WILLIAM PENN BANCORP INC
Form 10-Q
May 15, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

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FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended **March 31, 2009**

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _________ to _________

Commission File Number **0-53172**

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

United States	**37-1562563**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

8150 Route 13, Levittown, Pennsylvania	**19057**
(Address of principal executive offices)	(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 markwhether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

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

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

Large accelerated filer o	Accelerated filer o
Non-accelerated filer o	Smaller reporting company x

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

As of May 14, 2009, there were 3,641,018 shares of the issuer's common stock outstanding.

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)

		March 31, 2009 (Unaudited)		June 30, 2008
ASSETS				
Cash and due from banks	$	6,339	$	7,233
Interest bearing time deposits		3,264		5,137
Securities available for sale		9		5
Securities held to maturity, fair value of $ 60,635 and 63,646		60,481		63,013
Loans receivable, net of allowance for loan losses $1,966 and $1,910 respectively		219,959		197,025
Premises and equipment, net		1,908		1,805
Federal Home Loan Bank stock, at cost		4,932		4,058
Deferred income taxes		1,995		2,110
Real estate owned		136		-
Accrued interest receivable and other assets		1,611		1,747
TOTAL ASSETS	**$**	300,634	**$**	282,133
LIABILITIES AND STOCKHOLDERS' EQUITY				
LIABILITIES				
Deposits:				
Non-interest bearing	$	1,303	$	1,268
Interest bearing		158,925		159,826
Total deposits		160,228		161,094
Advances from Federal Home Loan Bank		89,000		72,000
Advances from borrowers for taxes and insurance		2,122		2,081
Accrued interest payable and other liabilities		2,766		2,811
TOTAL LIABILITIES		254,116		237,986
Commitments and Contingencies		-		-
STOCKHOLDERS' EQUITY				
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		9,775		9,751
Unallocated common stock held by the Employee Stock Ownership Plan ("ESOP")		(765)		(830)
Retained earnings		37,144		34,862
TOTAL STOCKHOLDERS' EQUITY		46,518		44,147

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$** 300,634	**$** 282,133

See accompanying notes to the unaudited consolidated financial statements

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William Penn Bancorp, Inc.

Consolidated Statements of Income

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

	Three months ended March 31,				Nine months ended March 31,			
		2009 (Unaudited)		2008		2009 (Unaudited)		2008
INTEREST INCOME								
Loans receivable, including fees	$	3,475	$	2,920	$	10,029	$	8,913
Taxable Securities		716		705		2,185		2,383
Other		40		232		236		693
Total Interest Income		4,231		3,857		12,450		11,989
INTEREST EXPENSE								
Deposits		1,033		1,462		3,423		4,783
Borrowings		985		808		2,835		2,790
Total Interest Expense		2,018		2,270		6,258		7,573
Net Interest Income		2,213		1,587		6,192		4,416
Provision For Loan Losses		-		-		62		20
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES		2,213		1,587		6,130		4,396
OTHER INCOME								
Service fees		33		32		101		97
Other		35		34		104		101
Total Other Income		68		66		205		198
OTHER EXPENSES								
Salaries and employee benefits		551		462		1,642		1,415
Termination of defined benefit pension plan		-		269		-		269
Occupancy and equipment		161		160		473		480
FHLB Prepayment penalty		-		-		-		1,524
Other		259		155		803		425
Total Other Expenses		971		1,046		2,918		4,113
Income before Income Taxes		1,310		607		3,417		481
Income Tax Expenses		434		202		1,136		147
NET INCOME	$	876	$	405	$	2,281	$	334
Basic and diluted earnings per share (Note 5)	$	**0.25**		N/A	$	**0.64**		N/A

See accompanying notes to the unaudited consolidated financial statements

William Penn Bancorp, Inc.

Consolidated Statements of Cash Flows

(In Thousands)

	Nine months Ended March 31 2009	2008
Cash Flows from Operating Activities	(Unaudited)	
Net income	$ 2,281	$ 334
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for loan losses	62	20
Provision for depreciation	115	123
Net accretion of securities premiums and discounts	(44)	(188)
Compensation expense on ESOP	(24)	-
Deferred income taxes	115	-
Decrease (increase) in accrued interest receivable and other assets	159	(483)
Increase (decrease) in accrued interest payable and other liabilities	44	(139)
Net Cash Provided by (used in) Operating Activities	2,708	(333)
Cash Flows from Investing Activities		
Securities available for sale:		
Purchases	(5)	(98)
Proceeds from sales of securities	-	108
Securities held to maturity:		
Purchases	(17,860)	(16,133)
Maturities, calls and principal pay downs	20,437	18,999
Net increase in loans receivable	(23,130)	(5,567)
Interest bearing time deposits:		
Purchases	(397)	(1,481)
Maturities and principal pay downs	2,270	1,150
Federal Home Loan Bank Stock:		
Purchases	(955)	(217)
Sales	80	413
Purchases of premises and equipment	(217)	(32)
Net Cash Used In Investing Activities	(19,777)	(2,858)
Cash Flows from Financing Activities		
Net increase (decrease) in deposits	(866)	7,297
Proceeds from advances from Federal Home Loan Bank	21,000	30,000
Repayment of advances from Federal Home Loan Bank	(4,000)	(35,000)
Increase in advances from borrowers for taxes and insurance	41	38
Net Cash Provided by Financing Activities	16,175	2,335
Net Decrease in Cash and Cash Equivalents	(894)	(856)
Cash and Cash Equivalents-Beginning	7,233	14,229
Cash and Cash Equivalents-Ending	$ 6,339	$ 13,373
Supplementary Cash Flows Information		
Interest paid	$ 6,216	$ 7,555
Income taxes paid	$ 875	$ 240

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. Accordingly, the Company's financial statements consist of those of the Bank for periods prior to April 15, 2008.

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. 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 (the Bank) 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 Office of Thrift Supervision. 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 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 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 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 nine months ended March 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, 2008 was derived from the Bank’s audited consolidated financial statements. That data, along with the interim financial information presented in the consolidated balance sheets, statements of operations and statements of cash flows should be read in conjunction with the 2008 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, 2008. 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.

Note 4 - Comprehensive Income (Loss)

The components of comprehensive income include unrealized gains and losses on available for sale securities and the change in minimum pension liability. Comprehensive income for the three months ended March 31, 2009 and 2008 was $876,000 and $579,000, respectively. Comprehensive Income for the nine months ended March 31, 2009 and 2008 was $2.3 million and $508,000, respectively.

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 $876,000 and $2.3 million for the three and nine months ended March 31, 2009 as presented on the Consolidated Statements of Income (unaudited), will be used as the numerator. There was no prior period Earnings Per Share due to reorganization in April 2008.

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

Earnings Per Share		Three months ended March 31, 2009		Nine months ended March 31, 2009
Weighted-average common shares outstanding		3,641,018		3,641,018
Average unearned ESOP shares		(77,215)		(79,418)
Weighted-average common shares and common stock equivalents used to calculate basic and diluted earnings per share		3,563,803		3,561,600
Net Income	$	876,666	$	2,281,453
Basic & diluted earnings/share	$	0.25	$	0.64

Note 6 – Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board ("FASB") issued statement of Financial Accounting Standards ("FAS") No. 157, *Fair Value Measurements*, which provides enhanced guidance for using fair value to measure assets and liabilities. The standard applies whenever other standards require or permit assets or liabilities to be measured at fair value. The Standard does not expand the use of fair value in any new circumstances. FAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. In February 2008, the FASB issued Staff Position No. 157-1, *Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13*, which removed leasing transactions accounted for under FAS No. 13 and related guidance from the scope of FAS No. 157. Also in February 2008, the FASB issued Staff Position No.157-2, *Partial Deferral of the Effective Date of Statement 157*, which deferred the effective date of FAS No. 157 for all nonfinancial assets and nonfinancial liabilities to fiscal years beginning after November 15,

2008. The company adopted FAS 157 on July 1, 2008, which did not have a material impact to the financial statements.

In December 2007, the FASB issued FAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements — an amendment of ARB No. 51*. FAS No. 160 amends ARB No. 51 to establish 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. FAS No. 160 is effective for fiscal years beginning on or after December 15, 2008. Earlier adoption is prohibited. The Company is currently evaluating the impact the adoption of the standard will have on the Company's results of operations.

In October 2008, the FASB issued FSP No. 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset is not active*. This FSP clarifies the application of FAS Statement No. 157, *Fair Value Measurements*, in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. This FSP shall be effective upon issuance, including prior periods for which financial statements have not been issued. Revisions resulting from a change in the valuation technique or its application shall be accounted for as a change in accounting estimate (FAS Statement No. 154, *Accounting Changes and Error Corrections*. The disclosure provisions of Statement 154 for a change in accounting estimate are not required for revisions resulting from a change in valuation technique or its application.The Company is currently evaluating the impact the adoption of the FSP will have on the Company's results of operations.

In December 2008, the FASB issued FASB Staff Position (FSP) No. FAS 132(R)-1, *Employers' Disclosures about Postretirement Benefit Plan Assets*. This FSP amends FASB Statement No. 132 (revised 2003), *Employers' Disclosures about Pensions and Other Postretirement Benefits,* to improve an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. The disclosures about plan assets required by the FSP are to be provided for fiscal years ending after December 15, 2009. The Company is currently evaluating the impact the adoption of the FSP will have on the Company's results of operations.

In April 2009, the FASB issued FSP No. FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*. This FSP relates to 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. FSP No. FAS 157-4 is effective for interim and annual periods ending after June 15, 2009, but entities may early adopt this FSP for the interim and annual periods ending after March 15, 2009. The Company is currently evaluating the impact the adoption of the FSP will have on the Company's results of operations.

In April 2009, the FASB issued FSP No. FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of 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. Prior to issuing this FSP, fair values for these assets and liabilities were only disclosed once a year. The FSP now requires these disclosures on a quarterly basis, providing qualitative and quantitative information about fair value estimates for all those financial instruments not measured on the balance sheet at fair value. FSP No. FAS 107-1 and APB 28-1 is effective for interim and annual periods ending after June 15, 2009, but entities may early adopt this FSP for the interim and annual periods ending after March 15, 2009. The Company is currently evaluating the impact the adoption of the FSP will have on the Company's results of operations.

In April 2009, the FASB issued FSP No. FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*, which provides additional guidance designed to create greater clarity and consistency in accounting for and presenting impairment losses on securities. FSP No. FAS 115-2 and FAS 124-2 is effective for interim and annual periods ending after June 15, 2009, but entities may early adopt this FSP for the interim and annual periods ending after March 15, 2009. The Company is currently evaluating the impact the adoption of the FSP will have on the Company's results of operations.

FAIR VALUE MEASUREMENTS (FAS NO. 157)

Effective July 1, 2008, the Company adopted FAS No. 157, which, among other things, requires enhanced disclosures about assets and liabilities carried at fair value. FAS No. 157 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 defined by FAS No. 157 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 sheet at their fair value as of March 31, 2009 by level within the fair value hierarchy. No liabilities are carried at fair value. As required by FAS No. 157, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	March 31, 2009			
	Level I	**Level II**	**Level III**	**Total**
	(in thousands)			
Assets:				
Securities available for sale	$ 9	$ -	$ -	$ 9

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. 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.

The Company anticipates a significant increase in the cost of federal deposit insurance from current levels of five to seven basis points. The FDIC has increased the assessment rate for the most highly rated institutions to between 12 and 14 basis points for the first quarter of 2009 and has increased the assessment rate to between 12 and 16 basis points thereafter. Assessment rates could be further increased if an institution's FHLB advances exceed 15% of deposits.

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. 2008 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 statements of financial condition and revenues and expenses 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 March 31, 2009 and June 30, 2008

Our total assets were $300.6 million at March 31, 2009, representing a $18.5 million increase over $282.1 million at June 30, 2008, primarily due to a $22.9 million increase in net loans receivable to $220.0 million at March 31, 2009 from $197.0 million at June 30, 2008. Loan growth was primarily attributable to an increase of $13 million in our permanent single family dwellings and $6 million increase in Home equity lines of credit. This increase in the loan portfolio was partially funded by a decrease in securities held to maturity by $2.5 million to $60.5 million at March 31, 2009 from $63.0 million at June 30, 2008 and a decrease in interest bearing time deposits by $1.8 million to $3.2 million at March 31, 2009 from $5.1 million at June 30, 2008.

Deposits declined by $866,000 to $160.2 million at March 31, 2009 from $161.1 million at June 30, 2008 due to some of our major depositors withdrawing funds due to concern about FDIC deposit insurance and the banking crisis. Advances from FHLB increased by $17.0 million to $89.0 million at March 31, 2009, from $72.0 million at June 30, 2008. The increase in borrowed funds was primarily due to the need to fund our loan growth.

Stockholders’ equity grew by $2.4 million to $46.5 million at March 31, 2009, from $44.1 million at June 30, 2008. The increase was primarily the result of the Bank’s net income of $2.3 million for the nine months ended March 31, 2009.

Comparison of Operating Results for the Three and Nine Months Ended March 31, 2009 and 2008

General. Net income for the three months ended March 31, 2009 was $876,000 ($0.25 per share) compared to a net income of $405,000 for the three months ended March 31, 2008. Net income for the nine months ended March 31, 2009 was $2.3 million ($0.64 per share) compared to a net income of $334,000 for the nine months ended March 31, 2008. There were no prior period earnings per share due to reorganization in April 2008. The lower income for the 2008 period was primarily due to prepayment penalty for refinancing FHLB advances in December of 2007.

Interest Income. Total interest income for the three month period ending March 31, 2009 increased by $374,000 to $4.2 million compared to $3.8 million for the same period in 2008. Interest income on loans receivable went up by $555,000 to $3.5 million for the three months ended March 31, 2009 compared to $2.9 million for the same period in 2008 due to an increase in loan volume. Average loan balance increased from $186.1 million as of March 31, 2008 to $221.6 million as of March 31, 2009. This was offset by a decrease in interest income from other interest-earning assets. Interest income on other interest-earning assets declined by $192,000 to $40,000 at March 31, 2009 compared to $232,000 in the prior year period ending March 31, 2008 due to the reduction in dividend income on FHLB stock and lower interest rates. The average yield on other interest earning assets declined 370 basis points. Interest income on securities for both three month periods remained virtually the same.

Total interest income increased slightly to $12.5 million from $12.0 million for the nine month periods ending March 31, 2009, and 2008, respectively. Interest income on loans receivable went up by $1.1 million to $10.0 million at March 31, 2009 compared to $8.9 million for the same period in 2008, which offset the decrease in interest income on securities and other interest-earning assets. Interest income on other interest-earning assets declined $457,000 to $236,000 compared to $693,000 in the prior year period. This was due to the reduction in FHLB stock dividend, shift of some funds to loans and a declining interest rate environment. The average yield on other interest earning assets declined 286 basis points. Interest income on securities declined $198,000 to $2.2 million at nine months ended March 31, 2009 from $2.4 million in the prior year.

Interest Expense. Total interest expense decreased $252,000 to $2.0 million for the three months ended March 31, 2009 as compared to $2.3 million for the same period in 2008. The decrease resulted primarily from a decrease in interest expense on deposits to $1.0 million from $1.4 million in the prior year period due to the current interest rate environment. Though the average balance of deposits remained the same the average cost declined 108 basis points for the three months ended March 31, 2009. Although it has been the Bank'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 went up by $177,000 for three month periods to $985,000 compared to $808,000 at March 31, 2009 and 2008 respectively, partially offsetting the decrease in interest expense on deposits.

Total interest expense for the nine month periods decreased $1.3 million to $6.3 million at March 31, 2009 from $7.6 million at March 31, 2008. The decrease resulted primarily from a $1.4 million decrease in interest expense on deposits to $3.4 million from $4.8 million in the prior year period due to the current interest rate environment. Interest expense on FHLB advances remained virtually the same for both nine month periods ending March 31, 2009 and 2008.Although the average balance of FHLB advances increased by $20.0 million, interest expense remained the same due to a 83 basis points decline in the average cost of FHLB advances.

Net Interest Income The Bank's interest rate spread and net interest margin for the three months ended March 31, 2009, were 2.47% and 2.99%, respectively, compared to 1.88% and 2.41%, respectively, for the three months ended March 31, 2008. The improvement in spread and margin for the three months

ended March 31, 2009 was attributable to a decline of 74 basis points in the average cost of interest-bearing liabilities which was slightly offset by a 14 basis point decline in yields on interest-earning assets. Average interest-earning assets rose to $296.0 million from $263.5 million, for the three months ended March 31, 2009 and 2008 respectively. Average interest-bearing liabilities were $248.9 million and $228.4 million for the three months ended March 31, 2009 and 2008, respectively.

Our net interest margin for the nine months ended March 31, 2009 was 2.85% compared to 2.23% for the same period in 2008. The net interest rate spread increased to 2.30% for period ending March 31, 2009 from 1.64% for the same period in 2008. The improvement in interest spread and margin for nine months ended March 31, 2009 was attributable to a decline of 99 basis points in the average cost of interest bearing liabilities which offset a 33 basis point decline in yield on average interest earning assets. Average interest bearing liabilities were $243.1 million and $228.4 million at March 31, 2009, and 2008 respectively. The average earning assets were $289.6 million and $263.9 million at March 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 loss allowances on such loans; and (2) establishment of general valuation allowances on the remainder of our loan portfolio. We establish a specific loan loss 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 $62,000 made during the nine months ended March 31, 2009 compared to $20,000 in the nine months ended March 31, 2008. The allowance as a percentage of total loans was 0.89% at March 31, 2009 as compared to 0.97% at June 30, 2008. There was no provision for loan losses made during the three months ended March 31, 2009 and 2008. Management believes that the allowance for loan and lease losses is sufficient given the status of the loan portfolio at this time.

Non Interest Income. Other income was $68,000 for the three months ended March 31, 2009 compared to $66,000 for the same period in 2008. Other income for the nine months ended was $205,000 compared to $198,000 at March 31, 2009 and 2008 respectively. 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.

Non Interest Expenses. Other expense was $971,000 compared to $1.0 million for three months ended March 31, 2009 and 2008 respectively. Other expenses were $2.9 million compared to $4.1 million for the nine months ended March 31, 2009 and 2008, respectively. There was a significant increase in other expenses of $1.5 million for nine months ended March 2008 due to a prepayment penalty for refinancing FHLB advances. Without the penalty expense, total other expenses would have been $2.6 million for nine months ended 2008. Increases in other expenses were primarily due to $123,000 increase in legal fees in connection with becoming a public company and an increase in salaries and employee benefits as a result of normal salary increases, combined with the increased cost of maintaining employee benefits, including the implementation of the Bank's employee stock ownership plan.

The following table sets forth certain information with respect to the Bank's interest-earning assets and interest-bearing liabilities for the three and nine months ended March 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. Management does not believe that the use of month end balances rather than daily balances has caused any material differences in the information presented.

	For Three Months Ended March 31,						For Nine Months March 31,			
	2009			2008			2009			
	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost	Avera Balar
Interest -earning assets:										
Net loans receivable (1) (2)	$221,641	$3,475	6.27%	$186,119	$2,920	6.28%	$214,284	$10,029	6.24%	$183,7
Securities	58,103	716	4.93%	57,521	705	4.90%	57,747	2,185	5.04%	60,31
Other interest earning assets	16,282	40	0.98%	19,830	232	4.68%	17,591	236	1.79%	19,85
Total interest earning assets	296,026	4,231	5.72%	263,470	3,857	5.86%	289,622	12,450	5.73%	263,9
Non-interest earning assets	4,551			5,115			4,425			4,695
Total Assets	300,577			268,585			294,047			268,6
Interest -bearing liabilities:										
NOW accounts	13,241	25	0.76%	12,585	43	1.37%	13,028	93	0.95%	12,54
Money Market Accounts	38,448	168	1.75%	37,960	303	3.19%	38,125	619	2.16%	38,09
Savings and Club accounts	12,944	39	1.21%	15,288	72	1.88%	13,155	139	1.41%	14,16
Certificates of deposit	95,252	801	3.36%	94,054	1,044	4.44%	94,512	2,572	3.63%	93,62
Total Deposits	159,885	1,033	2.58%	159,887	1,462	3.66%	158,820	3,423	2.87%	158,4
Federal Home Loan Bank Advances	89,000	985	4.43%	68,500	808	4.72%	84,300	2,835	4.48%	70,00
Total interest-bearing liabilities	248,885	2,018	3.24%	228,387	2,270	3.98%	243,120	6,258	3.43%	228,4
Non interest bearing deposits	1,325			1,603			1,351			1,595
Non interest bearing liabilities	4,360			4,377			4,427			4,314
Total Liabilities	254,570			234,367			248,898			234,3
Stockholders equity	46,007			34,218			45,149			34,30
Total Liabilities and Stockholders Equity	$300,577			$268,585			$294,047			$268,6
Net interest income		$2,213			$1,587			$6,192		
interest rate spread			2.47%			1.88%			2.30%	
Net yield on interest -earning assets			2.99%			2.41%			2.85%	
Ratio of average interest -earning assets to average interest-bearing liabilities	118.94%			115.36%			119.13%			115.5

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Provision for Income Taxes. For the three and nine months ended March 31, 2009 income tax expense was $434,000 and $1.1 million, respectively. The Company's effective tax rates for the three and nine months ended March 31, 2009 were 33.1% and 33.3% respectively. For the three and nine months ended March 31, 2008 the income tax expenses were $202,000 and $147,000, respectively. The effective tax rates for the three and nine months for period ending March 2008 were 33.3% and 30.6% respectively. The lower income for the period ending March 31, 2008 was caused by the FHLB advances prepayment penalty.

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.

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 March 31, 2009, the total approved loan origination commitments outstanding amounted to $4.4 million. At that date, construction loans in process were $7.1 million. Certificates of deposit scheduled to mature in one year or less at March 31, 2009, totaled $57.2 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 March 31, 2009, we had an unused borrowing capacity of $62.9 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 March 31, 2009, the Bank exceeded all applicable regulatory capital requirements and was well capitalized. As of March 31, 2009, our regulatory capital amounts and ratios were as follows:

	Actual	
	Amount	Ratio
	(Dollars in thousands)	
Total risk-based capital	$ 43,950	24.91%

Core Capital (to risk-weighted assets)	$	42,430	24.05%
Core Capital (adjusted total assets)	$	42,430	14.12%
Tangible Capital (to adjusted total assets)	$	42,430	14.12%

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 March 31, 2009, we had no significant off-balance sheet commitments other than commitments to extend credit totaling $4.4 million and unfunded commitments under lines of credit totaling $15.3 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 l3a-l5(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended) as of March 31, 2009. Based on such evaluation, the principal executive and financial officer has concluded that the disclosure controls and procedures are effective as of March 31, 2009.

No change in the internal controls over financial reporting (as defined in Rules l3a-l5(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 were no material pending legal proceedings at March 31, 2009 to which the Company or its subsidiaries is a party other that 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

None

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)

/s/ Charles Corcoran, President

Date: May 15, 2009

Charles Corcoran, President

(Duly authorized officer and principal

financial officer)