

WILLIAM PENN BANCORP INC  
Form 10-Q  
February 16, 2010

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

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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 December 31, 2009

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 0-53172

WILLIAM PENN BANCORP, INC.  
(Exact name of registrant as specified in its charter)

United States  
(State or other jurisdiction of  
incorporation or organization)

37-1562563  
(I.R.S. Employer  
Identification No.)

8150 Route 13, Levittown, Pennsylvania  
(Address of principal executive offices)

19057  
(Zip Code)

(215) 945-1200  
(Registrant's telephone number, including area code)

Not applicable  
(Former name, former address and former fiscal year, if changed since last report)

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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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:

Large accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting  
company)

Accelerated filer

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  
“ No

As of February 16, 2010, there were 3,641,018 shares of the issuer’s common stock outstanding.

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WILLIAM PENN BANCORP, INC.  
QUARTERLY REPORT ON FORM 10-Q

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## PART I – FINANCIAL INFORMATION

Item 1. Financial Statements  
William Penn Bancorp, Inc.

## Consolidated Balance Sheets

(Dollars in thousands, except share and per share data)

|  | December 31,<br>2009<br>(unaudited) | June 30,<br>2009  |
|--|-------------------------------------|-------------------|
| <b>ASSETS</b>  |                                     |                   |
| Cash and due from banks  | \$ 16,283                           | \$ 15,855         |
| Interest bearing time deposits   | 1,518                               | 2,524             |
| Securities available for sale  | 15,970                              | 10                |
| Securities held to maturity, for value of \$42,654 and \$59,603\$                                    | 42,094                              | 59,015            |
| Loans receivable, net of allowance for loan losses of \$2,342 and \$2,180, respectively              | 231,025                             | 219,939           |
| Premises and equipment, net  | 2,065                               | 1,953             |
| Federal Home Loan Bank stock, at cost  | 4,932                               | 4,932             |
| Deferred income taxes  | 1,924                               | 2,052             |
| Accrued interest receivable and other assets   | 2,582                               | 1,748             |
| Real estate owned  | 428                                 | 206               |
| <b>TOTAL ASSETS</b>  | <b>\$ 318,821</b>                   | <b>\$ 308,234</b> |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                                     |                   |
| <b>LIABILITIES</b>   |                                     |                   |
| Deposits:  |                                     |                   |
| Non-interest bearing   | \$ 1,290                            | \$ 2,916          |
| Interest bearing   | 172,616                             | 164,176           |
| Total deposits   | 173,906                             | 167,092           |
| Advances from Federal Home Loan Bank   | 92,000                              | 89,000            |
| Advances from borrowers for taxes and insurance  | 1,450                               | 2,157             |
| Accrued interest payable and other liabilities   | 2,674                               | 3,078             |
| <b>TOTAL LIABILITIES</b>   | <b>270,030</b>                      | <b>261,327</b>    |
| <b>STOCKHOLDERS' EQUITY</b>  |                                     |                   |
| Preferred stock, no par value, 1,000,000 shares authorized; no shares issued                         | —                                   | —                 |
| Common stock, \$.10 par value, 49,000,000 shares authorized; 3,641,018 shares issued and outstanding | 364                                 | 364               |
| Additional paid-in capital   | 9,796                               | 9,781             |
| Unallocated common stock held by the Employee Stock Ownership Plan ("ESOP")                          | (699 )                              | (743 )            |
| Retained earnings  | 39,199                              | 37,505            |
| Accumulated other comprehensive income   | 131                                 | —                 |
| <b>TOTAL STOCKHOLDERS' EQUITY</b>  | <b>48,791</b>                       | <b>46,907</b>     |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>  | <b>\$ 318,821</b>                   | <b>\$ 308,234</b> |

See accompanying notes to the unaudited consolidated financial statements

William Penn Bancorp, Inc.

Consolidated statement of income  
(Dollars in thousands, except share and per share data)

|  | Three months ended<br>December 31, |              | Six months ended<br>December 31, |                |
|--|------------------------------------|--------------|----------------------------------|----------------|
|  | 2009                               | 2008         | 2009                             | 2008           |
|  | (unaudited)                        |              | (unaudited)                      |                |
| <b>INTEREST INCOME</b>   |                                    |              |                                  |                |
| Loans receivable, including fees                               | \$3,507                            | \$3,341      | \$6,864                          | \$6,554        |
| Taxable securities   | 591                                | 695          | 1,237                            | 1,469          |
| Exempt from federal income tax                                 | 2                                  | -            | 5                                | -              |
| Other  | 20                                 | 85           | 41                               | 196            |
| Total Interest Income  | 4,120                              | 4,121        | 8,147                            | 8,219          |
| <b>INTEREST EXPENSE</b>  |                                    |              |                                  |                |
| Deposits   | 807                                | 1,171        | 1,653                            | 2,390          |
| Borrowings   | 963                                | 969          | 1,938                            | 1,850          |
| Total Interest Expense   | 1,770                              | 2,140        | 3,591                            | 4,240          |
| Net Interest Income  | 2,350                              | 1,981        | 4,556                            | 3,979          |
| Provision For Loan Losses                                      | 92                                 | 62           | 186                              | 62             |
| <b>NET INTEREST INCOME AFTER PROVISION<br/>FOR LOAN LOSSES</b> | <b>2,258</b>                       | <b>1,919</b> | <b>4,370</b>                     | <b>3,917</b>   |
| <b>OTHER INCOME</b>  |                                    |              |                                  |                |
| Service fees   | 37                                 | 39           | 66                               | 68             |
| Realized gain on sale of<br>available for sale securities      | 7                                  | -            | 77                               | -              |
| Other  | 54                                 | 32           | 95                               | 69             |
| Total Other Income   | 98                                 | 71           | 238                              | 137            |
| <b>OTHER EXPENSES</b>  |                                    |              |                                  |                |
| Salaries and employee benefits                                 | 616                                | 555          | 1,186                            | 1,091          |
| Occupancy and equipment  | 161                                | 162          | 322                              | 312            |
| FDIC deposit insurance premium                                 | 52                                 | 7            | 103                              | 14             |
| Professional fees  | 26                                 | 18           | 69                               | 123            |
| Other  | 251                                | 237          | 393                              | 407            |
| Total Other Expenses   | 1,106                              | 979          | 2,073                            | 1,947          |
| Income before Income Taxes                                     | 1,250                              | 1,011        | 2,535                            | 2,107          |
| Income Tax Expenses  | 412                                | 336          | 842                              | 702            |
| <b>NET INCOME</b>  | <b>\$838</b>                       | <b>\$675</b> | <b>\$1,693</b>                   | <b>\$1,405</b> |

|   |        |        |        |        |
|---|--------|--------|--------|--------|
| Basic and diluted earnings per share (Note 5) | \$0.23 | \$0.19 | \$0.47 | \$0.39 |
|---|--------|--------|--------|--------|

See accompanying notes to the unaudited consolidated financial statements



William Penn Bancorp, Inc.

## Consolidated Statements of Cash Flows (In Thousands)

|   | Six Months Ended<br>December 31, |           |
|---|----------------------------------|-----------|
|   | 2009                             | 2008      |
| Cash Flows from Operating Activities  | (Unaudited)                      |           |
| Net income  | \$1,693                          | \$1,405   |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                  |           |
| Provision for loan losses   | 186                              | 62        |
| Provision for depreciation  | 89                               | 80        |
| Net amortization (accretion) of securities premiums and discounts                 | 209                              | (67 )     |
| Compensation expense on ESOP  | 67                               | 60        |
| Deferred income taxes   | 128                              | 60        |
| Origination of loans for sale   | (1,160 )                         | -         |
| Proceeds from sale of loans   | 1,171                            | -         |
| Gain on sale of loans   | (11 )                            | -         |
| Prepaid FDIC expenses   | (734 )                           | -         |
| Realized gains on sales of securities   | (77 )                            | -         |
| (Decrease) increase in accrued interest receivable and other assets               | (322 )                           | 173       |
| Decrease in accrued interest payable and other liabilities                        | (404 )                           | (633 )    |
| Net Cash Provided by Operating Activities   | 835                              | 1,140     |
| Cash Flows from Investing Activities  |                                  |           |
| Securities available for sale:  |                                  |           |
| Purchases   | (5,418 )                         | (4 )      |
| Proceeds from sales of securities   | 2,806                            | -         |
| Securities held to maturity:  |                                  |           |
| Purchases   | (11,278 )                        | (7,592 )  |
| Maturities, calls and principal paydowns  | 14,842                           | 15,605    |
| Net increase in loans receivable  | (11,272 )                        | (21,576 ) |
| Interest bearing time deposits:   |                                  |           |
| Purchases   | -                                | (397 )    |
| Maturities & principal paydowns   | 1,006                            | 885       |
| Federal Home Loan Bank Stock:   |                                  |           |
| Purchases   | -                                | (955 )    |
| Repurchases   | -                                | 80        |
| Purchases of premises and equipment   | (200 )                           | (168 )    |
| Net Cash Used for Investing Activities  | (9,514 )                         | (14,122 ) |
| Cash Flows from Financing Activities  |                                  |           |
| Net increase (decrease) in deposits   | 6,814                            | (625 )    |
| Proceeds from advances from Federal Home Loan Bank                                | 5,000                            | 21,000    |
| Repayment of advances from Federal Home Loan Bank                                 | (2,000 )                         | (4,000 )  |
| Decrease in advances from borrowers for taxes and insurance                       | (707 )                           | (580 )    |
| Net Cash Provided by Financing Activities   | 9,107                            | 15,795    |
| Net Increase in Cash and Cash Equivalents   | 428                              | 2,813     |
| Cash and Cash Equivalents-Beginning   | 15,855                           | 7,233     |
| Cash and Cash Equivalents-Ending  | \$16,283                         | \$10,046  |
| Supplementary Cash Flows Information  |                                  |           |

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|  |         |         |
|--|---------|---------|
| Interest paid  | \$3,601 | \$4,182 |
| Income taxes paid  | \$875   | \$850   |
| See accompanying notes to the unaudited consolidated financial statements. |         |         |

WILLIAM PENN BANCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

Note 1 - William Penn Bancorp, Inc.

The registrant, William Penn Bancorp, Inc. (the “Company”) is a federally chartered corporation formed for the purpose of becoming the mid-tier holding company for William Penn Bank, FSB (the “Bank”) in connection with its mutual holding company reorganization.

On April 15, 2008, the Bank completed the reorganization and became a wholly owned subsidiary of the Company. As part of the transaction, the Company sold 1,025,283 shares of its common stock, \$.10 par value, to the public at \$10.00 per share (including 87,384 shares purchased by the Bank’s Employee Stock Ownership Plan with funds borrowed from the Company) and issued 2,548,713 shares to William Penn, MHC. In addition, the Company contributed 67,022 shares to the William Penn Bank Community Foundation. Prior to consummation of the reorganization, the Company had no assets or liabilities.

Note 2 - Nature of Operations

The consolidated financial statements include the accounts of William Penn Bancorp, Inc. (the “Company”), and its wholly owned subsidiary, William Penn Bank, FSB (the “Bank”), and the Bank’s wholly owned subsidiary, WPSLA Investment Corporation (“WPSLA”). The primary purpose of the Company is to act as the holding company for the Bank. The Company is subject to regulation and supervision by the Office of Thrift Supervision (the “OTS”). William Penn Bank, FSB is a federally chartered savings bank. The Bank’s primary business consists of the taking of deposits and granting of mortgage loans to the customers generally in the Bucks County, Pennsylvania area. The Bank is supervised and regulated by the OTS. The investment in subsidiary on the parent company’s financial statements is carried at the parent company’s equity in the underlying net assets.

Note 3 – Basis of Consolidated Financial Statement Presentation

The consolidated financial statements include the accounts of the Company, the Bank and WPSLA. WPSLA Investment Corporation was incorporated under Delaware law to hold securities for the Bank. All intercompany transactions and balances have been eliminated in consolidation.

The accompanying unaudited Consolidated Financial Statements were prepared in accordance with instructions for Form 10-Q and Regulation S-X and do not include information or footnotes necessary for a complete presentation of financial condition, results of operations and cash flows in conformity with U.S. generally accepted accounting principles (“GAAP”). However, in the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the consolidated financial statements have been included. The results of operations for the three and six months ended December 31, 2009, are not necessarily indicative of the results that may be expected for the entire fiscal year or any other period.

The data in the consolidated balance sheet for June 30, 2009 was derived from the Company’s audited consolidated financial statements. That data, along with the interim financial information presented in the consolidated balance sheets, statements of income and statements of cash flows should be read in conjunction with the 2009 consolidated financial statements of William Penn Bancorp, Inc. including the notes thereto included in the Annual Report on Form 10-K for the year ended June 30, 2009. William Penn Bancorp, Inc. is a “smaller reporting company” as defined by Item 10 of Regulation S-K and the financial statements were prepared in accordance with instructions applicable for such

companies.

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## Note 4 - Comprehensive Income (Loss)

The components of comprehensive income include unrealized gains and losses on available for sale securities. Comprehensive income for the three months ended December 31, 2009 and 2008 was \$703,000 and \$675,000, respectively and for six months ended December 31, 2009 and 2008 was \$1,969,000 and \$1,405,000 respectively.

|   | Three months ended<br>December 31, |       | Six months ended<br>December 31, |      |
|---|------------------------------------|-------|----------------------------------|------|
|   | 2009                               | 2008  | 2009                             | 2008 |
|   | (in thousands)                     |       | (in thousands)                   |      |
| Unrealized holding gains<br>(losses) on available-for-<br>sale securities | \$ (135                            | ) \$- | \$ 276                           | \$-  |
| Reclassification adjustment for<br>gains included in net income           | (7                                 | )     | (77                              | )    |
| Net Unrealized Gains  | \$ (142                            | ) \$- | \$ 199                           | \$-  |
| Income tax effect   | (48                                | ) -   | 68                               | -    |
| Net of Tax Amount   | \$ (94                             | ) \$- | \$ 131                           | \$-  |

## Note 5 – Earnings Per Share

There are no convertible securities which would affect the numerator in calculating basic and diluted earnings per share; therefore, the net income of \$838,000 and \$1,693,000 for the three months and six months ended December 31, 2009, respectively as presented on the Consolidated Statements of Income (unaudited), will be used as the numerator.

The following table sets forth the composition of the weighted-average common shares (denominator) used in the basic and diluted earnings per share computation.

|  | Three months ended<br>December 31, |           | Six Months Ended<br>December 31, |           |
|--|------------------------------------|-----------|----------------------------------|-----------|
|  | 2009                               | 2008      | 2009                             | 2008      |
| Weighted-average common shares<br>outstanding  | 3,641,018                          | 3,641,018 | 3,641,018                        | 3,641,018 |
| Average unearned ESOP shares   | (70,660)                           | (79,396)  | (71,756)                         | (80,495)  |
| Weighted-average common shares and<br>common stock equivalents used to calculate<br>basic and diluted earnings per share | 3,570,358                          | 3,561,620 | 3,589,262                        | 3,560,523 |
| Net income   | \$ 838                             | \$ 675    | \$ 1,693                         | \$ 1,405  |
| Basic and diluted earnings per share   | \$ 0.23                            | \$ 0.19   | \$ 0.47                          | \$ 0.39   |



## Note 6 – Securities

The amortized cost and approximate fair value of securities are summarized as follows (in thousands):

|   | Amortized<br>Cost | December 31, 2009            |                               | Fair<br>Value |
|---|-------------------|------------------------------|-------------------------------|---------------|
|   |                   | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses |               |
| Available For Sale:                                     |                   |                              |                               |               |
| Mutual funds  | \$12              | \$-                          | \$-                           | \$12          |
| Collateralized mortgage obligations                     | 15,759            | 494                          | (295 )                        | 15,958        |
| Total   | \$15,771          | \$494                        | \$(295 )                      | \$15,970      |
| Held to Maturity:                                       |                   |                              |                               |               |
| U.S. Government corporations<br>and agencies securities | \$28,839          | \$309                        | \$(87 )                       | \$29,061      |
| Mortgage-backed securities                              | 5,851             | 264                          | -                             | 6,115         |
| Collateralized mortgage obligations                     | 7,005             | 75                           | (3 )                          | 7,077         |
| Corporate bonds   | 100               | 1                            | -                             | 101           |
| Municipal bonds   | 299               | 2                            | (1 )                          | 300           |
| Total   | \$42,094          | \$651                        | \$(91 )                       | \$42,654      |

|   | Amortized<br>Cost | June 30, 2009                |                               | Fair<br>Value |
|---|-------------------|------------------------------|-------------------------------|---------------|
|   |                   | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses |               |
| Available For Sale:                                     |                   |                              |                               |               |
| Mutual Funds  | \$10              | \$-                          | \$-                           | \$10          |
|   | \$10              | \$-                          | \$-                           | \$10          |
| Held to Maturity:                                       |                   |                              |                               |               |
| U.S. Government corporations<br>and agencies securities | \$32,371          | \$669                        | \$(82 )                       | \$32,958      |
| Mortgage-backed securities                              | 6,908             | 220                          | -                             | 7,128         |
| Collateralized mortgage obligations                     | 19,236            | 271                          | (491 )                        | 19,016        |
| Corporate bonds   | 201               | 1                            | -                             | 202           |
| Municipal bonds   | 299               | -                            | -                             | 299           |
| Total   | \$59,015          | \$1,161                      | \$(573 )                      | \$59,603      |

The amortized cost and fair value of securities, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because the securities may be called or prepaid with or without penalties (in thousands).





## Note 6 – Securities (Continued)

|  | December 31, 2009 |          | December 31, 2008 |          |
|--|-------------------|----------|-------------------|----------|
|  | Held to Maturity  |          | Held to Maturity  |          |
|  | Amortized         | Fair     | Amortized         | Fair     |
|  | Cost              | Value    | Cost              | Value    |
| Due in one year or less                | \$5,100           | \$5,167  | \$—               | \$—      |
| Due after one year through five years  | 6,398             | 6,491    | —                 | —        |
| Due after five years through ten years | 7,058             | 7,085    | —                 | —        |
| Due after ten years                    | 10,682            | 10,719   | —                 | —        |
| Mortgage-Backed securities             | 5,851             | 6,115    | —                 | —        |
| Collateralized mortgage obligations    | 7,005             | 7,077    | 15,759            | 15,958   |
|  | \$42,094          | \$42,654 | \$15,759          | \$15,958 |

In 2009, the Company recognized proceeds from sale of investment securities classified as available for sale and related gross gains of \$2,806,000 and \$70,000, respectively. The Company also recognized proceeds from called investments classified as held to maturity and related gross gains of \$112,000 and \$7,000 respectively which was a held to maturity investment. In 2008, the Company did not have any sales of investments securities available for sale and did not experience any gross realized gains or losses.

In 2009, the Company transferred its entire holdings in private label collateralized mortgage obligations from held to maturity classification to available for sale. The transfer of the securities to the available for sale category was based on a change in the Company's intent with respect to holding these securities to maturity. The amortized cost and gross unrealized gains on these transferred securities was \$11.4 million and \$256,000, respectively.

The following table shows the Company's investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position (in thousands):

|  | December 31, 2009   |            |                   |            |         |            |
|--|---------------------|------------|-------------------|------------|---------|------------|
|  | Less than 12 Months |            | 12 Months or More |            | Total   |            |
|  | Fair                | Unrealized | Fair              | Unrealized | Fair    | Unrealized |
|  | Value               | Losses     | Value             | Losses     | Value   | Losses     |
| Available For Sale:                                  |                     |            |                   |            |         |            |
| Collateralized mortgage obligations                  | \$2,720             | \$(195)    | \$1,734           | \$(100)    | \$4,454 | \$(295)    |
|  | \$2,720             | \$(195)    | \$1,734           | \$(100)    | \$4,454 | \$(295)    |
| Held to Maturity:                                    |                     |            |                   |            |         |            |
| U.S. Government corporations and agencies securities | \$6,911             | \$(87)     | \$-               | \$-        | \$6,911 | \$(87)     |
| Collateralized mortgage obligations                  | 648                 | (3)        | -                 | -          | 648     | (3)        |
| Corporate bonds                                      | 99                  | (1)        | -                 | -          | 99      | (1)        |
|  | 7,658               | (91)       | -                 | -          | 7,658   | (91)       |
| Total Temporarily                                    |                     |            |                   |            |         |            |

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|                         |                     |            |   |                   |            |   |          |            |   |
|-------------------------|---------------------|------------|---|-------------------|------------|---|----------|------------|---|
| Impaired securities     | \$10,378            | \$(286     | ) | \$1,734           | \$(100     | ) | \$12,112 | \$(386     | ) |
|                         | June 30, 2009       |            |   |                   |            |   |          |            |   |
|                         | Less than 12 Months |            |   | 12 Months or More |            |   | Total    |            |   |
|                         | Fair                | Unrealized |   | Fair              | Unrealized |   | Fair     | Unrealized |   |
|                         | Value               | Losses     |   | Value             | Losses     |   | Value    | Losses     |   |
| Held to Maturity:       |                     |            |   |                   |            |   |          |            |   |
| U.S. Government         |                     |            |   |                   |            |   |          |            |   |
| corporations and        |                     |            |   |                   |            |   |          |            |   |
| agencies securities     | \$7,309             | \$(82      | ) | \$-               | \$-        |   | \$7,309  | \$(82      | ) |
| Collateralized mortgage |                     |            |   |                   |            |   |          |            |   |
| obligations             | 6,695               | (313       | ) | 2,503             | (178       | ) | 9,198    | (491       | ) |
| Total Temporarily       |                     |            |   |                   |            |   |          |            |   |
| Impaired securities     | \$14,004            | \$(395     | ) | \$2,503           | \$(178     | ) | \$16,507 | \$(573     | ) |

The Company evaluates its investment securities holdings for other-than-temporary impairment (“OTTI”) on at least a quarterly basis. As part of this process, management considers its intent to sell each debt security and whether it is more likely than not the Company will be required to sell the security before its anticipated recovery. If either of these conditions is met, OTTI is recognized in earnings equal to the entire difference between the security’s amortized cost basis and its fair value at the balance sheet date. For securities that meet neither of these conditions, management performs analysis to determine whether any of these securities are at risk for OTTI. To determine which individual securities are at risk for OTTI and should be quantitatively

## Note 6 – Securities (Continued)

evaluated utilizing a detailed analysis, management uses indicators which consider various characteristics of each security including, but not limited to, the following: the credit rating; the duration and level of the unrealized loss; prepayment assumptions; and certain other collateral-related characteristics such as delinquency rates, the security's performance, and the severity of expected collateral losses.

There are 11 positions that are impaired at December 31, 2009, including 7 positions in private-label collateralized mortgage obligations. Based on its analysis, management has concluded that the securities portfolio has experienced unrealized losses and a decrease in fair value due to interest rate volatility, illiquidity in the marketplace, and credit deterioration in the U.S. mortgage markets. At this time, management believes that the Company will fully recover the cost of these securities, and the Company does not intend to sell these securities nor will the Company be required to sell the security before its anticipated recovery. Therefore, the decline is considered temporary.

## Note 7 – Loans Receivable

The composition of net loans receivable is as follows (dollars in thousands):

|   | At December 31,<br>2009 |        |   | At June 30,<br>2009 |        |   |
|---|-------------------------|--------|---|---------------------|--------|---|
| Mortgage loans on real estate:          |                         |        |   |                     |        |   |
| Residential 1-4 family                  | \$ 141,663              | 59.48  | % | \$ 142,499          | 62.36  | % |
| Residential multi-family (five or more) | 9,683                   | 4.07   | % | 10,268              | 4.49   | % |
| Commercial-non-residential              | 48,173                  | 20.23  | % | 35,366              | 15.48  | % |
| Construction                            | 9,361                   | 3.93   | % | 14,205              | 6.22   | % |
| Land                                    | 4,411                   | 1.85   | % | 3,999               | 1.75   | % |
| Home equity and second mortgages        | 6,678                   | 2.80   | % | 7,276               | 3.18   | % |
| Equity lines of credit                  | 15,402                  | 6.47   | % | 12,142              | 5.31   | % |
| Total Mortgage Loans on Real Estate     | 235,371                 |        |   | 225,755             |        |   |
| Consumer loans                          | 2,275                   | 0.96   | % | 2,347               | 1.03   | % |
| Loans on savings accounts               | 504                     | 0.21   | % | 420                 | 0.18   | % |
| Total Loans                             | 238,150                 | 100.00 | % | 228,522             | 100.00 | % |
| Loans in process                        | (4,017 )                |        |   | (5,562 )            |        |   |
| Unearned loan origination fees          | (766 )                  |        |   | (841 )              |        |   |
| Allowance for loan losses               | (2,342 )                |        |   | (2,180 )            |        |   |
| Net Loans                               | \$ 231,025              |        |   | \$ 219,939          |        |   |

At December 31, 2009, we had approximately \$65.3 million of loans on non-owner-occupied, one-to-four-family residences (“investor loans”), representing approximately 28.3% of total loans. This \$65.3 million of one- to four-family investor loans includes \$63 million of first mortgages; \$772,000 of second mortgages; and \$1.6 million of construction loans.

At June 30, 2009, we had approximately \$65.7 million of loans on non-owner-occupied, one-to-four-family residences (“investor loans”), representing approximately 29.6% and 28.0% of total loans. The \$65.7 million of one- to four-family investor loans includes \$61.1 million of first mortgages; \$734,000 of second mortgages; and \$3.8 million of construction loans.



Note 8 – Recent Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2009-01, Topic 105 - Generally Accepted Accounting Principles - FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles. The Codification is the single source of authoritative nongovernmental U.S. generally accepted accounting principles (GAAP). The Codification does not change current GAAP, but is intended to simplify user access to all authoritative GAAP by providing all the authoritative literature related to a particular topic in one place. Rules and interpretive releases of the SEC under federal securities laws are also sources of authoritative GAAP for SEC registrants. The Company adopted this standard for the interim (annual) reporting period ending December 31, 2009. The adoption of this standard did not have a material impact on the Company’s results of operations or financial position.

In September 2006, the FASB issued an accounting standard related to fair value measurements, which was effective for the Company on January 1, 2008 (or date effective for your fiscal year end). This standard defined fair value, established a framework for measuring fair value, and expanded disclosure requirements about fair value measurements. On January 1, 2008 (or date effective for your fiscal year end), the Company adopted this accounting standard related to fair value measurements for the Company’s financial assets and financial liabilities. The Company deferred adoption of this accounting standard related to fair value measurements for the Company’s nonfinancial assets and nonfinancial liabilities, except for those items recognized or disclosed at fair value on an annual or more frequently recurring basis, until January 1, 2009. The adoption of this accounting standard related to fair value measurements for the Company’s nonfinancial assets and nonfinancial liabilities had no impact on retained earnings and is not expected to have a material impact on the Company’s statements of income and condition. This accounting standard was subsequently codified into ASC Topic 820, Fair Value Measurements and Disclosures.

In December 2007, the FASB issued an accounting standard related to noncontrolling interests in consolidated financial statements, which is effective for fiscal years beginning on or after December 15, 2008. This standard establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary, which is sometimes referred to as minority interest, is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. Among other requirements, this statement requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. It also requires disclosure, on the face of the consolidated income statement, of the amounts of consolidated net income attributable to the parent and to the noncontrolling interest. This accounting standard was subsequently codified into ASC 810-10, Consolidation. The adoption of this standard is not expected to have a material effect on the Company’s results of operations or financial position. Or The Company is currently evaluating the impact the adoption of the standard will have on the Company’s results of operations.

In April 2009, the FASB issued new guidance impacting ASC Topic 820, Fair Value Measurements and Disclosures. This ASC provides additional guidance in determining fair values when there is no active market or where the price inputs being used represent distressed sales. It reaffirms the need to use judgment to ascertain if a formerly active market has become inactive and in determining fair values when markets have become inactive. The adoption of this new guidance did not have a material effect on the Company’s results of operations or financial position.

In April 2009, the FASB issued new guidance impacting ASC 825-10-50, Financial Instruments, which relates to fair value disclosures for any financial instruments that are not currently reflected on the balance sheet of companies at fair value. This guidance amended existing GAAP to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This guidance is effective for interim and annual periods ending after June 15, 2009. The Company has presented the necessary disclosures in note 9 herein.

In August 2009, the FASB issued ASU No. 2009-05, Fair Value Measurements and Disclosures (Topic 820) – Measuring Liabilities at Fair Value. This ASU provides amendments for fair value measurements of liabilities. It provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more techniques. ASU 2009-05 also clarifies that when estimating a fair value of a liability, a reporting entity is not required to include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the liability. ASU 2009-05 is effective for the first reporting period (including interim periods) beginning after issuance or fourth quarter 2009. The adoption of the new guidance did not have a material impact on the Company's financial position or results of operations.

On April 1, 2009, the FASB issued new authoritative accounting guidance under ASC Topic 805, Business Combinations, which became effective for periods beginning after December 15, 2008. ASC Topic 805 applies to all transactions and other events in which one entity obtains control over one or more other businesses. ASC Topic 805 requires an acquirer, upon initially obtaining control of another entity, to recognize the assets, liabilities and any non-controlling interest in the acquiree at fair value as of the acquisition date. Contingent consideration is required to be recognized and measured at fair value on the date of acquisition rather than at a later date when the amount of that consideration may be determinable beyond a reasonable doubt. This fair value approach replaces the cost-allocation process required under previous accounting guidance whereby the cost of an acquisition was allocated to the individual assets acquired and liabilities assumed based on their estimated fair value. ASC Topic 805 requires acquirers to expense acquisition-related costs as incurred rather than allocating such costs to the assets acquired and liabilities assumed, as was previously the case under prior accounting guidance. Assets acquired and liabilities assumed in a business combination that arise from contingencies are to be recognized at fair value if fair value can be reasonably estimated. If fair value of such an asset or liability cannot be reasonably estimated, the asset or liability would generally be recognized in accordance with ASC Topic 450, Contingencies. Under ASC Topic 805, the requirements of ASC Topic 420, Exit or Disposal Cost Obligations, would have to be met in order to accrue for a restructuring plan in purchase accounting. Pre-acquisition contingencies are to be recognized at fair value, unless it is a non-contractual contingency that is not likely to materialize, in which case, nothing should be recognized in purchase accounting and, instead, that contingency would be subject to the probable and estimable recognition criteria of ASC Topic 450, Contingencies. The adoption of this new guidance did not have a material impact on the Company's financial position or results of operations.

The FASB issued new authoritative accounting guidance under ASC Topic 855, Subsequent Events, which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or available to be issued. ASC Topic 855 defines (i) the period after the balance sheet date during which a reporting entity's management should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, (ii) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and (iii) the disclosures an entity should make about events or transactions that occurred after the balance sheet date. The new authoritative accounting guidance under ASC Topic 855 is effective for periods ending after June 15, 2009. The required disclosures are provided in Note 10.

In April 2009, the FASB issued new guidance impacting ASC 320-10, Investments — Debt and Equity Securities, which provides additional guidance designed to create greater clarity and consistency in accounting for and presenting impairment losses on securities. This guidance is effective for interim and annual periods ending after June 15, 2009. The adoption of this new guidance did not have a material impact on the Company's financial position or results of operations or The Company has presented the necessary disclosures in Note 6 herein.

## NOTE 9: FAIR VALUE MEASUREMENTS

The Company presents enhanced disclosures about assets and liabilities carried at fair value. U. S. generally accepted accounting standards establishes a hierarchal disclosure framework associated with the level of pricing observability utilized in measuring assets and liabilities at fair value. The three broad levels of hierarchy are as follows:

- Level I: Quoted prices are available in active markets for identical assets or liabilities as of the reported date.
- Level II: Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reported date. The nature of these assets and liabilities include items for which quoted prices are available but traded less frequently, and items that are fair valued using other financial instruments, the parameters of which can be directly observed.
- Level III: Assets and liabilities that have little to no pricing observability as of the reported date. These items do not have two-way markets and are measured using management's best estimate of fair value, where the inputs into the determination of fair value require significant management judgment or estimation.

The following table presents the assets reported on the consolidated balance sheets at their fair value, by level within the fair value hierarchy. No liabilities are carried at fair value. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

|                                     | December 31, 2009 |          |           | Total    |        |
|-------------------------------------|-------------------|----------|-----------|----------|--------|
|                                     | Level I           | Level II | Level III |          |        |
|                                     | (in thousands)    |          |           |          |        |
| Assets:                             |                   |          |           |          |        |
| Mutual funds                        | \$12              | \$-      | \$-       | \$12     |        |
| Collateralized mortgage obligations | -                 | 15,958   | -         | 15988    | 15988  |
|                                     | \$12              | \$15,958 | \$-       | \$15,970 | 15,970 |
|                                     | June 30, 2009     |          |           |          |        |
|                                     | Level I           | Level II | Level III | Total    |        |
|                                     | (in thousands)    |          |           |          |        |
| Assets:                             |                   |          |           |          |        |
| Securities available-for-sale       | \$10              | \$-      | \$-       | \$10     |        |
|                                     | \$10              | \$-      | \$-       | \$10     |        |



## Assets and Liabilities Measured on a Non-Recurring Basis

Certain assets and liabilities may be required to be measured at fair value on a nonrecurring basis in periods subsequent to their initial recognition. Generally, nonrecurring valuation is the result of the application of other accounting pronouncements which require assets and liabilities to be assessed for impairment or recorded at the lower of cost or fair value.

Impaired loans are generally measured for impairment using the fair value of the collateral supporting the loan. Evaluating impaired loan collateral is based on level III inputs utilizing outside appraisals adjusted by management for sales costs and other assumptions regarding market conditions to arrive at fair value. At December 31, 2009, impaired loans with a carrying value of \$6,874,000 were reduced by the specific valuation allowance totaling \$611,000 resulting in a net fair value of \$6,263,000, based on Level III inputs. At June 30, 2009, impaired loans with a carrying value of \$5,868,000 were reduced by the specific valuation allowance totaling \$561,000 resulting in a net fair value of \$5,307,000, based on Level III inputs.

Other real estate owned (OREO) is measured at fair value, based on appraisals less cost to sell at the date of foreclosure. Valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value, less cost to sell. Income and expenses from operations and changes in valuation allowance are included in the net expenses from OREO.

Assets measured at fair value on a non-recurring basis are summarized (in thousands):

| Assets:                 | December 31, 2009 |          |           | Total   |
|-------------------------|-------------------|----------|-----------|---------|
|                         | Level I           | Level II | Level III |         |
| Impaired loans          | \$—               | \$—      | \$6,263   | \$6,263 |
| Other real estate owned | —                 | 428      | —         | 428     |
|                         | \$—               | \$428    | \$6,263   | \$6,691 |

  

| Assets:                 | June 30, 2009 |          |           | Total   |
|-------------------------|---------------|----------|-----------|---------|
|                         | Level I       | Level II | Level III |         |
| Impaired loans          | \$—           | \$—      | \$5,307   | \$5,307 |
| Other real estate owned | —             | 206      | —         | 206     |
|                         | \$—           | \$206    | \$5,307   | \$5,513 |

Management uses its best judgment in estimating the fair value of the Company's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts the Company could have realized in a sales transaction on the dates indicated. The estimated fair value amounts have been measured as of their respective year-ends and have not been reevaluated or updated for purposes of these financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each year-end.

The following information should not be interpreted as an estimate of the fair value of the entire Company, since a fair value calculation is only provided for a limited portion of the Company's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company's disclosures and those of other companies may not be meaningful. The following methods and assumptions were used to estimate the fair values of the Company's financial instruments.

#### Cash and Due from Banks and Interest Bearing Time Deposits

The carrying amounts of cash and due from banks and interest bearing time deposits approximate their fair value.

#### Securities Available for Sale and Held to Maturity

The fair value of investment and mortgage-backed securities is equal to the available quoted market price. If no quoted market price is available, fair value is estimated using the quoted market price for similar securities.

#### Loans Receivable, net

For variable-rate loans that reprice frequently and which entail no significant changes in credit risk, fair values are based on carrying values. The fair values of fixed rate loans are estimated using discounted cash flow analyses at market interest rates currently offered for loans with similar terms to borrowers of similar credit quality.

#### Federal Home Loan Bank Stock

The carrying amount of Federal Home Loan Bank stock approximates fair value.

#### Accrued Interest Receivable and Payable

The carrying amount of accrued interest receivable and payable approximates fair value.

#### Deposits

Fair values for demand deposits, savings accounts, and certain money market deposits are, by definition, equal to the amount payable on demand at the reporting date. Fair values of fixed-maturity certificates of deposit are estimated using a discounted cash flow calculation that applies market interest rates currently being offered on similar instruments with similar maturities.

#### Advances from Federal Home Loan Bank

Fair value of advances from Federal Home Loan Bank is estimated using discounted cash flow analyses, based on rates currently available to the Company for advances from Federal Home Loan Bank with similar terms and remaining maturities.

The estimated fair values of the Company's financial instruments were as follows (in thousands):

|                                | December 31,<br>2009 |               | June 30,<br>2009   |               |
|--------------------------------|----------------------|---------------|--------------------|---------------|
|                                | Carrying<br>Amount   | Fair<br>Value | Carrying<br>Amount | Fair<br>Value |
| Financial assets:              |                      |               |                    |               |
| Cash and due from              |                      |               |                    |               |
| Banks                          | \$16,283             | \$16,283      | \$15,855           | \$15,855      |
| Interest bearing time deposits | 1,518                | 1,518         | 2,524              | 2,524         |
| Securities available for sale  | 15,970               | 15,970        | 10                 | 10            |
| Securities held to maturity    | 42,094               | 42,654        | 59,015             | 59,603        |
| Loans receivable, net          | 231,025              | 242,471       | 219,939            | 229,070       |
| Federal Home Loan Bank stock   | 4,933                | 4,933         | 4,932              | 4,932         |
| Accrued Interest receivable:   |                      |               |                    |               |
| Loans receivable               | 1,036                | 1,036         | 1,022              | 1,022         |
| Investment securities          | 374                  | 374           | 410                | 410           |
| Mortgage-backed securities     | 93                   | 93            | 94                 | 94            |
| Financial liabilities:         |                      |               |                    |               |
| Non-interest bearing demand    |                      |               |                    |               |
| deposits                       | 1,290                | 1,290         | 2,916              | 2,916         |
| NOW accounts                   | 14,167               | 14,167        | 14,490             | 14,490        |
| Money market accounts          | 41,935               | 41,935        | 40,273             | 40,273        |
| Savings and club accounts      | 13,900               | 13,900        | 13,540             | 13,540        |
| Certificates of deposit        | 102,614              | 105,355       | 95,873             | 98,451        |
| Advances from Federal Home     |                      |               |                    |               |
| Loan Bank                      | 92,000               | 96,699        | 89,000             | 93,775        |
| Accrued interest payable       | 332                  | 332           | 342                | 342           |
| Off-balance sheet financial    |                      |               |                    |               |
| instruments                    | -                    | -             | -                  | -             |

#### Note 10: Subsequent Events

The Company assessed events occurring subsequent to December 31, 2009 through February 16, 2010, for potential recognition and disclosure in the consolidated financial statements. No events have occurred that would require adjustments to or disclosure in the consolidated financial statements which were issued through February 16, 2010.

## ITEM 2 – MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Throughout this Form 10-Q, the terms “we”, “us” or “our” refer to William Penn Bancorp, Inc. or William Penn Bank, FSB, or both, as the context indicates. We also refer to William Penn Bank, FSB as “the Bank” and to William Penn Bancorp, Inc. as “the Registrant” or “the Company.”

### Forward-Looking Statements

This Form 10-Q contains forward-looking statements, which can be identified by the use of words such as “believes,” “expects,” “anticipates,” “estimates” or similar expressions. Forward-looking statements include:

- statements of our goals, intentions and expectations;
- statements regarding our business plans, prospects, growth and operating strategies;
- statements regarding the quality of our loan and investment portfolios; and
- estimates of our risks and future costs and benefits.

These forward-looking statements are subject to significant risks and uncertainties. Actual results may differ materially from those contemplated by the forward-looking statements due to, among others, the following factors:

- general economic conditions, either nationally or in our market area, that are worse than expected;
- changes in the interest rate environment that reduce our interest margins or reduce the fair value of financial instruments;
- our ability to enter into new markets and/or expand product offerings successfully and take advantage of growth opportunities;
- increased competitive pressures among financial services companies;
- changes in consumer spending, borrowing and savings habits;
- legislative or regulatory changes that adversely affect our business;
- adverse changes in the securities markets;
- our ability to successfully manage our growth; and
- changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, the Financial Accounting Standards Board or the Public Company Accounting Oversight Board.

Any of the forward-looking statements that we make in this Form 10-Q and in other public statements we make may turn out to be wrong because of inaccurate assumptions we might make, because of the factors illustrated above or because of other factors that we cannot foresee. Consequently, no forward-looking statement can be guaranteed.



## Overview

This discussion and analysis reflects the Company's consolidated financial statements and other relevant statistical data and is intended to enhance your understanding of our financial condition and results of operations. You should read the information in this section in conjunction with the Company's unaudited consolidated financial statements and accompanying notes thereto included in this Form 10-Q.

Our primary business is attracting retail deposits from the general public and using those deposits, together with funds generated from operations, principal repayments on securities and loans, and borrowed funds, for our lending and investing activities. Our results of operations depend mainly on our net interest income, which is the difference between the interest income earned on our loan and investment portfolios and interest expense paid on our deposits and borrowed funds. Net interest income is a function of the average balances of loans and investments versus deposits and borrowed funds outstanding in any one period and the yields earned on those loans and investments and the cost of those deposits and borrowed funds.

## Anticipated Increase in Operating Expenses

We expect that noninterest expense will be higher going forward as a result of the accounting, legal and various other additional noninterest expenses associated with operating as a public company, particularly as a result of the requirements of the Sarbanes-Oxley Act of 2002. We have begun to incur additional public company expenses such as periodic reporting, annual meetings, retention of a transfer agent and professional fees.

Furthermore, noninterest expense in the future will be impacted by our plan to expand our branch network; if market conditions allow, we intend to open some new offices over approximately the next five years and expand our office hours. We also expect higher compensation and benefits expenses going forward as the result of our plans to expand the size of our lending department plus hire additional branch personnel and management staff.

Deposit insurance expense has increased substantially and could increase further. The FDIC increased the assessment rate for the most highly rated institutions to between 12 and 14 basis points for the first quarter of 2009 and set the rate between 12 and 16 basis points thereafter. Assessment rates could be further increased if an institution's secured liabilities, including FHLB advances, exceed 25% of deposits. The FDIC imposed a special assessment equal to five basis points of assets less Tier 1 capital as of June 30, 2009, payable on September 30, 2009, and reserved the right to impose additional special assessments. Instead of imposing additional special assessments during 2009, the FDIC required all insured depository institutions to prepay their estimated risk-based assessments for the fourth quarter of 2009, and for all of 2010, 2011 and 2012 on December 30, 2009. For purposes of estimating the future assessments, each institution's base assessment rate in effect on September 30, 2009 was used, increased by three basis points beginning in 2011, and the assessment base was increased at a 5% annual growth rate. The prepaid assessment will be applied against actual quarterly assessments until exhausted. Any funds remaining after June 30, 2013 will be returned to the institution. Requiring this prepaid assessment does not preclude the FDIC from changing assessment rates or from further revising the risk-based assessment system.

In addition, the Bank is participating in the Transaction Account Guarantee and Debt Guarantee Programs under the FDIC's Temporary Liquidity Guarantee Program. The Transaction Account

Guarantee Program provides unlimited insurance coverage for non-interest-bearing transaction accounts. Under this program, the Bank will be assessed at the rate of 10 basis points for transaction account balances in excess of the \$250,000 insurance limit. Under the Debt Guarantee Program, the FDIC fully guarantees senior unsecured debt of a bank or its holding company for which the institution is assessed at the rate of 75 basis points of the amount of debt issued.

#### Critical Accounting Policies

Our accounting policies are integral to understanding the results reported and our significant policies are described in Note 2 to our consolidated financial statements included in the William Penn Bancorp, Inc. 2009 Annual Report on Form 10-K. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the dates of the consolidated balance sheets and statements of income for the periods then ended. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses, the valuation allowance for deferred tax assets and other-than-temporary impairment of securities.

**Allowance for Loan Losses.** The allowance for loan losses is maintained by management at a level which represents their evaluation of known and inherent losses in the loan portfolio at the consolidated balance sheet date that are both probable and reasonable to estimate. Management's periodic evaluation of the adequacy of the allowance is based on the Bank's past loan loss experience, known and inherent losses in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions, and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant change, including the amounts and timing of future cash flows expected to be received on impaired loans.

The allowance consists of specific and general components. The specific component relates to loans that are classified as doubtful, substandard, or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers nonclassified loans and is based on historical loss experience adjusted for qualitative factors.

Although specific and general loan loss allowances are established in accordance with management's best estimate, actual losses are dependent upon future events and, as such, further provisions for loan losses may be necessary. For example, our evaluation of the allowance includes consideration of current economic conditions, and a change in economic conditions could reduce the ability of our borrowers to make timely repayments of their loans. This could result in increased delinquencies and increased non-performing loans, and thus a need to make increased provisions to the allowance for loan losses, which would require us to record a charge against income during the period the provision is made, resulting in a reduction of our earnings. A change in economic conditions could also adversely affect the value of the properties collateralizing our real estate loans, resulting in increased charge-offs against the allowance and reduced recoveries of loans previously charged-off, and thus a need to make increased provisions to the allowance for loan losses. Furthermore, a change in the composition of our loan portfolio or growth of our loan portfolio could result in the need for additional provisions.

**Deferred Income Taxes.** We use the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. If current available information raises doubt as to the realization of the deferred tax assets, a valuation allowance is established. We consider the determination of this





valuation allowance to be a critical accounting policy because of the need to exercise significant judgment in evaluating the amount and timing of recognition of deferred tax liabilities and assets, including projections of future taxable income. These judgments and estimates are reviewed on a continual basis as regulatory and business factors change. A valuation allowance for deferred tax assets may be required if the amount of taxes recoverable through loss carryback declines, or if we project lower levels of future taxable income. Such a valuation allowance would be established through a charge to income tax expense which would adversely affect our operating results.

**Other-than-Temporary Investment Security Impairment.** Securities are evaluated periodically to determine whether a decline in their value is other-than-temporary. Management utilizes criteria such as the magnitude and duration of the decline, in addition to the reasons underlying the decline, to determine whether the loss in value is other-than-temporary. The term “other-than-temporary” is not intended to indicate that the decline is permanent, but indicates that the prospect for a near-term recovery of value is not necessarily favorable, or that there is a lack of evidence to support a realizable value equal to or greater than the carrying value of the investment. Once a decline in value is determined to be other-than-temporary, the value of the security is reduced and a corresponding charge to earnings is recognized.

#### Comparison of Financial Condition at December 31, 2009 and June 30, 2009

Our total assets increased by \$10.6 million to \$318.8 million at December 31, 2009 from \$308.2 million at June 30, 2009, primarily due to a \$11.1 million increase in loans receivable. The increase in loans receivable was attributable to a \$12.8 million, increase in non-residential real estate loans and a \$3.3 million, increase in home equity lines of credit. These increases were partially offset by a \$4.8 million, decline in construction loans and lesser declines in one-to-four family and multifamily residential loans and home equity and second mortgage loans. Available for sale securities at December 31, 2009 increased to \$16.0 million compared to \$10,000 at June 30, 2009. Held to maturity securities decreased to \$42.1 million at December 31, 2009 from \$59.0 million at June 30, 2009. Accrued interest receivable and other assets increased by \$ 834,000 to \$2.6 million at December 31, 2009 compared to \$1.7 million at December 31, 2008 and June 30, 2009, respectively, mainly due to a prepaid FDIC premium of \$734,000. Interest bearing time deposits decreased by \$1.0 million to \$1.5 million from \$2.5 million at December 31, 2009 and June 30, 2009 respectively. There was a nominal increase in cash and due from banks of \$428,000 and an increase in real estate owned of \$222,000 due to foreclosure and also an increase in Premises and equipment by \$112,000.

An important change to note in our assets as of December 31, 2009 is the significant increase in securities available-for-sale. We have always been a “buy-and-hold” investor. As of December 31, 2009 all of the private label collateralized mortgage obligations (CMO’s) in our portfolio are rated AAA by at least one of the major rating agencies (Moody, S&P, Fitch). During the quarter ended December 31, 2009 one investment of this type was downgraded to BBB. We sold the investment at a profit. Our Board of Directors decided to have all of our Private Label CMO’s reclassified as available-for-sale. This was done to facilitate monitoring our financial statements and to provide management with the ability to be proactive and to sell the securities if deemed advisable should concern or difficulties present themselves in the future.

Deposits increased by \$6.8 million to \$173.9 million at December 31, 2009 from \$167.1 million at June 30, 2009. Advances from FHLB increased by \$3.0 million to \$92.0 million at December 31, 2009, from \$89.0 million at June 30, 2009. The funds from deposits and borrowings were primarily used to fund our loan portfolio. Advances from borrowers for taxes and insurance decreased by \$707,000 to \$1.5 million at December 31, 2009 from \$2.2 million at June 30, 2009 due to the real estate taxes paid on behalf of the borrowers.

Stockholders’ equity grew by \$1.9 million to \$48.8 million at December 31, 2009, from \$46.9 million at June 30, 2009. The increase was primarily the result of the Company’s net income of \$1.7



million for the six months ended December 31, 2009 and a \$131,000 increase in accumulated other comprehensive income.

#### Comparison of Operating Results for the Three and Six Months Ended December 31, 2009 and 2008

General. Net income for the three months ended December 31, 2009 was \$838,000 (\$0.23 per share) compared to a net income of \$675,000 (\$0.19 per share) for the three months ended December 31, 2008. The increased income for the 2009 period was mainly attributable to a decrease in interest expense.

Net income for the six months ended December 31, 2009 was \$1.7 million (\$0.47 per share) compared to a net income of \$1.4 million (\$0.39 per share) for the six months ended December 31, 2008. The increased income was mainly attributable to a decrease in interest expense.

Interest Income. Total interest income for the three months periods ending December 31, 2009 and 2008 remained virtually the same. There was an increase of \$166,000 in interest income from loans receivable for the three months to \$3.5 million at December 31, 2009 from \$3.3 million at December 31, 2008. Average loan balances increased from \$215.8 million at of December 31, 2008 to \$230.5 million at of December 31, 2009. Interest income from securities declined by \$102,000 from \$695,000 for the three months ended December 31, 2008 to \$593,000 for the three month period ended December 31, 2009. Even though the average balance of securities rose by \$5.0 million, the average yield declined 111 basis points offsetting the increase in interest income from loans receivable. The decrease of \$65,000 in other interest earning assets for the three months ended December 31, 2009 also offset the increase in interest income from loans receivable. The average balance of other interest earning assets went down by \$ 3.0 million to \$17.4 million for the three months ended December 31,2009 compared to \$20.5 million for the three months ended December 31, 2008. The decline in interest on other interest earning assets was mainly due to a reduction in dividend income on FHLB stock and lower interest rates. The average yield decreased by 120 basis points.

There was a very nominal decrease of \$72,000 in total interest income for the six month period ended December 31, 2009 as compared to six month period ended December 31, 2008. Interest income on loans receivable increased \$310,000 for the six months ended December 31, 2009 to \$6.9 million at December 31, 2009 from \$6.6 million at December 31, 2008. This was offset by a decrease in interest income from securities of \$227,000 for the same period. The decrease in interest income of other interest earning assets of \$150,000 to \$41,000 for the six months ended December 31, 2009 from \$196,000 for the six months ended December 31, 2008 also offset the increase in interest income from loans receivable resulting in lower interest income for the six months ended December 31, 2009. Average yields for loans receivable, securities and interest earning assets declined 15, 100, and 168 basis points respectively, for the six months ended December 31, 2009.

Interest Expense. Total interest expense decreased \$370,000 to \$1.8 million for the three months ended December 31, 2009 as compared to \$2.1 million for the same period in 2008. The decrease resulted primarily from a decrease in interest expense on deposits to \$807,000 from \$1.2 million in the prior year period due to the current interest rate environment. There was a 104 basis point decrease in the average cost of the deposits. Interest expense on borrowings for the three months remained virtually the same for both periods ending December 31, 2009 and 2008.

Total interest expense decreased \$649,000 to \$3.6 million for the six months ended December 31, 2009 as compared to \$4.2 million for the same period in 2008. The decrease resulted primarily from a decrease in interest expense on deposits to \$737,000 from \$2.4 million in the prior year period due to the current interest rate environment. There was a 104 basis points decrease in the average cost of the deposits. Although it has been the Company's practice consistently to offer deposit rates toward the high end of current market ranges, the dramatic decrease in interest rates has resulted in a decrease in interest expense. Interest expense on borrowings increased \$88,000 to \$1.9 million for the six months ended



December 31, 2009 from \$1.8 million for the six months ended December 31, 2008. The average balance grew from \$82.3 million to \$89.3 million for the period ending December 31, 2008 and 2009 respectively. The average cost of borrowings declined only 16 basis points.

**Net Interest Income.** Our interest rate spread and net interest margin for the three months ended December 31, 2009, were 2.62% and 3.06%, respectively, compared to 2.17% and 2.72%, respectively, for the three months ended December 31, 2008. The improvement in spread and margin for the three months ended December 31, 2009 was attributable to a decline of 76 basis points in the average cost of interest-bearing liabilities which was slightly offset by a 31 basis point decline in yields on interest-earning assets. Average interest-earning assets rose to \$307.4 million from \$290.8 million, for the three months ended December 31, 2009 and 2008, respectively. Average interest-bearing liabilities were \$258.2 million and \$244.8 million for the three months ended December 31, 2009 and 2008, respectively.

Our interest rate spread and net interest margin for the six months ended December 31, 2009, were 2.53% and 2.98%, respectively, compared to 2.21% and 2.78%, respectively, for six months ended December 31, 2008. The improvement in spread and margin for the six months ended December 31, 2009 was attributable to a decline of 73 basis points in the average cost of interest-bearing liabilities which was slightly offset by a 41 basis point decline in yields on interest-earning assets. Average interest-earning assets rose to \$305.5 million from \$286.6 million, for the six months ended December 31, 2009 and 2008, respectively. Average interest-bearing liabilities were \$256.2 million and \$240.6 million for the six months ended December 31, 2009 and 2008, respectively.

**Provision for Loan Losses.** We charge to operations provisions for loan losses at a level required to reflect credit losses in the loan portfolio that are both probable and reasonable to estimate. Management, in determining the allowance for loan losses, considers the losses inherent in the loan portfolio and changes in the nature and volume of our loan activities, along with general economic and real estate market conditions. We utilize a two-tier approach: (1) identification of impaired loans and establishment of specific allowances on such loans; and (2) establishment of general valuation allowances on the remainder of our loan portfolio. We establish a specific allowance for an impaired loan based on delinquency status, size of loan, type of collateral and/or appraisal of the underlying collateral and financial condition of the borrower. We base general loan loss allowances upon a combination of factors including, but not limited to, actual loan loss experience, composition of the loan portfolio, current economic conditions, industry trends and management's judgment.

There was a provision for loan losses of \$92,000 and \$62,000 made during the three months ended December 31, 2009 and 2008, respectively. There was a provision for loan losses of \$186,000 and \$62,000 made during the six months ended December 31, 2009 and 2008, respectively. The allowance as a percentage of total loans was 0.84% and 0.82% at December 31, 2009 and 2008, respectively. Management believes that the allowance for loan losses is sufficient given the status of the loan portfolio at this time.

**Other Income.** Other income increased by \$27,000 to \$98,000 for the three months ended December 31, 2009 compared to \$71,000 for the same period in 2008. There was a \$7,000 profit realized when a corporate bond was called. Other income increased from miscellaneous operating activities.

Other income increased by \$101,000 to \$238,000 for the six months ended December 31, 2009 compared to \$137,000 for the same period in 2008. There was a \$77,000 increase primarily due to a \$69,000 profit on the sale of a private label CMO investment. Traditionally, other income has not been a significant part of our operations as we have not in the past focused on fee generation. We hold the bulk of our securities portfolio as held to maturity so gains or losses on the sales of securities are not expected to be a large item in non interest income. We have no current plans to seek additional fee income generation through the offering of complementary services or acquisition of fee-producing subsidiaries such as title insurance or third-party securities sales.



Other Expenses. Other expense increased by \$127,000 to \$1.1 million for the three months ended December 31, 2009 compared to \$979,000 for the same period in 2008. Salaries and employee benefits increased by \$61,000 as a result of normal salary increases, combined with the increased cost of maintaining benefits. FDIC deposit insurance premium increased \$45,000 due to an increase in charges.

Other expense increased by \$126,000 to \$2.1 million for the six months ended December 31, 2009 compared to \$1.9 million for the same period in 2008. Salaries and employee benefits increased by \$95,000 as a result of normal salary increases, combined with the increased cost of maintaining benefits. FDIC deposit insurance premium increased \$89,000 due to an increase in the assessment rate and the special assessment at September 2009.

Average Balance Sheets. The following table sets forth certain information for the three and six months ended December 31, 2009 and 2008. The average yields and costs are derived by dividing income or expense by the average balance of assets or liabilities, respectively, for the periods presented. Average balances are derived from month-end balances for the periods ended December 31, 2008 and the average balances derived for the 2009 periods are from daily average balances.

|                                | For The Three Months Ended Dec 31, |          |                       |                            |          |                       | For The Six Months Ended Dec 31, |          |                       |                            |          |  |
|--------------------------------|------------------------------------|----------|-----------------------|----------------------------|----------|-----------------------|----------------------------------|----------|-----------------------|----------------------------|----------|--|
|                                | 2009<br>Average<br>Balance         | Interest | Average<br>Yield/Cost | 2008<br>Average<br>Balance | Interest | Average<br>Yield/Cost | 2009<br>Average<br>Balance       | Interest | Average<br>Yield/Cost | 2008<br>Average<br>Balance | Interest |  |
| Interest -earning assets:      |                                    |          |                       |                            |          |                       |                                  |          |                       |                            |          |  |
| Net loans receivable (1)       |                                    |          |                       |                            |          |                       |                                  |          |                       |                            |          |  |
| (2)                            | \$230,488                          | \$3,507  | 6.09%                 | \$215,822                  | \$3,341  | 6.19%                 | \$226,701                        | \$6,864  | 6.06%                 | \$210,945                  | \$6,500  |  |
| Securities                     | 59,502                             | 593      | 3.99%                 | 54,515                     | 695      | 5.10%                 | 60,008                           | 1,242    | 4.14%                 | 57,162                     | 1,400    |  |
| Other interest earning assets  | 17,449                             | 20       | 0.46%                 | 20,488                     | 85       | 1.66%                 | 18,820                           | 41       | 0.44%                 | 18,469                     | 190      |  |
| Total interest earning assets  | 307,439                            | 4,120    | 5.36%                 | 290,825                    | 4,121    | 5.67%                 | 305,529                          | 8,147    | 5.33%                 | 286,576                    | 8,200    |  |
| Non-interest earning assets    | 4,563                              |          |                       | 4,421                      |          |                       | 4,403                            |          |                       | 4,412                      |          |  |
| Total Assets                   | 312,002                            |          |                       | 295,246                    |          |                       | 309,932                          |          |                       | 290,988                    |          |  |
| Interest -bearing liabilities: |                                    |          |                       |                            |          |                       |                                  |          |                       |                            |          |  |
| NOW accounts                   | 13,515                             | 13       | 0.10%                 | 12,935                     | 34       | 1.05%                 | 13,838                           | 26       | 0.38%                 | 12,939                     | 68       |  |
| Money Market Accounts          | 40,305                             | 111      | 1.10%                 | 37,804                     | 220      | 2.33%                 | 40,444                           | 214      | 1.06%                 | 37,919                     | 451      |  |
| Savings and Club accounts      | 13,601                             | 30       | 0.88%                 | 12,884                     | 49       | 1.52%                 | 13,582                           | 60       | 0.88%                 | 13,225                     | 100      |  |
| Certificates of deposit        | 100,897                            | 653      | 2.59%                 | 94,439                     | 868      | 3.68%                 | 99,013                           | 1,353    | 2.73%                 | 94,191                     | 1,700    |  |
| Total Deposits                 | 168,318                            | 807      | 1.92%                 | 158,062                    | 1,171    | 2.96%                 | 166,877                          | 1,653    | 1.98%                 | 158,274                    | 2,300    |  |
| Federal Home Loan Bank         | 89,903                             | 963      | 4.28%                 | 86,750                     | 969      | 4.47%                 | 89,332                           | 1,938    | 4.34%                 | 82,286                     | 1,800    |  |

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|                   |           |         |       |           |         |       |           |         |       |           |       |
|-------------------|-----------|---------|-------|-----------|---------|-------|-----------|---------|-------|-----------|-------|
| Advances          |           |         |       |           |         |       |           |         |       |           |       |
| Total             |           |         |       |           |         |       |           |         |       |           |       |
| interest-bearing  |           |         |       |           |         |       |           |         |       |           |       |
| liabilities       | 258,221   | 1,770   | 2.74% | 244,812   | 2,140   | 3.50% | 256,209   | 3,591   | 2.80% | 240,560   | 4,2   |
| Non interest      |           |         |       |           |         |       |           |         |       |           |       |
| bearing deposits  | 1,605     |         |       | 1,325     |         |       | 1,555     |         |       | 1,345     |       |
| Non interest      |           |         |       |           |         |       |           |         |       |           |       |
| bearing           |           |         |       |           |         |       |           |         |       |           |       |
| liabilities       | 3,835     |         |       | 3,916     |         |       | 4,273     |         |       | 4,385     |       |
| Total             |           |         |       |           |         |       |           |         |       |           |       |
| Liabilities       | 263,661   |         |       | 250,053   |         |       | 262,037   |         |       | 246,290   |       |
| Stockholders      |           |         |       |           |         |       |           |         |       |           |       |
| equity            | 48,341    |         |       | 45,193    |         |       | 47,895    |         |       | 44,725    |       |
| Total             |           |         |       |           |         |       |           |         |       |           |       |
| Liabilities and   |           |         |       |           |         |       |           |         |       |           |       |
| Stockholders      |           |         |       |           |         |       |           |         |       |           |       |
| Equity            | \$312,002 |         |       | \$295,246 |         |       | \$309,932 |         |       | \$291,015 |       |
| Net interest      |           |         |       |           |         |       |           |         |       |           |       |
| income            |           | \$2,350 |       |           | \$1,981 |       |           | \$4,556 |       |           | \$3,9 |
| Interest rate     |           |         |       |           |         |       |           |         |       |           |       |
| spread            |           |         | 2.62% |           |         | 2.17% |           |         | 2.53% |           |       |
| Net yield on      |           |         |       |           |         |       |           |         |       |           |       |
| interest -earning |           |         |       |           |         |       |           |         |       |           |       |
| assets            |           |         | 3.06% |           |         | 2.72% |           |         | 2.98% |           |       |
| Ratio of average  |           |         |       |           |         |       |           |         |       |           |       |
| interest -earning |           |         |       |           |         |       |           |         |       |           |       |
| assets to         |           |         |       |           |         |       |           |         |       |           |       |
| average           |           |         |       |           |         |       |           |         |       |           |       |
| interest-bearing  |           |         |       |           |         |       |           |         |       |           |       |
| liabilities       | 119.06 %  |         |       | 118.80 %  |         |       | 119.25 %  |         |       | 119.13 %  |       |

(1) Non-accruing loans have been included in loans receivable and the effect of such inclusion was not material. Allowance for loan losses has been included in noninterest-earning assets. Interest income on loans includes net amortized revenues (costs) on loans.

(2) Includes both available for sale and held to maturity securities. For available for sale securities, fair value adjustments have been included in the average balance of noninterest-earning assets.



- (3) Includes interest-bearing deposits at other banks, federal funds purchased and Federal Home Loan Bank of Pittsburgh capital stock.
- (4) Interest rate spread represents the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities.
- (5) Net interest margin represents net interest income as a percentage of average interest-earning assets.

Provision for Income Taxes. For the three months ended December 31, 2009 and 2008 income tax expense was \$412,000 and \$336,000, respectively. The Company's effective tax rates for the three months ended December 31, 2009 and 2008 were 33.0% and 33.2%, respectively.

For the six months ended December 31, 2009 and 2008 income tax expense was \$842,000 and \$702,000, respectively. The Company's effective tax rates for the six months ended December 31, 2009 and 2008 were 33.2% and 33.3%, respectively.

Non Performing loans. The following table provides information regarding loans past due 90 days or more, all of which were accounted for on a non-accrual basis.

|                                    | December<br>31, 2009 | June 30,<br>2009 |      |   |
|------------------------------------|----------------------|------------------|------|---|
|                                    | (in thousands)       |                  |      |   |
| Secured by Real Estate             |                      |                  |      |   |
| One to four-family mortgage loans  | \$1,042              | \$1,280          |      |   |
| Construction                       | —                    | 203              |      |   |
| Other Loans                        |                      |                  |      |   |
| Commercial                         | —                    | —                |      |   |
| Consumer                           | —                    | —                |      |   |
| Home Equity Loans and Lines        | 2                    | —                |      |   |
| Loans on Savings accounts          | —                    | —                |      |   |
| Total                              | 1,044                | 1,483            |      |   |
| Total non-performing loans         | \$1,044              | \$1,483          |      |   |
| Real estate owned                  | 428                  | 206              |      |   |
| Other non-performing assets        |                      | —                |      |   |
| Total non-performing assets        | 1,472                | 1,689            |      |   |
| Total non-performing loans/Loans   | 0.45                 | %                | 0.67 | % |
| Total non-performing loans/Assets  | 0.33                 |                  | 0.48 |   |
| Total non-performing Assets/Assets | 0.46                 |                  | 0.55 |   |

Real estate owned assets were \$428,000 and \$206,000 as of December 31, 2009 and June 30, 2009, respectively. We did not have any troubled debt restructuring (wherein the borrower is granted a concession that we would not otherwise consider under current market conditions) as of the dates shown in the above table.

#### Liquidity, Commitments and Capital Resources

The Company must be capable of meeting its customer obligations at all times. Potential liquidity demands include funding loan commitments, cash withdrawals from deposit accounts and other funding needs as they present themselves. Accordingly, liquidity is measured by our ability to have sufficient cash reserves on hand, at a reasonable

cost and/or with minimum losses.

The Asset and Liability Management Committee and the Board of Directors set limits and controls to guide senior management's monitoring of our overall liquidity position and risk. The Board of Directors and its Committee, along with senior management, are responsible for ensuring that our liquidity needs are being met on both a daily and long term basis.

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Our approach to managing day-to-day liquidity is measured through our daily calculation of investable funds and/or borrowing needs to ensure adequate liquidity. In addition, we constantly evaluate our short-term and long-term liquidity risk and strategy based on current market conditions, outside investment and/or borrowing opportunities, short and long-term economic trends, and anticipated short and long-term liquidity requirements. The Company's loan and deposit rates may be adjusted as another means of managing short and long-term liquidity needs. We do not at present participate in derivatives or other types of hedging instruments to meet liquidity demands.

At December 31, 2009, the total approved loan origination commitments outstanding amounted to \$2.3 million. At that date, construction loans in process were \$4.0 million. Certificates of deposit scheduled to mature in one year or less at December 31, 2009, totaled \$71.1 million. Based on the competitive rates and on historical experience, management believes that a significant portion of maturing deposits will remain with the Company. At December 31, 2009, we had an unused borrowing capacity of \$54.7 million from the Federal Home Loan Bank of Pittsburgh which we may use as a funding source to meet commitments and for liquidity purposes.

### Regulatory Capital Compliance

Consistent with its goals to operate a sound and profitable financial organization, the Bank actively seeks to maintain its status as a well-capitalized institution in accordance with regulatory standards. As of December 31, 2009, the Bank exceeded all applicable regulatory capital requirements and was well capitalized. As of December 31, 2009, our regulatory capital amounts and ratios were as follows:

|   | Amount                 | Actual<br>Ratio |
|---|------------------------|-----------------|
|   | (Dollars in thousands) |                 |
| Total risk-based capital                    | \$ 46,158              | 23.73%          |
| Core Capital (to risk-weighted assets)      | 44,495                 | 22.88           |
| Core Capital (adjusted total assets)        | 44,495                 | 13.98           |
| Tangible Capital (to adjusted total assets) | 44,495                 | 13.98           |

Due to our strong capital position we elected not to participate in the TARP capital purchase program.

### Off-Balance Sheet Arrangements

We are a party to financial instruments with off-balance-sheet risk in the normal course of our business of investing in loans and securities as well as in the normal course of maintaining and improving the Company's facilities. These financial instruments include significant purchase commitments, such as commitments related to capital expenditure plans and commitments to purchase investment securities or mortgage-backed securities, and commitments to extend credit to meet the financing needs of our customers. At December 31, 2009, we had no significant off-balance sheet commitments other than commitments to extend credit totaling \$2.3 million and unfunded commitments under lines of credit totaling \$14.2 million.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Our exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of those instruments. We use the same credit policies in making commitments and conditional obligations as we do for on-balance-sheet instruments. Since a number of commitments typically expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.



### Impact of Inflation and Changing Prices

The financial statements included in this document have been prepared in accordance with accounting principles generally accepted in the United States of America. These principles require the measurement of financial position and operating results in terms of historical dollars, without considering changes in the relative purchasing power of money over time due to inflation.

Our primary assets and liabilities are monetary in nature. As a result, interest rates have a more significant impact on our performance than the effects of general levels of inflation. Interest rates, however, do not necessarily move in the same direction or with the same magnitude as the price of goods and services, since such prices are affected by inflation. In a period of rapidly rising interest rates, the liquidity and maturities of our assets and liabilities are critical to the maintenance of acceptable performance levels.

The principal effect of inflation on earnings, as distinct from levels of interest rates, is in the area of non interest expense. Expense items such as employee compensation, employee benefits and occupancy and equipment costs may be subject to increases as a result of inflation. An additional effect of inflation is the possible increase in the dollar value of the collateral securing loans that we have made. We are unable to determine the extent, if any, to which properties securing our loans have appreciated in dollar value due to inflation or depreciated due to economic recession.

### ITEM 3 – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a “smaller reporting company” as defined by Item 10 of Regulation S-K, the Company is not required to provide the information required by this item.

### ITEM 4T – CONTROLS AND PROCEDURES

An evaluation was performed under the supervision, and with the participation of management, including the principal executive and financial officer, of the effectiveness of the design and operation of the disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended) as of December 31, 2009. Based on such evaluation, the principal executive and financial officer has concluded that the disclosure controls and procedures are effective as of December 31, 2009.

No change in the internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) promulgated under the Securities Exchange Act of 1934, as amended) occurred during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1 – LEGAL PROCEEDINGS

There was no material pending legal proceedings at December 31, 2009 to which the Company or its subsidiaries is a party other than ordinary routine litigation incidental to their respective businesses.

ITEM 1A – RISK FACTORS

As a “smaller reporting company” as defined by Item 10 of Regulation S-K, the Company is not required to provide the information required by this item.

ITEM 2 – UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None

ITEM 3 – DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4 – SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On November 4, 2009, the Company held its annual meeting of stockholders at which the following items were voted on.

(1) Election of Directors

| Nominee            | For       | Withheld |
|--------------------|-----------|----------|
| Charles Corcoran   | 3,400,929 | 1,500    |
| William B.K. Parry | 3,401,903 | 526      |

There were no abstentions or broker non-votes in the election of directors.

(2) Ratification of Appointment of Auditors

| For       | Against | Abstain | Broker Non-Votes |
|-----------|---------|---------|------------------|
| 3,402,254 | 0       | 175     | 0                |

ITEM 5 – OTHER INFORMATION

None



ITEM 6 – EXHIBITS

|       |  |  |
|-------|--|--|
| 3(i)  | Charter of William Penn Bancorp, Inc. *                    |  |
| 3(ii) | Bylaws of William Penn Bancorp, Inc. *                     |  |
| 4.1   | Specimen Stock Certificate of William Penn Bancorp, Inc. * |  |
| 10.1  | Directors Consultation and Retirement Plan **              |  |
| 10.2  | Deferred Compensation Plan for Directors **                |  |
| 10.3  | Restated Deferred Compensation Plan **                     |  |
|       | 31   | Rule 13a-14(a)/15d-14(a) Certification |
|       | 32   | Section 1350 Certification             |

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\* Incorporated by reference from the Registrant's Registration Statement on Form S-1 (File No. 333-148219)

\* Incorporated by reference from the Registrant's quarterly report on Form 10-Q for the quarter ended December 31, 2008.



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.

WILLIAM PENN BANCORP, INC.  
(Registrant)

Date: February 16, 2010

/s/ Charles Corcoran  
Charles Corcoran, President  
(Duly authorized officer and principal  
financial officer)