unrealized gain (loss) on securities available for sale	34	(54)	70	123
Less: reclassification for realized gains on sales of securities available for sale	(10)	—	(72)	(42)
Other comprehensive income (loss), before tax	24	(54)	(2)	81
Deferred income tax effect	(8)	19	1	(29)
Total other comprehensive income (loss)	16	(35)	(1)	52
Total comprehensive income	$268	$210	$739	$626

The accompanying notes are an integral part of these consolidated financial statements.

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MAGYAR BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Changes in Stockholders' Equity

For the Nine Months Ended June 30, 2016 and 2015

(In Thousands, Except for Share Amounts)

	Common Stock Shares Outstanding	Par Value	Additional Paid-In Capital	Treasury Stock	Unearned ESOP Shares	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	(Unaudited)							
Balance, September 30, 2015	5,819,494	$59	$26,275	$(1,166)	$(752)	$23,252	$(999)	$46,669
Net income	—	—	—	—	—	740	—	740
Other comprehensive loss	—	—	—	—	—	—	(1)	(1)
Treasury stock used for restricted stock plan	1,252	—	(5)	14	—	(9)	—	—
ESOP shares allocated	—	—	(2)	—	94	—	—	92
Stock-based compensation expense	—	—	3	—	—	—	—	3
Balance, June 30, 2016	5,820,746	$59	$26,271	$(1,152)	$(658)	$23,983	$(1,000)	$47,503

The accompanying notes are an integral part of these consolidated financial statements.

	Common Stock Shares Outstanding	Par Value	Additional Paid-In Capital	Treasury Stock	Unearned ESOP Shares	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	(Unaudited)							
Balance, September 30, 2014	5,815,444	$59	$26,295	$(1,211)	$(877)	$22,382	$(716)	$45,932
Net income	—	—	—	—	—	574	—	574
Other comprehensive income	—	—	—	—	—	—	52	52
Treasury stock used for restricted stock plan	4,050	—	(18)	45	—	(27)	—	—
ESOP shares allocated	—	—	(13)	—	93	—	—	80
Stock-based compensation expense	—	—	10	—	—	—	—	10
Balance, June 30, 2015	5,819,494	$59	$26,274	$(1,166)	$(784)	$22,929	$(664)	$46,648

The accompanying notes are an integral part of these consolidated financial statements.

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MAGYAR BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows

(In Thousands)

	For the Nine Months Ended June 30,	
	2016	2015
	(Unaudited)	
Operating activities		
Net income	$ 740	$ 574
Adjustment to reconcile net income to net cash provided by operating activities		
Depreciation expense	576	665
Premium amortization on investment securities, net	148	196
Provision for loan losses	889	936
Provision for loss on other real estate owned	270	25
Proceeds from the sales of loans	6,171	5,646
Gains on sale of loans	(466)	(415)
Gains on sales of investment securities	(72)	(42)
Losses (gains) on the sales of other real estate owned	155	(23)
ESOP compensation expense	92	80
Stock-based compensation expense	3	10
Deferred income tax expense	400	295
Increase in accrued interest receivable	(38)	(12)
Increase in surrender value bank owned life insurance	(221)	(229)
Increase in other assets	(312)	(326)
Increase (decrease) in accrued interest payable	40	(12)
Increase in accounts payable and other liabilities	1,002	147
Net cash provided by operating activities	9,377	7,515
Investing activities		
Net increase in loans receivable	(18,364)	(21,286)
Purchases of loans receivable	(8,991)	(949)
Purchases of investment securities held to maturity	(10,565)	(9,700)
Purchases of investment securities available for sale	(6,482)	—
Sales of investment securities available for sale	6,298	5,421
Principal repayments on investment securities held to maturity	7,664	4,561
Principal repayments on investment securities available for sale	729	597
Purchases of premises and equipment	(157)	(77)
Investment in other real estate owned	(155)	(390)
Proceeds from the sale of other real estate owned	3,161	4,833
Purchase of Federal Home Loan Bank stock	(439)	(782)
Net cash used by investing activities	(27,301)	(17,772)
Financing activities		

Net increase (decrease) in deposits	5,877	(3,343)
Net increase in escrowed funds	405	205
Proceeds from long-term advances	6,706	6,763
Repayments of long-term advances	(2,260)	(5,000)
Net change in short-term advances	5,000	15,850
Repayments of securities sold under agreements to repurchase	—	(5,000)
Net cash provided by financing activities	15,728	9,475
Net decrease in cash and cash equivalents	(2,196)	(782)
Cash and cash equivalents, beginning of period	18,108	10,258
Cash and cash equivalents, end of period	$ 15,912	$ 9,476
Supplemental disclosures of cash flow information		
Cash paid for		
Interest	$ 2,585	$ 2,369
Income taxes	$ 4	$ 14
Non-cash investing activities		
Real estate acquired in full satisfaction of loans in foreclosure	$ 1,824	$ 2,850
OREO transferred to premises and equipment	$ 860	$ —

The accompanying notes are an integral part of these consolidated financial statements.

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MAGYAR BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(Unaudited)

NOTE A – BASIS OF PRESENTATION

The consolidated financial statements include the accounts of Magyar Bancorp, Inc. (the “Company”), its wholly owned subsidiary, Magyar Bank (the “Bank”), and the Bank’s wholly owned subsidiaries Magyar Service Corporation, Hungaria Urban Renewal, LLC, and MagBank Investment Company. All material intercompany transactions and balances have been eliminated. The Company prepares its financial statements on the accrual basis and in conformity with accounting principles generally accepted in the United States of America ("US GAAP"). The unaudited information furnished herein reflects all adjustments (consisting of normal recurring accruals) that are, in the opinion of management, necessary to a fair statement of the results for the interim periods presented.

Operating results for the three and nine months ended June 30, 2016 are not necessarily indicative of the results that may be expected for the year ending September 30, 2016. The September 30, 2015 information has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by US GAAP for complete financial statements.

The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the valuation of other real estate owned, and the assessment of realizability of deferred income tax assets.

The Company has evaluated events and transactions occurring subsequent to the balance sheet date of June 30, 2016 for items that should potentially be recognized or disclosed in these consolidated financial statements. The evaluation was conducted through the date these consolidated financial statements were issued.

NOTE B- RECENT ACCOUNTING PRONOUNCEMENTS

In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers* (*Topic 606*), which will supersede the current revenue recognition requirements in Topic 605, *Revenue Recognition*. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. In August 2015, the FASB issued ASU 2015-14 which deferred the effective date of ASU 2014-09 by one year. The new guidance will be effective for public companies for periods beginning after December 15, 2017. The ASU permits application of the new revenue recognition guidance to be applied using one of two retrospective application methods. The Company has not yet determined which application method it will use or the potential effects of the new standard on the financial statements, if any. The Company is currently assessing the impacts this new standard will have on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which will supersede the current lease requirements in Topic 840. The ASU requires lessees to recognize a right of use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of income. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease related expenses in the statements of operations and cash flows will be generally consistent with the current guidance. The new guidance will be effective for years beginning after December 15, 2018 for public companies. Once effective, the standard will be applied using a modified retrospective transition method to the beginning of the earliest period presented. The Company is currently assessing the impacts this new standard will have on its consolidated financial statements.

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In March 2016, the FASB issued ASU No. 2016-09, *Compensation – Stock Compensation (Topic 718)*. This ASU was issued as part of FASB's Simplification Initiative. The areas for simplification in this Update include income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows for share-based payment transactions. For public companies, this ASU will be effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted. The Company is currently assessing the impacts this new standard will have on its consolidated financial statements.

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-13, *Financial Instruments - Credit Losses*. ASU 2016-13 requires entities to report "expected" credit losses on financial instruments and other commitments to extend credit rather than the current "incurred loss" model. These expected credit losses for financial assets held at the reporting date are to be based on historical experience, current conditions, and reasonable and supportable forecasts. This ASU will also require enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an entity's portfolio. These disclosures include qualitative and quantitative requirements that provide additional information about the amounts recorded in the financial statements. For public business entities that are U.S. Securities and Exchange Commission filers, the amendments are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company is currently evaluating the impact the adoption of ASU 2016-13 will have on its consolidated financial statements and results of operations.

NOTE C - CONTINGENCIES

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

NOTE D - EARNINGS PER SHARE

Basic and diluted earnings per share for the three and nine months ended June 30, 2016 and 2015 were calculated by dividing net income by the weighted-average number of shares outstanding for the period considering the effect of diluted equity options and stock awards for the diluted earnings per share calculations.

	For the Three Months Ended June 30,		For the Nine Months Ended June 30,	
	2016	2015	2016	2015
	(In thousands except for per share data)			
Income applicable to common shares	$ 252	$ 245	$ 740	$ 574

Weighted average number of common shares outstanding - basic	5,820	5,819	5,820	5,818
Stock options and restricted stock	—	—	—	—
Weighted average number of common shares and common share equivalents - diluted	5,820	5,819	5,820	5,818
Basic earnings per share	$ 0.04	$ 0.04	$ 0.13	$ 0.10
Diluted earnings per share	$ 0.04	$ 0.04	$ 0.13	$ 0.10

Options to purchase 188,276 shares of common stock at a weighted average price of $14.61 were outstanding and not included in the computation of diluted earnings per share for the three and nine months ended June 30, 2016 and June 30, 2015 because the grant (or option strike) price was greater than the average market price of the common shares during the period and are thus anti-dilutive.

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NOTE E – STOCK-BASED COMPENSATION AND STOCK REPURCHASE PROGRAM

The Company follows FASB Accounting Standards Codification ("ASC") Section 718, Compensation-Stock Compensation, which covers a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. ASC 718 requires that compensation cost relating to share-based payment transactions be recognized in financial statements. The cost is measured based on the fair value of the equity or liability instruments issued.

Stock options generally vest over a five-year service period and expire ten years from issuance. The fair values of all option grants were estimated using the Black-Scholes option-pricing model. Since there was limited historical information on the volatility of the Company's stock, management also considered the average volatilities of similar entities for an appropriate period in determining the assumed volatility rate used in the estimation of fair value. Management estimated the expected life of the options using the simplified method allowed under SAB No. 107. The 7-year Treasury yield in effect, at the time of the grant, provided the risk-free rate for periods within the contractual life of the option. Management recognizes compensation expense for the fair values of these awards, which have graded vesting, on a straight-line basis over the vesting period of the awards. Once vested, these awards are irrevocable. Shares will be obtained from either the open market or treasury stock upon share option exercise.

Restricted shares generally vest over a five-year service period on the anniversary of the grant date. Once vested, these awards are irrevocable. The product of the number of shares granted and the grant date market price of the Company's common stock determine the fair value of restricted shares under the Company's restricted stock plans. Management recognizes compensation expense for the fair value of restricted shares on a straight-line basis over the vesting period of the awards.

The following is a summary of the status of the Company's stock option activity and related information for its option plan for the nine months ended June 30, 2016 and 2015, respectively:

	Number of Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Balance at September 30, 2015	188,276	$ 14.61	1.4 years	$ —
Granted	—	—		
Exercised	—	—		
Forfeited	—	—		
Balance at June 30, 2016	188,276	$ 14.61	0.7 years	$ —
Exercisable at June 30, 2016	188,276	$ 14.61	0.7 years	$ —

	Number of Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Balance at September 30, 2014	188,276	$ 14.61	2.4 years	$ —
Granted	—	—		
Exercised	—	—		
Forfeited	—	—		
Balance at June 30, 2015	188,276	$ 14.61	1.7 years	$ —
Exercisable at June 30, 2015	188,276	$ 14.61	1.7 years	$ —

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The following is a summary of the Company's non-vested restricted stock awards as of June 30, 2016 and 2015 and changes during the nine months ended June 30, 2016 and 2015:

	Number of Stock Awards	Weighted Average Grant Date Fair Value
Balance at September 30, 2015	1,252	$ 4.30
Granted	—	—
Vested	(1,252)	4.30
Forfeited	—	—
Balance at June 30, 2016	—	$ —

	Number of Stock Awards	Weighted Average Grant Date Fair Value
Balance at September 30, 2014	5,302	$ 4.41
Granted	—	—
Vested	(4,050)	4.50
Forfeited	—	—
Balance at June 30, 2015	1,252	$ 4.30

Stock option and stock award expenses included with compensation expense were $0 and $2,688, respectively, for the nine months ended June 30, 2016.

The Company announced in November 2007 its second stock repurchase program of up to 5% of its publicly-held outstanding shares of common stock, or 129,924 shares. Through June 30, 2016, the Company had repurchased a total of 81,000 shares of its common stock at an average cost of $8.33 per share under this program. No shares were repurchased during the nine months ended June 30, 2016 and 2015, respectively. Under the stock repurchase program, 48,924 shares of the 129,924 shares authorized remained available for repurchase as of June 30, 2016. The Company's intended use of the repurchased shares is for general corporate purposes, including the funding of awards granted under the 2006 Equity Incentive Plan. The Company has 102,996 total treasury stock shares at June 30, 2016, of which 81,000 were from repurchases under this program.

The Company has an Employee Stock Ownership Plan ("ESOP") for the benefit of employees of the Company and the Bank who meets the eligibility requirements as defined in the plan. The ESOP trust purchased 217,863 shares of common stock in the open market using proceeds of a loan from the Company. The total cost of shares purchased by the ESOP trust was $2.3 million, reflecting an average cost per share of $10.58. The Bank will make cash contributions to the ESOP on an annual basis sufficient to enable the ESOP to make the required loan payments to the Company. The loan bears a variable interest rate that adjusts annually every January 1st to the then published Prime

Rate (3.50% at January 1, 2016) with principal and interest payable annually in equal installments over thirty years. The loan is secured by shares of the Company's stock.

As the debt is repaid, shares are released as collateral and allocated to qualified employees. Accordingly, the shares pledged as collateral are reported as unearned ESOP shares in the Consolidated Balance Sheets. As shares are released from collateral, the Company reports compensation expense equal to the then current market price of the shares, and the shares become outstanding for earnings per share computations.

At June 30, 2016, shares allocated to participants totaled 140,881. Unallocated ESOP shares held in suspense totaled 76,982 at June 30, 2016 and had a fair market value of $762,122. The Company's contribution expense for the ESOP was $92,000 and $80,000 for the nine months ended June 30, 2016 and 2015, respectively.

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NOTE F – OTHER COMPREHENSIVE INCOME (LOSS)

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

	Three Months Ended June 30,					
	2016			2015		
	Before Tax Amount	Tax Benefit (Expense)	Net of Tax Amount	Before Tax Amount	Tax Benefit (Expense)	Net of Tax Amount
	(Dollars in thousands)					
Unrealized holding gain arising during period on:						
Available-for-sale investments	$34	$ (12)	$ 22	$(54)	$ 19	$ (35)
Less reclassification adjustment for net realized on available-for-sale investments (a) (b)	(10)	4	(6)	—	—	—
Other comprehensive income (loss), net	$24	$ (8)	$ 16	$(54)	$ 19	$ (35)

Nine Months Ended June 30,					
2016			2015		
Before Tax Amount	Tax Benefit (Expense)	Net of Tax Amount	Before Tax Amount	Tax Benefit (Expense)	Net of Tax Amount