

QUAIN T OAK BANCORP INC
Form 10-Q
August 14, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended: June 30, 2013

OR

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

For the transition period from _____ to _____

Commission file number: 000-52694

QUAIN T OAK BANCORP, INC.
(Exact Name of Registrant as Specified in Its Charter)

Pennsylvania
(State or Other Jurisdiction of
Incorporation or Organization)

35-2293957
(IRS Employer Identification
No.)

501 Knowles Avenue, Southampton, Pennsylvania 18966
(Address of Principal Executive Offices)

(215) 364-4059
(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 during

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the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(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 No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: As of August 12, 2013, 965,374 shares of the Registrant's common stock were issued and outstanding.

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ITEM 1. FINANCIAL STATEMENTS

Quaint Oak Bancorp, Inc.

Consolidated Balance Sheets (Unaudited)

	At June 30, 2013	At December 31, 2012
	(In thousands, except share data)	
Assets		
Due from banks, non-interest-bearing	\$2,119	\$1,629
Due from banks, interest-bearing	11,158	10,771
Cash and cash equivalents	13,277	12,400
Investment in interest-earning time deposits	7,920	8,132
Investment securities available for sale at fair value	3,478	3,994
Loans held for sale	3,153	4,875
Loans receivable, net of allowance for loan losses (2013 \$952; 2012 \$860)	92,434	84,291
Accrued interest receivable	678	657
Investment in Federal Home Loan Bank stock, at cost	260	437
Premises and equipment, net	1,670	1,608
Other real estate owned, net	187	170
Prepaid expenses and other assets	712	811
Total Assets	\$123,769	\$117,375
Liabilities and Stockholders' Equity		
Liabilities		
Deposits, interest-bearing	\$104,548	\$97,038
Federal Home Loan Bank advances	1,000	2,000
Accrued interest payable	75	81
Advances from borrowers for taxes and insurance	991	991
Accrued expenses and other liabilities	256	428
Total Liabilities	106,870	100,538
Stockholders' Equity		
Preferred stock – \$0.01 par value, 1,000,000 shares authorized; none issued or outstanding	-	-
Common stock – \$0.01 par value; 9,000,000 shares	14	14

authorized; 1,388,625 issued; 965,374
and 983,821 outstanding at June 30,
2013 and December 31, 2012,
respectively

Additional paid-in capital	13,572	13,559
Treasury stock, at cost: 2013 423,251 shares; 2012 404,804 shares	(3,997)	(3,716)
Unallocated common stock held by:		
Employee Stock Ownership Plan (ESOP)	(571)	(623)
Recognition & Retention Plan Trust (RRP)	(120)	(200)
Accumulated other comprehensive income	33	60
Retained earnings	7,968	7,743
Total Stockholders' Equity	16,899	16,837
Total Liabilities and Stockholders' Equity	\$ 123,769	\$ 117,375

See accompanying notes to consolidated financial statements.

Quaint Oak Bancorp, Inc.

Consolidated Statements of Income (Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2013	2012	2013	2012
(In thousands, except for share data)				
Interest Income				
Interest on loans	\$ 1,485	\$ 1,376	\$ 2,915	\$ 2,679
Interest and dividends on short-term investments and investment securities	67	92	131	224
Total Interest Income	1,552	1,468	3,046	2,903
Interest Expense				
Interest on deposits	421	392	835	803
Interest on Federal Home Loan Bank advances	14	32	35	72
Total Interest Expense	435	424	870	875
Net Interest Income	1,117	1,044	2,176	2,028
Provision for Loan Losses	55	79	107	150
Net Interest Income after Provision for Loan Losses	1,062	965	2,069	1,878
Non-Interest Income				
Mortgage banking and title abstract fees	105	56	249	126
Other fees and services charges	15	13	23	25
Net gain on sales of loans	282	114	469	195
Gain on sale of SBA loan	-	-	-	32
Gain on sale of investment securities	-	331	-	331
Loss on sale of other real estate owned	(10)	-	(10)	(6)
Other	7	8	15	18
Total Non-Interest Income	399	522	746	721
Non-Interest Expense				
Salaries and employee benefits	749	523	1,454	1,016
Directors' fees and expenses	56	55	115	110
Occupancy and equipment	126	84	234	159
Professional fees	107	91	207	169
FDIC deposit insurance assessment	5	33	35	65
Other real estate owned expense	20	2	29	10
Advertising	12	15	38	29
Other	113	75	204	143
Total Non-Interest Expense	1,188	878	2,316	1,701
Income before Income Taxes	273	609	499	898

Income Taxes	100	236	186	349
Net Income	\$173	\$373	\$313	\$549
Earnings per share - basic	\$0.20	\$0.42	\$0.35	\$0.62
Average shares outstanding - basic	886,437	886,437	889,534	883,408
Earnings per share - diluted	\$0.19	\$0.42	\$0.34	\$0.62
Average shares outstanding - diluted	926,817	891,204	925,486	888,835

See accompanying notes to consolidated financial statements.

Quaint Oak Bancorp, Inc.

Consolidated Statements of Comprehensive Income (Unaudited)

	For the Three Months Ended		For the Six Months Ended	
	2013	2012	2013	2012
	(In thousands)			
Net Income	\$ 173	\$ 373	\$ 313	\$ 549
Other Comprehensive Income (Loss):				
Unrealized gains (losses) on investment securities available-for-sale	(64)	(3)	(41)	50
Income tax effect	21	1	14	(17)
Reclassification adjustment for transfer of investment securities from held-to-maturity to available-for-sale	-	-	-	351
Income tax effect	-	-	-	(120)
Reclassification adjustment for gains on sale of investment securities included in net income	-	(331)	-	(331)
Income tax effect	-	113	-	113
Net other comprehensive income (loss)	(43)	(220)	(27)	46
Total Comprehensive Income	\$ 130	\$ 153	\$ 286	\$ 595

See accompanying notes to consolidated financial statements.

Quaint Oak Bancorp, Inc.

Consolidated Statements of Stockholder's Equity (Unaudited)

Six Months Ended June 30,
2013

	Common Stock Number of Shares Outstanding	Amount	Additional Paid-in Capital (In thousands, except share data)	Treasury Stock	Unallocated Common Stock Held by Benefit Plans	Accumulated Other Comprehensive Income	Retained Earnings	Total Stock Equity
BALANCE – December 31, 2012	983,821	\$14	\$13,559	\$(3,716)	\$(823)	\$60	\$7,743	\$16,8
Common stock released by ESOP			33		52			85
Treasury stock purchased	(18,447)			(281)				(281)
Stock based compensation expense			60					60
Release of 8,544 vested RRP shares			(80)		80			-
Cash dividends declared (\$0.09 per share)							(88)	(88)
Net income							313	313
Other comprehensive loss						(27)		(27)
	965,374	\$14	\$13,572	\$(3,997)	\$(691)	\$33	\$7,968	\$16,8

BALANCE
-June 30, 2013

See accompanying notes to consolidated financial statements.

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Quaint Oak Bancorp, Inc.

Consolidated Statements of Cash Flows (Unaudited)

	For the Six Months Ended June 30,	
	2013	2012
	(In thousands)	
Cash Flows from Operating Activities		
Net income	\$313	\$ 549
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for loan losses	107	150
Depreciation expense	64	45
Net accretion of securities discounts	(2)	(81)
Amortization of deferred loan fees and costs	63	16
Stock-based compensation expense	145	112
Gain on the sale of loans held for sale	(469)	(195)
Gain on the sale of securities available for sale	-	(331)
Gain on the sale of SBA loan	-	(32)
Loss on sale of other real estate owned	10	6
Loans held for sale-originations	(26,097)	(10,270)
Loans held for sale-proceeds	28,288	8,790
Changes in assets and liabilities which provided (used) cash:		
Accrued interest receivable	(21)	(96)
Prepaid expenses and other assets	114	(56)
Accrued interest payable	(6)	(13)
Accrued expenses and other liabilities	(172)	(11)
Net Cash Provided by (Used in) Operating Activities	2,337	(1,417)
Cash Flows from Investing Activities		
Net decrease (increase) in investment in interest-earning time deposits	212	(7)
Purchase of investment securities available for sale	(24)	(528)
Proceeds from calls of investment securities available for sale	500	1,588
Proceeds from the sale of securities available for sale	-	3,911
Principal payments received on mortgage-backed securities held to maturity	-	299
Net increase in loans receivable	(8,344)	(3,865)
Gross decrease in investment in Federal Home Loan Bank stock	177	60
Proceeds from the sale of other real estate owned	45	154
Capitalized expenditures on other real estate owned	(41)	-
Purchase of premises and equipment	(126)	(449)
Net Cash (Used in) Provided by Investing Activities	(7,601)	1,163
Cash Flows from Financing Activities		
Net increase (decrease) in deposits	7,510	(921)
Decrease in Federal Homes Loan Bank advances	(1,000)	(1,000)
Dividends paid	(88)	(74)
Purchase of treasury stock	(281)	(33)
Decrease in advances from borrowers for taxes and insurance	(-)	(129)
Net Cash Provided by (Used in) Financing Activities	6,141	(2,157)

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Net Increase (Decrease) in Cash and Cash Equivalents	877	(2,411)
Cash and Cash Equivalents – Beginning of Year	12,400	11,687
Cash and Cash Equivalents – End of Year	\$13,277	\$9,276

Supplementary Disclosure of Cash Flow and Non-Cash Information:

Cash payments for interest	\$876	\$888
Cash payments for income taxes	\$130	\$316
Transfer of loans to other real estate owned	\$ 31	\$ -
Transfer of mortgage-backed securities held to maturity to investment and mortgage-backed securities available for sale	\$ -	\$3,591

See accompanying notes to consolidated financial statements.

Quaint Oak Bancorp, Inc.

Notes to Unaudited Consolidated Financial Statements

Note 1 – Financial Statement Presentation and Significant Accounting Policies

Basis of Financial Presentation. The consolidated financial statements include the accounts of Quaint Oak Bancorp, Inc. (the “Company”) and its wholly owned subsidiary, Quaint Oak Bank (the “Bank”) along with its wholly-owned subsidiaries. At June 30, 2013, the Bank has five wholly-owned subsidiaries, Quaint Oak Mortgage, LLC, Quaint Oak Real Estate, LLC, Quaint Oak Abstract, LLC, Quaint Oak Insurance Agency, LLC, and QOB Properties, LLC, each a Pennsylvania limited liability company. The mortgage, real estate and abstract companies offer mortgage banking, real estate sales and title abstract services, respectively, and began operation in July 2009. QOB Properties, LLC began operations in July 2012 and holds Bank properties acquired through a foreclosure proceeding or acceptance of a deed in lieu of foreclosure. Quaint Oak Insurance Agency, LLC is currently inactive. All significant intercompany balances and transactions have been eliminated.

The Bank is subject to regulation by the Pennsylvania Department of Banking and Securities and the Federal Deposit Insurance Corporation. Pursuant to the Bank’s election under Section 10(1) of the Home Owners’ Loan Act, the Company is a savings and loan holding company regulated by the Board of Governors of the Federal Reserve System. The market area served by the Bank's two branch offices includes Bucks and Montgomery Counties, Pennsylvania, northeast Philadelphia and the surrounding area and the Lehigh Valley area of Pennsylvania. The principal deposit products offered by the Bank are certificates of deposit, passbook savings accounts, statement savings accounts and eSavings accounts. Loan products offered are fixed and adjustable rate residential and commercial mortgages, construction loans, home equity loans, auto loans, and lines of credit.

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (US GAAP) for interim information and with the instructions to Form 10-Q, as applicable to a smaller reporting company. Accordingly, they do not include all the information and footnotes required by US GAAP for complete financial statements.

The foregoing consolidated financial statements are unaudited; but in the opinion of management include all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation thereof. The balances as of December 31, 2012 have been derived from the audited financial statements. These financial statements should be read in conjunction with the financial statements and notes thereto included in Quaint Oak Bancorp’s 2012 Annual Report on Form 10-K. The results of operations for the three and six months ended June 30, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013.

Use of Estimates in the Preparation of Financial Statements. The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates. The Company’s most significant estimates are the determination of the allowance for loan losses, the assessment of other-than-temporary impairment of investment securities, valuation of other real estate owned, and the valuation of deferred tax assets.

Quaint Oak Bancorp, Inc.

Notes to Unaudited Consolidated Financial Statements

Note 1 – Financial Statement Presentation and Significant Accounting Policies (Continued)

Loans Receivable. Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at their outstanding unpaid principal balances, net of an allowance for loan losses and any deferred fees and costs. Interest income is accrued on the unpaid principal balance. Loan origination fees and costs are deferred and recognized as an adjustment of the yield (interest income) of the related loans. The Bank is generally amortizing these amounts over the contractual life of the loan.

The loans receivable portfolio is segmented into residential loans, commercial real estate loans, construction loans and consumer loans. The residential loan segment has two classes: one-to-four family residential owner occupied loans and one-to-four residential family non-owner occupied loans. The commercial real estate loan segment consists of the following classes: multi-family (five or more) residential, commercial real estate and commercial lines of credit. Construction loans are generally granted for the purpose of building a single residential home. The consumer loan segment consists of the following classes: home equity loans and consumer non-real estate loans. Included in the home equity class are home equity loans and home equity lines of credit. Included in the consumer non-real estate loans are loans secured by saving accounts and auto loans.

The accrual of interest is generally discontinued when principal or interest has become 90 days past due unless the loan is in the process of collection and is either guaranteed or well secured. When a loan is placed on nonaccrual status, unpaid interest credited to income in the current year is reversed and unpaid interest accrued in prior years is charged against the allowance for loan losses. Interest received on nonaccrual loans generally is either applied against principal or reported as interest income, according to management's judgment as to the collectability of principal. Generally, a loan is restored to accrual status when the obligation is brought current, it has performed in accordance with the contractual terms for a reasonable period of time and the ultimate collectability of the total contractual principal and interest is no longer in doubt.

Allowance for Loan Losses. The allowance for loan losses represents management's estimate of losses inherent in the loan portfolio as of the balance sheet date and is recorded as a reduction to loans receivable. The allowance for loan losses is increased by the provision for loan losses, and decreased by charge-offs, net of recoveries. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance. All, or part, of the principal balance of loans receivable are charged off to the allowance as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely. Because all identified losses are immediately charged off, no portion of the allowance for loan losses is restricted to any individual loan or groups of loans, and the entire allowance is available to absorb any and all loan losses.

The allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management performs a quarterly evaluation of the adequacy of the allowance. The allowance is based on the Company's past loan loss experience, known and inherent risks 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 revision as more information becomes available.

Quaint Oak Bancorp, Inc.

Notes to Unaudited Consolidated Financial Statements

Note 1 – Financial Statement Presentation and Significant Accounting Policies (Continued)

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are designated as impaired. For loans that are designated 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 pools of loans by loan class. These pools of loans are evaluated for loss exposure based upon historical loss rates for each of these categories of loans, adjusted for qualitative factors. These significant factors may include changes in lending policies and procedures, changes in existing general economic and business conditions affecting our primary lending areas, credit quality trends, collateral value, loan volumes and concentrations, seasoning of the loan portfolio, recent loss experience in particular segments of the portfolio, duration of the current business cycle and bank regulatory examination results. The applied loss factors are reevaluated quarterly to ensure their relevance in the current economic environment. Residential owner occupied mortgage lending generally entails a lower risk of default than other types of lending. Consumer loans and commercial real estate loans generally involve more risk of collectability because of the type and nature of the collateral and, in certain cases, the absence of collateral. It is the Company's policy to establish a specific reserve for loss on any delinquent loan when it determines that a loss is probable. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not considered impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent. An allowance for loan losses is established for an impaired loan if its carrying value exceeds its estimated fair value. The estimated fair values of substantially all of the Company's impaired loans are measured based on the estimated fair value of the loan's collateral.

A loan is identified as a troubled debt restructuring ("TDR") if the Company, for economic or legal reasons related to a debtor's financial difficulties, grants a concession to the debtor that it would not otherwise consider. Concessions granted under a TDR typically involve a temporary or permanent reduction in payments or interest rate or an extension of a loan's stated maturity date at less than a current market rate of interest. Loans identified as TDRs are designated as impaired.

For loans secured by real estate, estimated fair values are determined primarily through third-party appraisals. When a real estate secured loan becomes impaired, a decision is made regarding whether an updated certified appraisal of the real estate is necessary. This decision is based on various considerations, including the age of the most recent appraisal, the loan-to-value ratio based on the original appraisal and the condition of the property. Appraised values are discounted to arrive at the estimated selling price of the collateral, which is considered to be the estimated fair

value. The discounts also include estimated costs to sell the property.

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Quaint Oak Bancorp, Inc.

Notes to Unaudited Consolidated Financial Statements

Note 1 – Financial Statement Presentation and Significant Accounting Policies (Continued)

The allowance calculation methodology includes further segregation of loan classes into risk rating categories. The borrower's overall financial condition, repayment sources, guarantors and value of collateral, if appropriate, are evaluated annually for all loans (except one-to-four family residential owner-occupied loans) where the total amount outstanding to any borrower or group of borrowers exceeds \$500,000, or when credit deficiencies arise, such as delinquent loan payments. Credit quality risk ratings include regulatory classifications of special mention, substandard, doubtful and loss. Loans designated as special mention have potential weaknesses that deserve management's close attention. If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. Loans classified substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They include loans that are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified doubtful have all the weaknesses inherent in loans classified substandard with the added characteristic that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. Loans classified as a loss are considered uncollectible and are charged to the allowance for loan losses. Loans not classified are rated pass. In addition, Federal regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses and may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examination, which may not be currently available to management. Based on management's comprehensive analysis of the loan portfolio, management believes the current level of the allowance for loan losses is adequate.

Loans Held for Sale. Loans originated by the Bank's mortgage banking subsidiary, Quaint Oak Mortgage, LLC, are intended for sale in the secondary market and are carried at the lower of cost or fair value (LOCOM). Gains and losses on loan sales (sales proceeds minus carrying value) are recorded in noninterest income, and direct loan origination costs and fees are deferred at origination of the loan and are recognized in noninterest income upon sale of the loan.

Federal Home Loan Bank Stock. Federal law requires a member institution of the Federal Home Loan Bank (FHLB) system to hold restricted stock of its district Federal Home Loan Bank according to a predetermined formula. FHLB stock is carried at cost and evaluated for impairment. When evaluating FHLB stock for impairment, its value is determined based on the ultimate recoverability of the par value of the stock. We evaluate our holdings of FHLB stock for impairment each reporting period. No impairment charges were recognized on FHLB stock during the three and six months ended June 30, 2013 and 2012.

Other Real Estate Owned. Other real estate owned or foreclosed assets are comprised of property acquired through a foreclosure proceeding or acceptance of a deed in lieu of foreclosure and loans classified as in-substance foreclosures. A loan is classified as in-substance foreclosure when the Bank has taken possession of the collateral regardless of whether formal foreclosure proceedings take place. Other real estate properties are initially recorded at fair value, net of estimated selling costs at the date of foreclosure, establishing a new cost basis. After foreclosure, valuations are periodically performed by management and the real estate is carried at the lower of cost or fair value less estimated costs to sell. Net revenue and expenses from operations and additions to the valuation allowance are included in other expenses.

Quaint Oak Bancorp, Inc.

Notes to Unaudited Consolidated Financial Statements

Note 1 – Financial Statement Presentation and Significant Accounting Policies (Continued)

Share-Based Compensation. Compensation expense for share-based compensation awards is based on the grant date fair value of the award. That cost is recognized over the period during which an employee is required to provide service in exchange for the award.

At June 30, 2013, the Company has three share-based plans: the 2008 Recognition and Retention Plan (“RRP”), the 2008 Stock Option Plan, and the 2013 Stock Incentive Plan. Awards under these plans were made in May 2008 and 2013. These plans are more fully described in Note 8.

The Company also has an employee stock ownership plan (“ESOP”). This plan is more fully described in Note 8. As ESOP shares are committed to be released and allocated among participants, the Company recognizes compensation expense equal to the average market price of the shares over the period earned.

Comprehensive Income (Loss). Accounting principles generally accepted in the United States of America require that recognized revenue, expenses, gains and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as a separate component of the equity section of the balance sheet and along with net income, are components of comprehensive income.

Earnings per Share. Amounts reported in earnings per share reflect earnings available to common stockholders’ for the period divided by the weighted average number of shares of common stock outstanding during the period, exclusive of unearned ESOP shares, unvested restricted stock (RRP) shares and treasury shares. Stock options and unvested restricted stock are regarded as potential common stock and are considered in the diluted earnings per share calculations to the extent they would have a dilutive effect if converted to common stock, computed using the “treasury stock” method.

Recent Accounting Pronouncements. In February 2013, the FASB issued ASU No. 2013-02, Comprehensive Income, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. The objective of ASU 2013-02 is to improve the reporting of reclassifications out of accumulated other comprehensive income. The amendments included in ASU 2013-02 do not change the current requirements for reporting net income or other comprehensive income in financial statements. However, the amendments require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. For public entities, the amendments are effective prospectively for reporting periods beginning after December 15, 2012. As the adoption of ASU 2013-02 amends only disclosure requirements, the adoption had no impact on the Company’s results of operations or financial position.

Reclassifications. Certain items in the 2012 consolidated financial statements have been reclassified to conform to the presentation in the 2013 consolidated financial statements. Such reclassifications did not have a material impact on the presentation of the overall financial statements. The reclassifications had no effect on net income.

Quaint Oak Bancorp, Inc.

Notes to Unaudited Consolidated Financial Statements

Note 2 – Earnings Per Share

Earnings per share (“EPS”) consists of two separate components, basic EPS and diluted EPS. Basic EPS is computed based on the weighted average number of shares of common stock outstanding for each period presented. Diluted EPS is calculated based on the weighted average number of shares of common stock outstanding plus dilutive common stock equivalents (“CSEs”). CSEs consist of shares that are assumed to have been purchased with the proceeds from the exercise of stock options, as well as unvested restricted stock (RRP) shares. Common stock equivalents which are considered antidilutive are not included for the purposes of this calculation. For the three and six months ended June 30, 2013, 107,570 outstanding stock options were dilutive. For the three months and six months ended June 30, 2012 all outstanding stock options were antidilutive.

The following table sets forth the composition of the weighted average shares (denominator) used in the basic and dilutive earnings per share computations.

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2013	2012	2013	2012
Net Income	\$ 173,000	\$ 373,000	\$ 313,000	\$ 549,000
Weighted average shares outstanding – basic	886,437	886,437	889,534	883,408
Effect of dilutive common stock equivalents	40,380	4,767	35,952	5,427
Adjusted weighted average shares outstanding – diluted	926,817	891,204	925,486	888,835
Basic earnings per share	\$ 0.20	\$ 0.42	\$ 0.35	\$ 0.62
Diluted earnings per share	\$ 0.19	\$ 0.42	\$ 0.34	\$ 0.62

Note 3 – Investment in Interest-Earning Time Deposits

The investment in interest-earning time deposits as of June 30, 2013 and December 31, 2012, by contractual maturity, are shown below:

	June 30, 2013	December 31, 2012
	(In Thousands)	
Due in one year or less	\$ 2,570	\$ 3,325
Due after one year through five years	5,350	4,807
	\$ 7,920	\$ 8,132

Quaint Oak Bancorp, Inc.

Notes to Unaudited Consolidated Financial Statements

Note 4 – Investment Securities Available for Sale

The amortized cost and fair value of investment securities available for sale at June 30, 2013 and December 31, 2012 are summarized below (in thousands):

	June 30, 2013			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Corporate securities	\$1,749	\$73	\$-	\$1,822
Short-term bond fund	1,147	-	(8)	1,139
Limited-term bond fund	532	-	(15)	517
	\$3,428	\$73	\$(23)	\$3,478

	December 31, 2012			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
U.S. Government agency securities	\$500	\$1	\$-	\$501
Corporate securities	1,747	81	(2)	1,826
Short-term bond fund	1,127	15	-	1,142
Limited-term bond fund	528	-	(3)	525
	\$3,902	\$97	\$(5)	\$3,994

The amortized cost and fair value of available for sale debt securities at June 30, 2013, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
	(In Thousands)	
Due in one year or less	\$-	\$-
Due after one year through five years	1,749	1,822
Due after five years through ten years	-	-
	\$1,749	\$1,822

Quaint Oak Bancorp, Inc.

Notes to Unaudited Consolidated Financial Statements

Note 4 – Investment Securities Available for Sale (Continued)

The following table shows the Company's gross unrealized losses and fair value, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position at June 30, 2013 and December 31, 2012 (in thousands):

	Number of Securities	June 30, 2013		June 30, 2013		Total	
		Less than Twelve Months		Twelve Months or		Gross	
		Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Short-term bond fund	1	\$ 1,139	\$ (8)	\$ -	\$ -	\$ 1,139	\$ (8)
Limited-term bond fund	1	-	-	517	(15)	517	(15)
Total	2	\$ 1,139	\$ -	\$ 517	\$ (15)	\$ 1,656	\$ (23)

	Number of Securities	December 31, 2012		December 31, 2012		Total	
		Less than Twelve Months		Twelve Months or		Gross	
		Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Corporate securities	1	\$ -	\$ -	\$ 248	\$ (2)	\$ 248	\$ (2)
Limited-term bond fund	1	-	-	525	(3)	525	(3)
Total	2	\$ -	\$ -	\$ 773	\$ (5)	\$ 773	\$ (5)

At June 30, 2013, there were two bond funds in an unrealized loss position that at such date had an aggregated depreciation of 1.37% from the Company's amortized cost basis. Management believes that the estimated fair value of the securities disclosed above is primarily dependent on the movement of market interest rates. Management evaluated the length and time and the extent to which the fair value has been less than cost and the financial condition and near term prospects of the issuer, including any specific events which may influence the operations of the issuer. The Company has the ability and intent to hold the security until the anticipated recovery of fair value occurs. Management does not believe any individual unrealized loss as of June 30, 2013 represents an other-than-temporary impairment. There were no impairment charges recognized during the three and six months ended June 30, 2013 or 2012.

On March 30, 2012, the Company transferred all securities designated as held to maturity into the investment and mortgage-backed securities available for sale category. Management determined that it no longer had the positive intent to hold its investment in securities held to maturity for an indefinite period of time because of management's desire to have more flexibility in managing the investment portfolio. The securities transferred had an amortized cost of \$3.6 million and unrealized gross gains of \$351,000 at the time of transfer. The net unrealized gain of \$231,000 was recorded as other comprehensive income. In the second quarter of 2012, the Company sold these mortgage-backed securities and realized a gain of \$331,000.

Quaint Oak Bancorp, Inc.

Notes to Unaudited Consolidated Financial Statements

Note 5 - Loans Receivable, Net and Allowance for Loan Losses

The composition of net loans receivable is as follows:

	June 30, 2013	December 31, 2012
Real estate loans:		
One-to-four family residential:		
Owner occupied	\$ 9,349	\$ 10,272
Non-owner occupied	37,792	35,118
Total one-to-four family residential	47,141	45,390
Multi-family (five or more) residential	3,803	3,315
Commercial real estate	20,745	18,694
Commercial lines of credit	1,747	1,901
Construction	14,586	9,765
Home equity loans	5,469	6,029
Total real estate loans	93,491	85,094
Auto and equipment loans	72	93
Loans secured by deposits	34	69
Total Loans	93,597	85,256
Deferred loan fees and costs	(211)	(105)
Allowance for loan losses	(952)	(860)
Net Loans	\$92,434	\$84,291

The following tables present the classes of the loan portfolio summarized by the aggregate pass rating and the classified ratings of special mention, substandard and doubtful within the Company's internal risk rating system as of June 30, 2013 and December 31, 2012 (in thousands):

	June 30, 2013				Total
	Pass	Special Mention	Substandard	Doubtful	
One-to-four family residential owner occupied	\$8,551	\$420	\$ 68	\$310	\$9,349
One-to-four family residential non-owner occupied	35,873	785	642	492	37,792
Multi-family residential	3,803	-	-	-	3,803
Commercial real estate and lines of credit	21,759	319	302	112	22,492
Construction	14,586	-	-	-	14,586
Home equity	5,078	-	294	97	5,469
Consumer non-real estate	101	-	-	5	106

\$89,751	\$1,524	\$1,306	\$1,016	\$93,597
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Quaint Oak Bancorp, Inc.

Notes to Unaudited Consolidated Financial Statements

Note 5 - Loans Receivable, Net and Allowance for Loan Losses (Continued)

	December 31, 2012				Total
	Pass	Special Mention	Substandard	Doubtful	
One-to-four family residential owner occupied	\$9,641	\$500	\$72	\$59	\$10,272
One-to-four family residential non-owner occupied	34,328	95	504	191	35,118
Multi-family residential	3,315	-	-	-	3,315
Commercial real estate and lines of credit	19,536	565	364	130	20,595
Construction	9,765	-	-	-	9,765
Home equity	5,295	428	268	38	6,029
Consumer non-real estate	156	-	6	-	162
	\$82,036	\$1,588	\$1,214	\$418	\$85,256

The following tables summarize information in regards to impaired loans by loan portfolio class as of June 30, 2013 and December 31, 2012 (in thousands):

	June 30, 2013				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
One-to-four family residential owner occupied	\$378	\$378	\$-	\$382	\$5
One-to-four family residential non-owner occupied	702	702	-	708	30
Multi-family residential	-	-	-	-	-
Commercial real estate and lines of credit	105	105	-	106	8
Construction	-	-	-	-	-
Home equity	118	118	-	120	4
Consumer non-real estate	5	5	-	5	-
With an allowance recorded:					
One-to-four family residential owner occupied	\$-	\$-	\$-	\$-	\$-
One-to-four family residential non-owner occupied	432	432	61	435	1
Multi-family residential	-	-	-	-	-
Commercial real estate and lines of credit	309	309	25	314	4
Construction	-	-	-	-	-
Home equity	73	73	73	73	-

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Consumer non-real estate	-	-	-	-	-
Total:					
One-to-four family residential owner occupied	\$378	\$378	\$-	\$382	\$5
One-to-four family residential non-owner occupied	1,134	1,134	61	1,143	31
Multi-family residential	-	-	-	-	-
Commercial real estate and lines of credit	414	414	25	420	12
Construction	-	-	-	-	-
Home equity	191	191	73	193	4
Consumer non-real estate	5	5	-	5	-

Quaint Oak Bancorp, Inc.

Notes to Unaudited Consolidated Financial Statements

Note 5 - Loans Receivable, Net and Allowance for Loan Losses (Continued)

	December 31, 2012				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
One-to-four family residential owner occupied	\$ 131	\$ 131	\$-	\$ 131	\$ 9
One-to-four family residential non-owner occupied	393	393	-	396	17
Multi-family residential	-	-	-	-	-
Commercial real estate and lines of credit	130	130	-	131	8
Construction	-	-	-	-	-
Home equity	244	244	-	246	14
Consumer non-real estate	6	6	-	9	1
With an allowance recorded:					
One-to-four family residential owner occupied	\$-	\$-	\$-	\$-	\$-
One-to-four family residential non-owner occupied	302	302	24	304	13
Multi-family residential	-	-	-	-	-
Commercial real estate and lines of credit	364	364	88	366	15
Construction	-	-	-	-	-
Home equity	62	62	28	64	4
Consumer non-real estate	-	-	-	-	-
Total:					
One-to-four family residential owner occupied	\$ 131	\$ 131	\$-	\$ 131	\$ 9
One-to-four family residential non-owner occupied	695	695	24	700	30
Multi-family residential	-	-	-	-	-
Commercial real estate and lines of credit	494	494	88	497	23
Construction	-	-	-	-	-
Home equity	306	306	28	310	18
Consumer non-real estate	6	6	-	9	1

At June 30, 2013, the Company had seven loans totaling \$430,000 that were identified as troubled debt restructurings. None of these loans were delinquent and were all performing in accordance with their modified terms. If a TDR is placed on non-accrual it is not reverted back to accruing status until the borrower makes timely payments as contracted for at least six months and future collection under the revised terms is probable. None of the restructurings were made under a government assistance program. These restructurings were allowed in an effort to maximize the Company's ability to collect on loans where borrowers were experiencing financial difficulty. All the Company's TDRs as of June 30, 2013 have modifications with terms of interest-only payments for a period of nine months. In some cases the modification terms may include a small payment of principal in addition to interest. The

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following tables present the Company's TDR loans as of June 30, 2013 and December 31, 2012 (dollar amounts in thousands):

	Number of Contracts	Recorded Investment	June 30, 2013		Related Allowance
			Non-Accrual	Accruing	
One-to-four family residential owner occupied	1	\$68	\$ -	\$68	\$-
One-to-four family residential non-owner occupied	4	299	-	299	-
Multi-family residential	-	-	-	-	-
Commercial real estate and lines of credit	-	-	-	-	-
Construction	-	-	-	-	-
Home equity	2	63	-	63	-
Consumer non-real estate	-	-	-	-	-
Total	7	\$430	\$ -	\$430	\$-

Quaint Oak Bancorp, Inc.

Notes to Unaudited Consolidated Financial Statements

Note 5 - Loans Receivable, Net and Allowance for Loan Losses (Continued)

	Number of Contracts	December 31, 2012			Related Allowance
		Recorded Investment	Non- Accrual	Accruing	
One-to-four family residential owner occupied	1	\$71	\$71	\$-	\$-
One-to-four family residential non-owner occupied	4	302	-	302	10
Multi-family residential	-	-	-	-	-
Commercial real estate and lines of credit	-	-	-	-	-
Construction	-	-	-	-	-
Home equity	3	245	-	245	1
Consumer non-real estate	-	-	-	-	-
Total	8	\$618	\$71	\$547	\$11

The contractual aging of the TDRs in the table above as of June 30, 2013 is as follows (in thousands):

	June 30, 2013				Total
	Current & Past Due Less than 30 Days	Past Due 30-89 Days	Greater than 90 Days	Non- Accrual	
One-to-four family residential owner occupied	\$68	\$ -	\$ -	\$ -	\$ 68
One-to-four family residential non-owner occupied	299	-	-	-	299
Multi-family residential	-	-	-	-	-
Commercial real estate and lines of credit	-	-	-	-	-
Construction	-	-	-	-	-
Home equity	63	-	-	-	63
Consumer non-real estate	-	-	-	-	-
Total	\$430	\$ -	\$ -	\$ -	\$ 430

During the six months ended June 30, 2013 there were no new TDRs identified. During the quarter ended June 30, 2013, one loan in the amount of \$179,000 that was previously identified as a TDR was removed from TDR status as the borrower is current and making regular payments since April 2012.

Any reserve for an impaired TDR loan is based upon the present value of the future expected cash flows discounted at the loan's original effective rate or upon the fair value of the collateral less costs to sell, if the loan is deemed collateral dependent. At June 30, 2013 there were no commitments to lend additional funds to debtors whose loan terms have been modified as TDRs.

The general practice of the Bank is to work with borrowers so that they are able to pay back their loan in full. If a borrower continues to be delinquent or cannot meet the terms of a TDR modification and the loan is determined to be uncollectible, the loan will be charged off. As June 30, 2013 all of our loans identified as TDRs were performing in accordance with their modified terms.

Quaint Oak Bancorp, Inc.

Notes to Unaudited Consolidated Financial Statements

Note 5 - Loans Receivable, Net and Allowance for Loan Losses (Continued)

Following is a summary, by loan portfolio class, of changes in the allowance for loan losses for the three and six months ended June 30, 2013 and recorded investment in loans receivable as of June 30, 2013 (in thousands):

	June 30, 2013								Una
	1-4 Family Residential Owner Occupied	1-4 Family Residential Non-Owner Occupied	Multi-Family Residential	Commercial Real Estate and Lines of Credit	Construction	Home Equity	Consumer Non-Real Estate		
For the Three Months Ended June 30, 2013									
Allowance for loan losses:									
Beginning balance	\$72	\$432	\$25	\$173	\$75	\$89	\$1		\$45
Charge-offs	-	(15)	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-	-
Provision	(5)	3	(2)	4	20	21	-		14
Ending balance	\$67	\$420	\$23	\$177	\$95	\$110	\$1		\$59

For the Six Months Ended June 30, 2013

Allowance for loan losses:

Beginning balance	\$77	\$368	\$20	\$219	\$63	\$68	\$1	\$44	\$860
Charge-offs	-	(15)	-	-	-	-	-	-	(15)
Recoveries	-	-	-	-	-	-	-	-	-
Provision	(9)	66	3	(42)	32	42	-	15	107
Ending balance	\$67	\$420	\$23	\$177	\$95	\$110	\$1	\$59	\$952

Ending balance evaluated for impairment:

Individually	\$-	\$61	\$-	\$25	\$-	\$73	\$-	\$-	\$159
Collectively	\$67	\$359	\$23	\$152	\$95	\$37	\$1	\$59	\$793

Loans receivable:

Ending balance	\$9,349	\$37,792	\$3,803	\$22,492	\$14,586	\$5,469	\$106	\$-	\$93,597
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Ending balance evaluated for impairment:

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Individually	\$378	\$1,134	\$-	\$414	\$-	\$191	\$5	\$-	\$2,122
Collectively	\$8,971	\$36,658	\$3,803	\$22,078	\$14,486	\$5,278	\$101	\$-	\$91,475

Quaint Oak Bancorp, Inc.

Notes to Unaudited Consolidated Financial Statements

Note 5 - Loans Receivable, Net and Allowance for Loan Losses (Continued)

Following is a summary, by loan portfolio class, of changes in the allowance for loan losses for the three and six months ended June 30, 2012 and recorded investment in loans receivable as of June 30, 2012 (in thousands):

		June 30, 2012								
1-4 Family Residential Owner Occupied	1-4 Family Residential Non-Owner Occupied	Multi-Family Residential	Commercial Real Estate and Lines of Credit	Construction	Home Equity	Consumer Non-Real Estate	Unallocated	Total		
For the Three Months Ended June 30, 2012										
Allowance for loan losses:										
Beginning balance	\$ 107	\$ 375	\$ 24	\$ 182	\$ 42	\$ 85	\$ 1	\$ 56	\$ 872	
Charge-offs	-	-	-	-	-	-	-	-	-	
Recoveries	-	-	-	-	-	-	-	-	-	
Provision	(31)	34	(3)	66	10	(9)	1	11	79	
Ending balance	\$ 76	\$ 409	\$ 21	\$ 248	\$ 52	\$ 76	\$ 2	\$ 67	\$ 951	
For the Six Months Ended June 30, 2012										
Allowance for loan losses:										
Beginning balance	\$ 114	\$ 351	\$ 26	\$ 148	\$ 35	\$ 83	\$ 1	\$ 47	\$ 805	
Charge-offs	-	-	-	-	-	(4)	-	-	(4)	
Recoveries	-	-	-	-	-	-	-	-	-	
Provision	(38)	58	(5)	100	17	(3)	1	20	150	
Ending balance	\$ 76	\$ 409	\$ 21	\$ 248	\$ 52	\$ 76	\$ 2	\$ 67	\$ 951	
Ending balance evaluated for impairment:										
Individually	\$-	\$ 121	\$-	\$ 103	\$-	\$ 40	\$ 1	\$-	\$ 265	
Collectively	\$ 76	\$ 288	\$ 21	\$ 145	\$ 52	\$ 36	\$ 1	\$ 67	\$ 686	

Quaint Oak Bancorp, Inc.

Notes to Unaudited Consolidated Financial Statements

Note 5 - Loans Receivable, Net and Allowance for Loan Losses (Continued)

Following is a summary, by loan portfolio class, of changes in the allowance for loan losses for the year ended December 31, 2012 and recorded investment in loans receivable as of December 31, 2012 (in thousands):

		December 31, 2012							
1-4 Family Residential Owner Occupied	1-4 Family Residential Non-Owner Occupied	Multi-Family Residential	Commercial Real Estate and Lines of Credit	Construction	Home Equity	Consumer Non-Real Estate	Unallocated	Total	
Allowance for loan losses:									
Beginning balance									
	\$114	\$351	\$26	\$148	\$35	\$83	\$1	\$47	\$805
Charge-offs	-	(103)	-	-	-	(4)	-	-	(107)
Recoveries	-	-	-	-	-	-	-	-	-
Provision	(37)	120	(6)	71	28	(11)	-	(3)	162
Ending balance									
	\$77	\$368	\$20	\$219	\$63	\$68	\$1	\$44	\$860
Ending balance evaluated for impairment:									
Individually	\$-	\$24	\$-	\$88	\$-	\$28	\$-	\$-	\$140
Collectively	\$77	\$344	\$20	\$131	\$63	\$40	\$1	\$44	\$720
Loans receivable:									
Ending balance									
	\$10,272	\$35,118	\$3,315	\$20,595	\$9,765	\$6,029	\$162	\$-	\$85,256
Ending balance evaluated for impairment:									
Individually	\$131	\$695	\$-	\$494	\$-	\$306	\$6	\$-	\$1,632
Collectively	\$10,141	\$34,423	\$3,315	\$20,101	\$9,765	\$5,723	\$156	\$-	\$83,624

The following table presents nonaccrual loans by classes of the loan portfolio as of June 30, 2013 and December 31, 2012 (in thousands):

	June 30, 2013	December 31, 2012
One-to-four family residential owner occupied	\$310	\$131
One-to-four family residential non-owner occupied	635	488
Multi-family residential	-	-

Commercial real estate and lines of credit	309	445
Construction	-	-
Home equity	128	256
Consumer non-real estate	5	-
	\$1,387	\$1,320

Non-performing loans, which consist of non-accruing loans plus accruing loans 90 days or more past due, amounted to \$1.9 million and \$2.1 million at June 30, 2013 and December 31, 2012, respectively. For the delinquent loans in our portfolio, we have considered our ability to collect the past due interest, as well as the principal balance of the loan, in order to determine whether specific loans should be placed on non-accrual status. In cases where our evaluations have determined that the principal and interest balances are collectible, we have continued to accrue interest.

Quaint Oak Bancorp, Inc.

Notes to Unaudited Consolidated Financial Statements

Note 5 - Loans Receivable, Net and Allowance for Loan Losses (Continued)

For the three months ended June 30, 2013 and 2012, approximately \$0 and \$20,000 of interest income was recognized on non-accrual loans. Interest income foregone on non-accrual loans was approximately \$29,000 and \$18,000 for the three months ended June 30, 2013 and 2012, respectively. For the six months ended June 30, 2013 and 2012, approximately \$4,000 and \$35,000 of interest income was recognized on non-accrual loans. Interest income foregone on non-accrual loans was approximately \$48,000 and \$45,000 for the six months ended June 30, 2013 and 2012, respectively.

The performance and credit quality of the loan portfolio is also monitored by analyzing the age of the loans receivable as determined by the length of time a recorded payment is past due. The following tables present the classes of the loan portfolio summarized by the past due status as of June 30, 2013 and December 31, 2012 (in thousands):

June 30, 2013

	30-90 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans Receivable	Loans Receivable > 90 Days and Accruing
One-to-four family residential owner occupied	\$ 920	\$ 310	\$ 1,230	\$ 8,119	\$ 9,349	\$ -
One-to-four family residential non-owner occupied	857	918	1,775	36,017	37,792	283
Multi-family residential	75	-	75	3,728	3,803	-
Commercial real estate and lines of credit	503	581	1,084	21,408	22,492	272
Construction	295	-	295	14,291	14,586	-
Home equity	142	128	270	5,199	5,469	-
Consumer non-real estate	-	5	5	101	106	-
	\$ 2,792	\$ 1,942	\$ 4,734	\$ 88,863	\$ 93,597	\$ 555

December 31, 2012

	30-90 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans Receivable	Loans Receivable > 90 Days and Accruing
One-to-four family residential owner	\$ 348	\$ 373	\$ 721	\$ 9,551	\$ 10,272	\$ 242

occupied

One-to-four family residential non-owner occupied	1,506	790	2,296	32,822	35,118	302
Multi-family residential	79	-	79	3,236	3,315	-
Commercial real estate and lines of credit	756	657	1,413	19,182	20,595	212
Construction	382	-	382	9,383	9,765	-
Home equity	238	321	559	5,470	6,029	65
Consumer non-real estate	6	-	6	156	162	-
	\$ 3,315	\$ 2,141	\$ 5,456	\$ 79,800	\$ 85,256	\$ 821

Quaint Oak Bancorp, Inc.

Notes to Unaudited Consolidated Financial Statements

Note 6 – Deposits

Deposits consist of the following classifications (in thousands):

	June 30, 2013	December 31, 2012
Passbook savings accounts	\$ 2,793	\$ 2,890
Statement savings accounts	5,688	5,843
eSavings accounts	13,714	10,604
Certificates of deposit	82,353	77,701
Total deposits	\$ 104,548	\$ 97,038

Note 7 – Borrowings

Federal Home Loan Bank advances consist of the following at June 30, 2013 and December 31, 2012 (in thousands):

Maturity Period	June 30, 2013		December 31, 2012	
	Amount	Weighted Interest Rate	Amount	Weighted Interest Rate
1 to 12 Months	\$1,000	4.32 %	\$2,000	4.19 %

Note 8 – Stock Compensation Plans

Employee Stock Ownership Plan

The Company adopted an Employee Stock Ownership Plan (ESOP) during fiscal 2007 for the benefit of employees who meet the eligibility requirements of the plan. Using proceeds from a loan from the Company, the ESOP purchased 8%, or 111,090 shares of the Company's then outstanding common stock in the open market at an average price of \$9.35 for a total of \$1.0 million. The Bank makes cash contributions to the ESOP on a quarterly basis sufficient to enable the ESOP to make the required loan payments to the Company. The loan bears an interest rate of 7.75% per annum, with principal and interest to be paid quarterly in equal installments over 15 years. The loan is secured by the unallocated shares of common stock held by the ESOP.

Shares of the Company's common stock purchased by the ESOP are held in a suspense account and reported as unallocated common stock held by the ESOP in stockholders' equity until released for allocation to participants. As the debt is repaid, shares are released from collateral and are allocated to each eligible participant based on the ratio of each such participant's base compensation to the total base compensation of eligible plan participants. As the unearned shares are committed to be released and allocated among participants, the Company recognizes compensation expense equal to the average market value of the shares, and the shares become outstanding for earnings per share computations. During the three and six months ended June 30, 2013, the Company recognized \$59,000 and \$85,000 of ESOP expense, respectively. During the three and six months June 30, 2012, the Company recognized \$37,000 and

\$53,000 of ESOP expense, respectively.

Quaint Oak Bancorp, Inc.

Notes to Unaudited Consolidated Financial Statements

Note 8 – Stock Compensation Plans (Continued)

Recognition & Retention Plan

In May 2008, the shareholders of Quaint Oak Bancorp approved the adoption of the 2008 Recognition and Retention Plan (the “RRP”) and Trust Agreement. In order to fund the RRP, the 2008 Recognition and Retention Plan Trust acquired 55,545 shares of the Company’s stock in the open market at an average price of \$9.36 totaling \$520,000. In May 2013, the shareholders of Quaint Oak Bancorp approved the adoption of the 2013 Stock Incentive Plan (the “Stock Incentive Plan”). The Stock Incentive Plan provides that no more than 24,375, or 25%, of the shares may be granted as restricted stock awards.

As of June 30, 2013, a total of 26,500 awards of restricted stock were unvested under the RRP and Stock Incentive Plan and 10,684 restricted stock awards were available for future grant under the Stock Incentive Plan and none under the RRP. The RRP and Stock Incentive Plan share awards have vesting periods from five to seven years.

A summary of the status of the shares under the RRP and Stock Incentive Plan as of June 30, 2013 and 2012 and changes during the six months ended June 30, 2013 and 2012 is as follows:

	June 30, 2013		June 30, 2012	
	Number of	Weighted	Number of	Weighted
	Shares	Average	Shares	Average
		Grant Date		Grant Date
		Fair Value		Fair Value
Unvested at the beginning of the period	8,894	\$9.05	17,440	\$9.05
Granted	26,150	16.20	-	-
Vested	(8,544)	9.05	(8,546)	9.05
Forfeited	-	-	-	-
Unvested at the end of the period	26,500	\$16.11	8,894	\$9.05

Compensation expense on the restricted stock awards is recognized ratably over the five to seven year vesting period in an amount which is equal to the fair value of the common stock at the date of grant. During the three and six months ended June 30, 2013, approximately \$19,000 and \$39,000 in compensation expense was recognized, respectively. During the three and six months ended June 30, 2012, approximately \$19,000 and \$338,000 in compensation expense was recognized, respectively. A tax benefit of approximately \$6,000 and \$13,000, respectively, was recognized during each of these periods. As of June 30, 2013, approximately \$416,000 in additional compensation expense will be recognized over the remaining service period of approximately 4.6 years.

Stock Option Plan

In May 2008, the shareholders of Quaint Oak Bancorp approved the adoption of the 2008 Stock Option Plan (the “Option Plan”). The Option Plan authorizes the grant of stock options to officers, employees and directors of the Company to acquire 138,863 shares of common stock with an exercise price no less than the fair market value on the date of the grant. The Stock Incentive Plan approved by shareholders in May 2013 covered a total of 97,500 shares, of which 24,375 may be restricted stock awards, for a balance of 73,125 stock options assuming all the restricted shares are awarded.

For grants in May 2008, the Compensation Committee of the Board of Directors determined to grant the stock options at an exercise price equal to \$10.00 per share which is higher than the fair market value of the common stock on the grant date. All incentive stock options issued under the Option Plan and the Stock Incentive Plan are intended to comply with the requirements of Section 422 of the Internal Revenue Code.

Quaint Oak Bancorp, Inc.

Notes to Unaudited Consolidated Financial Statements

Note 8 – Stock Compensation Plans (Continued)

Stock Option Plan (Continued)

As of June 30, 2013, a total of 184,570 grants of stock options were outstanding under the Option Plan and Stock Incentive Plan and 27,418 stock options were available for future grant under the Stock Incentive Plan and none under the Option Plan. Options will become vested and exercisable over a five to seven year period and are generally exercisable for a period of ten years after the grant date.

A summary of option activity under the Company's Option Plan as of June 30, 2013 and 2012 and changes during the six months ended June 30, 2013 and 2012 is as follows:

	2013			2012	
	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)	Number of Shares	Weighted Average Exercise Price
Outstanding at the beginning of the year	107,570	\$10.00	5.4	107,570	\$10.00
Granted	77,000	16.20	10.0	-	-
Exercised	-	-	-	-	-
Forfeited	-	-	-	-	-
Outstanding at the end of the period	184,570	\$12.59	7.0	107,570	\$10.00
Exercisable at the end of the period	106,665	\$10.00	7.0	63,999	\$10.00

During the three and six months ended June 30, 2013 and 2012, approximately \$10,000 and \$21,000 in compensation expense was recognized, respectively for both years. A tax benefit of approximately \$2,000 and \$4,000, respectively, was recognized during each of these periods. As of June 30, 2013, approximately \$221,000 in additional compensation expense will be recognized over the remaining service period of approximately 4.6 years.

Note 9 – Fair Value Measurements

Fair value estimates are based on quoted market prices, if available, quoted market prices of similar assets or liabilities, or the present value of expected future cash flows and other valuation techniques. These valuations are significantly affected by discount rates, cash flow assumptions, and risk assumptions used. Therefore, fair value estimates may not be substantiated by comparison to independent markets and are not intended to reflect the proceeds that may be realizable in an immediate settlement of the instruments.

Fair value is determined at one point in time and is not representative of future value. These amounts do not reflect the total value of a going concern organization. Management does not have the intention to dispose of a significant portion of its assets and liabilities and therefore, the unrealized gains or losses should not be interpreted as a forecast of future earnings and cash flows.

The following is a discussion of assets and liabilities measured at fair value on a recurring basis and valuation techniques applied:

Investment Securities Available-For-Sale: The fair value of securities available for sale (carried at fair value) are determined by obtaining quoted market prices on nationally recognized securities exchanges (Level 1), or matrix pricing (Level 2), which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted prices.

Quaint Oak Bancorp, Inc.

Notes to Unaudited Consolidated Financial Statements

Note 9 – Fair Value Measurements (Continued)

We may be required from time to time to measure certain assets at fair value on a nonrecurring basis in accordance with US GAAP. These adjustments to fair value usually result from application of lower-of-cost-or-market accounting or write-downs of individual assets.

Impaired Loans: Impaired loans are carried at the lower of cost or the fair value of the collateral for collateral-dependent loans. Collateral is primarily in the form of real estate. The use of independent appraisals, discounted cash flow models and management's best judgment are significant inputs in arriving at the fair value measure of the underlying collateral and impaired loans are therefore classified within level 3 of the fair value hierarchy.

Other Real Estate Owned: Other real estate owned is carried at the lower of the investment in the real estate or the fair value of the real estate less estimated selling costs. The use of independent appraisals and management's best judgment are significant inputs in arriving at the fair value measure of the underlying collateral and therefore other real estate owned is classified within level 3 of the fair value hierarchy.

The table below sets forth the financial assets and liabilities that were accounted for on a recurring and nonrecurring basis by level within the fair value hierarchy as of June 30, 2013 (in thousands):

	Total Fair Value	June 30, 2013 Fair Value Measurements Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Recurring fair value measurements				
Investment securities available for sale				
Corporate securities	\$ 1,822	\$ -	\$ 1,822	\$ -
Short-term bond fund	1,139	1,139	-	-
Limited-term bond fund	517	517	-	-
Total investment securities available for sale	\$ 3,478	\$ 1,656	\$ 1,822	\$ -
Total recurring fair value measurements	\$ 3,478	\$ 1,656	\$ 1,822	\$ -
Nonrecurring fair value measurements				
Impaired loans	\$ 655	\$ -	\$ -	\$ 655
Other real estate owned	187	-	-	187
Total nonrecurring fair value measurements	\$ 842	\$ -	\$ -	\$ 842

Quaint Oak Bancorp, Inc.

Notes to Unaudited Consolidated Financial Statements

Note 9 – Fair Value Measurements (Continued)

The table below sets forth the financial assets and liabilities that were accounted for on a recurring and nonrecurring basis by level within the fair value hierarchy as of December 31, 2012 (in thousands):

	December 31, 2012 Fair Value Measurements Using:			
	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Recurring fair value measurements				
Investment securities available for sale				
U.S. Government agency securities	\$501	\$-	\$501	\$ -
Corporate securities	1,826	1,826	-	-
Short-term bond fund	1,142	1,142	-	-
Limited-term bond fund	525	525	-	-
Total investment securities available for sale	\$3,994	\$3,493	\$501	\$ -
Total recurring fair value measurements	\$3,994	\$3,493	\$501	\$ -
Nonrecurring fair value measurements				
Impaired loans	\$588	\$-	\$-	\$ 588
Other real estate owned	170	-	-	170
Total nonrecurring fair value measurements	\$758	\$-	\$-	\$ 758

The following table presents additional quantitative information about assets measured at fair value on a nonrecurring basis and for which the Company has used level 3 inputs to determine fair value as of June 30, 2013 and December 31, 2012 (in thousands):

	June 30, 2013 Quantitative Information About Level 3 Fair Value Measurements			
	Total Fair Value	Valuation Techniques	Unobservable Input	Range (Weighted Average)
Impaired loans	\$655	Appraisal of collateral (1)	Appraisal adjustments (2)	8%-40% (20%)
Other real estate owned	\$187	Appraisal of collateral (1)	Appraisal adjustments (2)	8%-29% (17%)

December 31, 2012

Quantitative Information About Level 3 Fair Value Measurements

	Total Fair Value	Valuation Techniques	Unobservable Input	Range (Weighted Average)
Impaired loans	\$588	Appraisal of collateral (1)	Appraisal adjustments (2)	8%-58% (31%)
Other real estate owned	\$170	Appraisal of collateral (1)	Appraisal adjustments (2)	8%-29% (17%)

- (1) Fair value is generally determined through independent appraisals of the underlying collateral, which generally include various Level 3 inputs which are identifiable.
- (2) Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expenses. The range and weighted average of liquidation expenses and other appraisal adjustments are presented as a percentage of the appraisal.

Quaint Oak Bancorp, Inc.

Notes to Unaudited Consolidated Financial Statements

Note 9 – Fair Value Measurements (Continued)

The estimated fair values of the Company's financial instruments were as follows at June 30, 2013 and December 31, 2012 (in thousands):

	Carrying Amount	Fair Value Estimate	Fair Value Measurements at		
			Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Fair Value Measurements at June 30, 2013					
Financial Assets					
Cash and cash equivalents	\$13,277	\$13,277	\$13,277	\$-	\$ -
Investment in interest-earning time deposits	7,920	8,092	-	8,092	-
Investment securities available for sale	3,478	3,478	1,656	1,822	-
Loans held for sale	3,153	3,252	3,252	-	-
Loans receivable, net	92,434	92,998	-	-	92,998
Accrued interest receivable	678	678	678	-	-
Investment in FHLB stock	260	260	-	260	-
Financial Liabilities					
Deposits	104,548	106,722	22,195	-	84,527
FHLB advances, short-term	1,000	1,000	-	-	1,000
Accrued interest payable	75	75	75	-	-
Fair Value Measurements at December 31, 2012					
Financial Assets					
Cash and cash equivalents	\$12,400	\$12,400	\$12,400	\$-	\$ -
Investment in interest-earning time deposits	8,132	8,234	-	8,234	-
Investment securities available for sale	3,994	3,994	3,493	501	-
Loans held for sale	4,875	5,053	-	5,053	-
Loans receivable, net	84,291	86,503	-	-	86,503
Accrued interest receivable	657	657	657	-	-

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Investment in FHLB stock	437	437	-	437	-
Financial Liabilities					
Deposits	97,038	98,279	19,337	78,942	-
FHLB advances, short-term	2,000	2,000	-	2,000	-
Accrued interest payable	81	81	81	-	-

Quaint Oak Bancorp, Inc.

Notes to Unaudited Consolidated Financial Statements

Note 9 – Fair Value Measurements (Continued)

The following methods and assumptions were used to measure the fair value of financial instruments recorded at cost on the Company's consolidated balance sheets:

Cash and Cash Equivalents. The carrying amounts reported in the balance sheet for cash and short-term instruments approximate those assets' fair values.

Interest-Earning Time Deposits. Fair values for interest-earning time deposits are estimated using a discounted cash flow calculation that applies interest rates currently being offered in the market on certificates to a schedule of aggregated expected monthly maturities on time deposits. The Company generally purchases amounts below the insured limit, limiting the amount of credit risk on these time deposits.

Loans Held for Sale. Fair values of loans held for sale are based on commitments on hand from investors at prevailing market rates.

Loans Receivable, Net. The fair values of loans are estimated using discounted cash flow methodology. The discount rates take into account interest rates currently being offered to customers for loans with similar terms, the credit risk associated with the loan and market factors, including liquidity. The valuation of the loan portfolio reflects discounts that the Company believes are consistent with transactions occurring in the market place for both performing and distressed loan types. The carrying value that fair value is compared to is net of the allowance for loan losses and other associated premiums and discounts. Due to the significant judgment involved in evaluating credit quality, loans are classified with level 3 of the fair value hierarchy.

Accrued Interest Receivable. The carrying amount of accrued interest receivable approximates its fair value.

Federal Home Loan Bank Stock. The carrying amount of restricted investment in Federal Home Loan Bank stock approximates fair value, and considers the limited marketability of such securities.

Deposits. The carrying amount is considered a reasonable estimate of fair value for demand savings deposit accounts. The fair value of fixed maturity certificates of deposit is estimated by a discounted cash flow method using the rates currently offered for deposits of similar maturities.

Federal Home Loan Bank Borrowings. Fair values of FHLB advances are estimated based on rates currently available to the Company for similar terms and remaining maturities.

Accrued Interest Payable. The carrying amount of accrued interest payable approximates its fair value.

Off-Balance Sheet Financial Instruments. Off-balance sheet financial instruments consist of commitments to extend credit. Fair values for commitments to extend credit are estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreement and the present credit standing of the counterparties. The estimated fair value of the commitments to extend credit are insignificant and therefore are not presented in the above table.

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

Forward-Looking Statements Are Subject to Change

We make certain statements in this document as to what we expect may happen in the future. These statements usually contain the words "believe," "estimate," "project," "expect," "anticipate," "intend" or similar expressions. Because these statements look to the future, they are based on our current expectations and beliefs. Actual results or events may differ materially from those reflected in the forward-looking statements. You should be aware that our current expectations and beliefs as to future events are subject to change at any time, and we can give you no assurances that the future events will actually occur.

General

The Company was formed in connection with the Bank's conversion to a stock savings bank completed on July 3, 2007. The Company's results of operations are dependent primarily on the results of the Bank, which is a wholly owned subsidiary of the Company. The Bank's results of operations depend, to a large extent, on net interest income, which is the difference between the income earned on its loan and investment portfolios and the cost of funds, consisting of the interest paid on deposits and borrowings. Results of operations are also affected by provisions for loan losses, fee income and other non-interest income and non-interest expense. Non-interest expense principally consists of compensation, directors' fees and expenses, office occupancy and equipment expense, professional fees, FDIC deposit insurance assessment and other expenses. Our results of operations are also significantly affected by general economic and competitive conditions, particularly changes in interest rates, government policies and actions of regulatory authorities. Future changes in applicable law, regulations or government policies may materially impact our financial condition and results of operations.

At June 30, 2013 the Bank had five subsidiaries, Quaint Oak Mortgage, LLC, Quaint Oak Real Estate, LLC, Quaint Oak Abstract, LLC, Quaint Oak Insurance Agency, LLC, and QOB Properties, LLC, each a Pennsylvania limited liability company. The mortgage, real estate and abstract companies offer mortgage banking, real estate sales and title abstract services, respectively, and began operation in July 2009. QOB Properties, LLC began operations in July 2012 and holds Bank properties acquired through a foreclosure proceeding or acceptance of a deed in lieu of foreclosure. Quaint Oak Insurance Agency, LLC is currently inactive.

Critical Accounting Policies

The accounting and financial reporting policies of the Company conform to accounting principles generally accepted in the United States of America and to general practices within the banking industry. Accordingly, the consolidated financial statements require certain estimates, judgments, and assumptions, which are believed to be reasonable, based upon the information available. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the periods presented. The following accounting policies comprise those that management believes are the most critical to aid in fully understanding and evaluating our reported financial results. These policies require numerous estimates or economic assumptions that may prove inaccurate or may be subject to variations which may significantly affect our reported results and financial condition for the period or in future periods.

Allowance for Loan Losses. The allowance for loan losses represents management's estimate of losses inherent in the loan portfolio as of the balance sheet date and is recorded as a reduction to loans receivable. The allowance for loan losses is increased by the provision for loan losses, and decreased by charge-offs, net of recoveries. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance. All, or part, of the principal balance of loans receivable are charged off to the allowance as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely. Because all identified losses are immediately charged off, no portion of the allowance for loan losses is restricted to any individual loan or groups of loans, and the entire allowance is available to absorb any and all loan losses.

The allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management performs a quarterly evaluation of the adequacy of the allowance. The allowance is based on the Company's past loan loss experience, known and inherent risks 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 revision as more information becomes available.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are designated as impaired. For loans that are designated 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 pools of loans by loan class. These pools of loans are evaluated for loss exposure based upon historical loss rates for each of these categories of loans, adjusted for qualitative factors. These significant factors may include changes in lending policies and procedures, changes in existing general economic and business conditions affecting our primary lending areas, credit quality trends, collateral value, loan volumes and concentrations, seasoning of the loan portfolio, recent loss experience in particular segments of the portfolio, duration of the current business cycle and bank regulatory examination results. The applied loss factors are reevaluated quarterly to ensure their relevance in the current economic environment. Residential owner occupied mortgage lending generally entails a lower risk of default than other types of lending. Consumer loans and commercial real estate loans generally involve more risk of collectability because of the type and nature of the collateral and, in certain cases, the absence of collateral. It is the Company's policy to establish a specific reserve for loss on any delinquent loan when it determines that a loss is probable. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not considered impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent. An allowance for loan losses is established for an impaired loan if its carrying value exceeds its estimated fair value. The estimated fair values of substantially all of the Company's impaired loans are measured based on the estimated fair value of the loan's collateral.

A loan is identified as a troubled debt restructuring (“TDR”) if the Company, for economic or legal reasons related to a debtor’s financial difficulties, grants a concession to the debtor that it would not otherwise consider. Concessions granted under a TDR typically involve a temporary or permanent reduction in payments or interest rate or an extension of a loan’s stated maturity date at less than a current market rate of interest. Loans identified as TDRs are designated as impaired.

For loans secured by real estate, estimated fair values are determined primarily through third-party appraisals. When a real estate secured loan becomes impaired, a decision is made regarding whether an updated certified appraisal of the real estate is necessary. This decision is based on various considerations, including the age of the most recent appraisal, the loan-to-value ratio based on the original appraisal and the condition of the property. Appraised values are discounted to arrive at the estimated selling price of the collateral, which is considered to be the estimated fair value. The discounts also include estimated costs to sell the property.

The allowance calculation methodology includes further segregation of loan classes into risk rating categories. The borrower’s overall financial condition, repayment sources, guarantors and value of collateral, if appropriate, are evaluated annually for all loans (except one-to-four family residential owner-occupied loans) where the total amount outstanding to any borrower or group of borrowers exceeds \$500,000, or when credit deficiencies arise, such as delinquent loan payments. Credit quality risk ratings include regulatory classifications of special mention, substandard, doubtful and loss. Loans designated as special mention have potential weaknesses that deserve management’s close attention. If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. Loans classified substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They include loans that are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified doubtful have all the weaknesses inherent in loans classified substandard with the added characteristic that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. Loans classified as a loss are considered uncollectible and are charged to the allowance for loan losses. Loans not classified are rated pass. In addition, Federal regulatory agencies, as an integral part of their examination process, periodically review the Company’s allowance for loan losses and may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examination, which may not be currently available to management. Based on management’s comprehensive analysis of the loan portfolio, management believes the current level of the allowance for loan losses is adequate.

Other-Than-Temporary Impairment of Securities. Securities are evaluated on at least a quarterly basis, and more frequently when market conditions warrant such an evaluation, to determine whether a decline in their value is other-than-temporary. To determine whether a loss in value is other-than-temporary, management utilizes criteria such as the reasons underlying the decline, the magnitude and duration of the decline and whether or not management intends to sell or expects that it is more likely than not that it will be required to sell the security prior to an anticipated recovery of the fair value. The term “other-than-temporary” is not intended to indicate that the decline is permanent, but indicates that the prospects for a near-term recovery of value are 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 for a debt security is determined to be other-than-temporary, the other-than-temporary impairment is separated into (a) the amount of the total other-than-temporary impairment related to a decrease in cash flows expected to be collected from the debt security (the credit loss) and (b) the amount of the total other-than-temporary impairment related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is recognized in earnings. The amount of the total other-than-temporary impairment related to all other factors is recognized in other comprehensive income, except for equity securities, where the full amount of the other-than-temporary impairment is recognized in earnings.

Income Taxes. Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various assets and liabilities and net operating loss carryforwards and gives current recognition to changes in tax rates and laws. The realization of our deferred tax assets principally depends upon our achieving projected future taxable income. We may change our judgments regarding future profitability due to future market conditions and other factors. We may adjust our deferred tax asset balances if our judgments change.

Comparison of Financial Condition at June 30, 2013 and December 31, 2012

General. The Company's total assets at June 30, 2013 were \$123.8 million, an increase of \$6.4 million, or 5.4%, from \$117.4 million at December 31, 2012. This growth in total assets was primarily due to increases in loans receivable, net of \$8.1 million and cash and cash equivalents of \$877,000. Offsetting these increases were decreases in loans held for sale of \$1.7 million, investment securities available for sale of \$516,000, and investment in interest-earning time deposits of \$212,000.

Cash and Cash Equivalents. Cash and cash equivalents increased \$877,000, or 7.1%, from \$12.4 million at December 31, 2012 to \$13.3 million at June 30, 2013 due to excess liquidity not used to fund loans or pay-down FHLB advances.

Investment in Interest-Earning Time Deposits. Investment in interest-earning time deposits decreased \$212,000, or 2.6%, from \$8.1 million at December 31, 2012 to \$7.9 million at June 30, 2013 as we allowed one time deposit to mature and invested the proceeds into liquid money market accounts.

Investment Securities Available for Sale. Investment securities available for sale decreased \$516,000, or 12.9%, to \$3.5 million at June 30, 2013 from \$4.0 million at December 31, 2012. The decrease was due primarily to a call of a U.S. Government agency security in the amount of \$500,000.

Loans Held for Sale. Loans held for sale decreased \$1.7 million to \$3.2 million at June 30, 2013 from \$4.9 million at December 31, 2012 as the Bank's mortgage banking subsidiary, Quaint Oak Mortgage, LLC, originated \$26.1 million of one-to-four family residential loans during the six months ended June 30, 2013 and sold \$27.8 million of loans in the secondary market during this same period.

Loans Receivable, Net. Loans receivable, net, increased \$8.1 million, or 9.7%, to \$92.4 million at June 30, 2013 from \$84.3 million December 31, 2012. This increase was funded primarily from the increase in deposits and excess liquidity in cash and cash equivalents. Increases within the portfolio occurred in the construction loan category which increased \$4.8 million, or 49.4%, one-to-four family residential non-owner occupied loans which increased \$2.7 million, or 7.6%, commercial real estate category which increased \$2.1 million, or 11.0%, and multi-family residential loans which increased \$488,000, or 14.7%. These increases were partially offset by decreases of \$923,000, or 9.0%, in residential mortgage one-to-four family owner occupied loans, \$560,000, or 9.3%, in home equity loans and \$154,000, or 8.1% in commercial lines of credit. The Company continues its strategy of diversifying its loan portfolio with higher yielding and shorter-term loan products and selling substantially all of its newly originated one-to-four family owner-occupied loans into the secondary market.

Premises and Equipment, Net. Premises and equipment, net, increased \$62,000, or 3.9%, to \$1.7 million at June 30, 2013 from \$1.6 million at December 31, 2012 primarily due to the capital expenditures made during the six months ended June 30, 2013 in connection with the Company's upgrade of its core processing computer system.

Other Real Estate Owned, Net. Other real estate owned (OREO) amounted to \$187,000 at June 30, 2013, consisting of three properties. This compares to three properties that totaled \$170,000 at December 31, 2012. During the six months ended June 30, 2013, the Company transferred one property into OREO totaling \$31,000, made \$41,000 of capital improvements to the properties in the portfolio, and sold one property totaling \$55,000.

Deposits. Total interest-bearing deposits increased \$7.5 million, or 7.7%, to \$104.5 million at June 30, 2013 from \$97.0 million at December 31, 2012. This increase in deposits was primarily attributable to increases of \$4.7 million in certificates of deposit and \$3.1 million in eSavings accounts.

Stockholders' Equity. Total stockholders' equity increased \$62,000 to \$16.90 million at June 30, 2013 from \$16.84 million at December 31, 2012. Contributing to the increase was net income for the six months ended June 30, 2013 of \$313,000, amortization of stock awards and options under our stock compensation plans of \$60,000, and common stock earned by participants in the employee stock ownership plan of \$85,000. These increases were offset by the purchase of 18,447 shares of the Company's stock as part of the Company's stock repurchase programs, for an aggregate purchase price of \$281,000, dividends paid of \$88,000, and a decrease in accumulated other comprehensive income of \$27,000.

Comparison of Operating Results for the Three Months Ended June 30, 2013 and 2012

General. Net income amounted to \$173,000 for the three months ended June 30, 2013, a decrease of \$200,000, or 53.6%, compared to net income of \$373,000 for three months ended June 30, 2012. The decrease in net income on a comparative quarterly basis was primarily the result of an increase in non-interest expense of \$310,000 and a decrease in non-interest income of \$123,000, offset by an increase in net interest income of \$73,000, and decreases in the provision for loan losses of \$24,000 and the provision for income taxes of \$136,000.

Net Interest Income. Net interest income increased \$73,000, or 7.0%, to \$1.1 million for the three months ended June 30, 2013 from \$1.0 million for the three months ended June 30, 2012. The increase was driven by an \$84,000, or 5.7% increase in interest income, offset by an \$11,000, or 2.6% increase in interest expense.

Interest Income. Interest income increased \$84,000, or 5.7%, to \$1.6 million for the three months ended June 30, 2013 from \$1.5 million for the three months ended June 30, 2012. The increase in interest income was primarily due to an \$11.9 million increase in average loans receivable, net, including loans held for sale, which increased from an average balance of \$81.9 million for the three months ended June 30, 2012 to an average balance of \$93.8 million for the three months ended June 30, 2013, which had the effect of increasing net interest income \$200,000. Also contributing to the increase was a \$7.0 million increase in average short-term investments and investment securities available for sale from \$19.7 million for the three months ended June 30, 2012 to \$26.7 million for the comparable period in 2013, which had the effect of increasing interest income by \$30,000. Offsetting these increases was a 39 basis point decline in the yield on average loans receivable, net, including loans held for sale, from 6.72% for the three months ended June 30, 2012 to 6.33% for the three months ended June 30, 2013, which had the effect of decreasing interest income by \$91,000, and a 73 basis point decline in the yield on average short-term investments and investment securities available for sale from 1.73% for the three months ended June 30, 2012 to 1.00% for the same period in 2013, which had the effect of decreasing interest income \$48,000.

Interest Expense. Interest expense increased \$11,000, or 2.6%, to \$435,000 for the three months ended June 30, 2013 from \$424,000 for the three months ended June 30, 2012. The increase in interest expense was primarily attributable to a \$16.0 million increase in average interest-bearing liabilities, which increased from an average balance of \$89.8 million for the three months ended June 30, 2012 to an average balance of \$105.8 million for the three months ended June 30, 2013, which had the effect of increasing interest expense \$53,000. Offsetting this increase was a decrease in the cost of interest-bearing liabilities, which decreased 25 basis points from 1.89% for the three months ended June 30, 2012 to 1.64% for the three months ended June 30, 2013, which had the effect of decreasing interest expense \$42,000. The increase in the average balance of interest-bearing liabilities was driven by a \$10.5 million increase in average certificates of deposits and a \$7.8 million increase in average eSavings accounts, partially offset by a \$1.8 decrease in average FHLB advances. The increases in average certificates of deposit and eSavings accounts on a comparative quarterly basis were due to rates offered by the Company in these two deposit categories while the

decrease in the average FHLB advances was attributable to the scheduled repayments. The overall decrease in rates was consistent with the decrease in market interest rates on deposits from June 2012 to June 2013.

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Average Balances, Net Interest Income, Yields Earned and Rates Paid. The following table shows for the periods indicated the total dollar amount of interest from average interest-earning assets and the resulting yields, as well as the interest expense on average interest-bearing liabilities, expressed both in dollars and rates, and the net interest margin. All average balances are based on daily balances.

	Three Months Ended June 30,					
	2013		Average		2012	
	Average	Interest	Yield/ Rate	Average	Interest	Average
	Balance		(Dollars in thousands)	Balance		Yield/ Rate
Interest-earning assets:						
Short-term investments and investment securities available for sale	\$ 26,731	\$ 67	1.00 %	\$ 19,692	\$ 85	1.73 %
Mortgage-backed securities held to maturity	-	-	-	668	7	4.19
Loans receivable, net (1)(2)	93,838	1,485	6.33	81,939	1,376	6.72
Total interest-earning assets	120,569	1,552	5.15 %	102,299	1,468	5.74 %
Non-interest-earning assets	2,970			4,658		
Total assets	\$ 123,539			\$ 106,957		
Interest-bearing liabilities:						
Passbook accounts	\$ 2,829	1	0.14 %	\$ 2,903	2	0.28 %
Statement savings accounts	5,718	5	0.35	6,133	6	0.39
eSavings accounts	13,503	25	0.74	5,725	14	0.98
Certificate of deposit accounts	82,492	390	1.89	71,985	370	2.06
Total deposits	104,542	421	1.61	86,746	392	1.81
FHLB advances	1,242	14	4.51	3,047	32	4.20
Total interest-bearing liabilities	105,783	435	1.64 %	89,793	424	1.89 %
Non-interest-bearing liabilities	930			939		
Total liabilities	106,713			90,732		
Stockholders' Equity	16,826			16,225		
Total liabilities and Stockholders' Equity	\$ 123,539			\$ 106,957		
Net interest-earning assets	\$ 14,786			\$ 12,506		
Net interest income; average interest rate spread		\$ 1,117	3.51 %		\$ 1,044	3.85 %
Net interest margin (3)			3.71 %			4.08 %
Average interest-earning assets to average interest-bearing liabilities			113.98 %			113.93 %

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- (1) Includes loans held for sale.
- (2) Includes non-accrual loans during the respective periods. Calculated net of deferred fees and discounts, loans in process and allowance for loan losses.
- (3) Equals net interest income divided by average interest-earning assets.

Provision for Loan Losses. The Company's provision for loan losses decreased by \$24,000, or 30.4%, from \$79,000 for the three months ended June 30, 2012 to \$55,000 for the three months ended June 30, 2013, based on an evaluation of the allowance relative to such factors as volume of the loan portfolio, concentrations of credit risk, prevailing economic conditions, prior loan loss experience and amount of non-performing loans at June 30, 2013.

Non-performing loans amounted to \$1.9 million, or 2.10% of net loans receivable at June 30, 2013, consisting of twenty-one loans, eighteen of which are on non-accrual status and three of which are 90 days or more past due and accruing interest. Comparably, non-performing loans amounted to \$2.1 million, or 2.54% of net loans receivable at December 31, 2012, consisting of twenty-six loans, seventeen of which were on non-accrual status and nine of which were 90 days or more past due and accruing interest. The non-performing loans at June 30, 2013 include ten one-to-four family non-owner occupied residential loans, four home equity loans, three commercial real estate loans, three one-to-four family owner-occupied residential loans, and one consumer non-real estate loan, and all are generally well-collateralized or adequately reserved for. During the quarter ended June 30, 2013, three loans were placed on non-accrual status resulting in the reversal of approximately \$1,000 of previously accrued interest income, and five loans that were on non-accrual were returned to accrual status. At June 30, 2013, the Company had seven loans totaling \$430,000 that were identified as troubled debt restructurings. None of these loans were delinquent and all were performing in accordance with their modified terms. During the quarter, one loan in the amount of \$179,000 that was previously identified as a TDR was removed from TDR status as the borrower is current and making regular payment since April 2012. The allowance for loan losses as a percent of total loans receivable was 1.02% at June 30, 2013 and 1.01% at December 31, 2012.

Other real estate owned (OREO) amounted to \$187,000 at June 30, 2013, consisting of three properties. This compares to three properties that totaled \$170,000 at December 31, 2012. During the quarter ended June 30, 2013, a property that had been collateral for a loan in the amount of \$46,000, previously classified as non-accrual, was transferred to OREO. In conjunction with this transfer, \$15,000 of the outstanding loan balance was charged-off through the allowance for loan losses. Also during the quarter, the Company sold one OREO property and realized a loss of approximately \$10,000 on the transaction.

Non-Interest Income. Non-interest income decreased \$123,000, or 23.6%, for the three months ended June 30, 2013 over the comparable period in 2012 due primarily to a \$331,000 decrease in the gain on sale of investment securities and a \$10,000 decrease in the loss on the sale of other real estate owned. These decreases were offset by a \$168,000 increase in the net gain on the sales of loans held for sale and a \$49,000 increase in fee income generated by Quaint Oak Bank's mortgage banking and title abstract subsidiaries.

Non-Interest Expense. Non-interest expense increased \$310,000, or 35.3%, from \$878,000 for the three months ended June 30, 2012 to \$1.2 million for the three months ended June 30, 2013. Salaries and employee benefits expense accounted for \$226,000 of the change as this expense increased 43.2%, from \$523,000 for the three months ended June 30, 2012 to \$749,000 for the three months ended June 30, 2013. Also contributing to the period over period increase was a \$42,000, or 50.0% increase in occupancy and equipment expense, a \$38,000, or 50.7% increase in other expense, an \$18,000, or 900% increase in other real estate owned expense, and a \$16,000, or 17.6% increase in professional fees. The increase in salaries and employee benefits expense for the 2013 period compared to 2012 was primarily attributable to increased staff as the Company expanded its mortgage banking and lending operations. The increase in occupancy and equipment expense was primarily related to the move of our Delaware Valley office from 607 Lakeside Office Park, Southampton, PA to a larger facility at 501 Knowles Avenue, Southampton, PA and computer system upgrades. The increase in other expenses was primarily the result of a \$16,000 increase in recruiting fees. The increase in OREO expense was the result of costs incurred on the Bank's foreclosed properties to maintain the properties and prepare them for resale. The increase in professional fees was primarily due to costs related to compliance and loan collections. Offsetting these increases was a \$28,000, or 84.8% decrease in FDIC deposit insurance expense primarily attributable to a refund of unused prepaid assessment credits during the quarter ended

June 30, 2013.

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Provision for Income Tax. The provision for income tax decreased \$136,000, or 57.6%, from \$236,000 for the three months ended June 30, 2012 to \$100,000 for the three months ended June 30, 2013 due primarily to the decrease in pre-tax income. Our effective tax rate declined to 36.6% during the three months ended June 30, 2013 from 38.8% for the comparable period in 2012 primarily due to the utilization of a state tax credit during the 2013 period.

Comparison of Operating Results for the Six Months Ended June 30, 2013 and 2012

General. Net income amounted to \$313,000 for the six months ended June 30, 2013, a decrease of \$236,000, or 43.0%, compared to net income of \$549,000 for six months ended June 30, 2012. This decrease in net income was primarily the result of an increase in non-interest expense of \$615,000, offset by increases in net interest income of \$148,000 and non-interest income of \$25,000, and decreases in the provision for loan losses of \$43,000 and the provision for income taxes of \$163,000.

Net Interest Income. Net interest income increased \$148,000, or 7.3%, to \$2.2 million for the six months ended June 30, 2013 from \$2.0 million for the six months ended June 30, 2012. The increase was driven by a \$143,000, or 4.9% increase in interest income and a \$5,000, or 0.6% decrease in interest expense.

Interest Income. Interest income increased \$143,000, or 4.9%, to \$3.0 million for the six months ended June 30, 2013 from \$2.9 million for the six months ended June 30, 2012. The increase in interest income was primarily due to a \$12.7 million increase in average loans receivable, net, including loans held for sale, which increased from an average balance of \$80.3 million for the six months ended June 30, 2012 to an average balance of \$92.9 million for the six months ended June 30, 2013, which had the effect of increasing interest income \$423,000. Also contributing to the increase was a \$5.2 million increase in average short-term investments and investment securities available for sale from \$20.7 million for the six months ended June 30, 2012 to \$25.9 million for the same period in 2013, which had the effect of increasing interest income by \$43,000. Offsetting these increases was a 41 basis point decline in the yield on average loans receivable, net, including loans held for sale, from 6.68% for the six months ended June 30, 2012 to 6.27% for the six months ended June 30, 2013, which had the effect of decreasing interest income by \$186,000, and a 64 basis point decline in the yield on average short-term investments and investment securities available for sale from 1.65% for the six months ended June 30, 2012 to 1.01% for same period in 2013, which had the effect of decreasing interest income \$84,000. Also contributing to offsetting the increases in interest income was the \$2.2 million decrease in average mortgage-backed securities held to maturity which had the effect of decreasing interest income \$53,000. The decrease in average mortgage-backed securities held to maturity was due to the sale of mortgage-backed securities in the second quarter of 2012 after their transfer to the available for sale category at the end of the first quarter of 2012.

Interest Expense. Interest expense decreased \$5,000, or 0.6%, from \$875,000 for the six months ended June 30, 2012 to \$870,000 for the six months ended June 30, 2013. The decrease was primarily attributable to a 27 basis point decline in the overall cost of average interest-bearing liabilities from 1.94% for the six months ended June 30, 2012 to 1.67% for the six months ended June 30, 2013 which had the effect of decreasing interest expense by \$91,000. This decrease due to rate combined with a decrease of \$1.8 million in average FHLB advances had the effect of decreasing interest expense by \$38,000. These decreases were offset by an increase of \$8.3 million in average certificates of deposits which had the effect of increasing interest expense by \$87,000, and an increase of \$7.8 million in average eSavings accounts which had the effect of increasing interest expense by \$37,000. The overall decrease in rates on deposits was consistent with the decrease in market interest rates from June 2012 to June 2013. The decrease in the average FHLB advances was attributable to the scheduled repayments while the increases in average eSavings accounts and certificates of deposit accounts on a comparative six-month basis were due to rates offered by the Company in these two deposit categories.

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Average Balances, Net Interest Income, Yields Earned and Rates Paid. The following table shows for the periods indicated the total dollar amount of interest from average interest-earning assets and the resulting yields, as well as the interest expense on average interest-bearing liabilities, expressed both in dollars and rates, and the net interest margin. All average balances are based on daily balances.

	2013		Six Months Ended June 30,		2012		Average	
	Average Balance	Interest	Average Yield/ Rate (Dollars in thousands)	Average Balance	Interest	Yield/ Rate		
Interest-earning assets:								
Short-term investments and investment securities available for sale	\$ 25,946	\$ 131	1.01 %	\$ 20,709	\$ 171	1.65 %		
Mortgage-backed securities	-	-	-	2,242	53	4.73		
Loans receivable, net (1)(2)	92,919	2,915	6.27	80,269	2,679	6.68		
Total interest-earning assets	118,865	3,046	5.13 %	103,220	2,903	5.62 %		
Non-interest-earning assets	2,938			4,228				
Total assets	\$ 121,803			\$ 107,448				
Interest-bearing liabilities:								
Passbook accounts	\$ 2,841	3	0.21 %	\$ 2,926	4	0.27 %		
Statement savings accounts	5,719	11	0.38	6,401	14	0.44		
eSavings accounts	12,766	51	0.80	4,991	24	0.96		
Certificate of deposit accounts	81,058	770	1.90	72,712	761	2.09		
Total deposits	102,384	835	1.63	87,030	803	1.85		
FHLB advances	1,619	35	4.32	3,428	72	4.20		
Total interest-bearing liabilities	104,002	870	1.67 %	90,458	875	1.94 %		
Non-interest-bearing liabilities	993			982				
Total liabilities	104,995			91,440				
Stockholders' Equity	16,809			16,008				
Total liabilities and Stockholders' Equity	\$ 121,803			\$ 107,448				
Net interest-earning assets	\$ 14,863			\$ 12,762				
Net interest income; average interest rate spread								
		\$ 2,176	3.46 %		\$ 2,028	3.68 %		
Net interest margin (3)			3.66 %			3.93 %		
Average interest-earning assets to average			114.29 %			114.11 %		

interest-bearing liabilities

-
- (1) Includes loans held for sale.
- (2) Includes non-accrual loans during the respective periods. Calculated net of deferred fees and discounts, loans in process and allowance for loan losses.
- (3) Equals net interest income divided by average interest-earning assets.

Provision for Loan Losses. The Company decreased its provision for loan losses by \$43,000, or 28.7% from \$150,000 for the six months ended June 30, 2012 to \$107,000 for the six months ended June 30, 2013. As was the case for the quarter, the decrease was based on an evaluation of the allowance relative to such factors as volume of the loan portfolio, concentrations of credit risk, prevailing economic conditions, prior loan loss experience and amount of non-performing loans. See additional discussion under "Comparison of Operating Results for the Three Months Ended June 30, 2013 and 2012."

Non-Interest Income. Non-interest income increased \$25,000, or 3.5%, for the six months ended June 30, 2013 over the comparable period in 2012 due primarily to a \$274,000 increase in net gain on the sales of loans and a \$123,000 increase in fee income generated by Quaint Oak Bank's mortgage banking and title abstract subsidiaries. These increases were offset by a \$331,000 decrease in the gain on sale of investment securities, a \$32,000 decrease in the gain on the sale of an SBA loan, and a \$4,000 increase in loss on the sale of other real estate owned.

Non-Interest Expense. Non-interest expense increased \$615,000, or 36.2%, from \$1.7 million for the six months ended June 30, 2012 to \$2.3 million for the six months ended June 30, 2013. Salaries and employee benefits expense accounted for \$438,000 of the change as this expense increased 43.1%, from \$1.02 million for the six months ended June 30, 2012 to \$1.45 million for the six months ended June 30, 2013. Also contributing to the period over period increase was a \$75,000, or 47.2% increase in occupancy and equipment expense, a \$62,000, or 42.7% increase in other expense, a \$38,000, or 22.5% increase in professional fees, a \$19,000, or 190.0% increase in other real estate owned expense, a \$9,000, or 31.0% increase in advertising, and a \$5,000, or 4.5% increase in directors fees and expenses. As was the case with the quarter, the increase in salaries and employee benefits expense for the 2013 period compared to 2012 was primarily attributable to increased staff as the Company expanded its mortgage banking and lending operations. The increase in occupancy and equipment expense was primarily related to the move of our Delaware Valley office from 607 Lakeside Office Park, Southampton, PA to a larger facility at 501 Knowles Avenue, Southampton, PA and computer system upgrades. The increase in other expenses was primarily the result of a \$16,000 increase in recruiting fees. The increase in professional fees was primarily due to costs related to compliance and loan collections. The increase in OREO expense was the result of costs incurred on the Bank's foreclosed properties to maintain the properties and prepare them for resale. The increase in advertising is primarily attributable to increased efforts to grow our loan portfolio. The increase in directors' fees and expenses was primarily related to an increase in loan committee meetings. Offsetting these increases was a \$30,000, or 46.2% decrease in FDIC deposit insurance expense primarily attributable to a refund of unused prepaid assessment credits during the quarter ended June 30, 2013.

Provision for Income Tax. The Company's provision for income tax decreased by \$163,000, or 46.7%, from \$349,000 for the six months ended June 30, 2012 to \$186,000 for the six months ended June 30, 2013, due primarily to the decrease in pre-tax income as our effective tax rate remained relatively consistent at 37.3% for the 2013 period compared to 38.9% for the comparable period in 2012.

Liquidity and Capital Resources

The Company's primary sources of funds are deposits, amortization and prepayment of loans and to a lesser extent, loan sales and other funds provided from operations. While scheduled principal and interest payments on loans are a relatively predictable source of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions and competition. The Company sets the interest rates on its deposits to maintain a desired level of total deposits. In addition, the Company invests excess funds in short-term interest-earning assets that provide additional liquidity. At June 30, 2013 the Company's cash and cash equivalents amounted to \$13.3 million. At such date, the Company also had \$2.6 million invested in interest-earning time deposits maturing in one year or less.

The Company uses its liquidity to fund existing and future loan commitments, to fund deposit outflows, to invest in other interest-earning assets and to meet operating expenses. At June 30, 2013, Quaint Oak Bank had outstanding commitments to originate loans of \$3.2 million and commitments under unused lines of credit of \$15.7 million.

At June 30, 2013, certificates of deposit scheduled to mature in less than one year totaled \$29.3 million. Based on prior experience, management believes that a significant portion of such deposits will remain with us, although it is dependent on our deposit pricing strategy at the time of maturity and there can be no assurance that this will be the case.

In addition to cash flow from loan payments and prepayments and deposits, the Company has significant borrowing capacity available to fund liquidity needs. If the Company requires funds beyond its ability to generate them internally, borrowing agreements exist with the Federal Home Loan Bank of Pittsburgh, which provide an additional source of funds. As of June 30, 2013, we had \$1.0 million of advances from the Federal Home Loan Bank of Pittsburgh and had \$49.9 million in borrowing capacity. In addition, as of June 30, 2013 Quaint Oak Bank had \$1.8

million in borrowing capacity with the Federal Reserve Bank of Philadelphia. There were no borrowings under this facility at June 30, 2013. Quaint Oak Bank currently has two additional line of credit commitments with two different banks totaling \$1.5 million. There were no borrowings under these lines of credit at June 30, 2013.

Our stockholders' equity amounted to \$16.90 million at June 30, 2013, an increase of \$62,000 from \$16.84 million at December 31, 2012. Contributing to the increase was net income for the six months ended June 30, 2013 of \$313,000, amortization of stock awards and options under our stock compensation plans of \$60,000, and common stock earned by participants in the employee stock ownership plan of \$85,000. These increases were offset by the purchase of 18,447 shares of the Company's stock as part of the Company's stock repurchase programs, for an aggregate purchase price of \$281,000, dividends paid of \$88,000, and a decline in accumulated other comprehensive income of \$27,000. For further discussion of the stock compensation plans, see Note 8 in the Notes to Unaudited Consolidated Financial Statements contained elsewhere herein.

Quaint Oak Bank is required to maintain regulatory capital sufficient to meet tier 1 leverage, tier 1 risk-based and total risk-based capital ratios of at least 4.00%, 4.00% and 8.00%, respectively. At June 30, 2013, Quaint Oak Bank exceeded each of its capital requirements with ratios of 12.67%, 19.47% and 20.67% , respectively. As a savings and loan holding company, the Company is not currently subject to any regulatory capital requirements.

Off-Balance Sheet Arrangements

In the normal course of operations, we engage in a variety of financial transactions that, in accordance with generally accepted accounting principles are not recorded in our financial statements. These transactions involve, to varying degrees, elements of credit, interest rate, and liquidity risk. Such transactions are used primarily to manage customers' requests for funding and take the form of loan commitments and lines of credit. Our exposure to credit loss from non-performance by the other party to the above-mentioned financial instruments 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. In general, we do not require collateral or other security to support financial instruments with off-balance sheet credit risk.

Commitments. At June 30, 2013, we had unfunded commitments under lines of credit of \$15.7 million and \$3.2 million of commitments to originate loans. We had no commitments to advance additional amounts pursuant to outstanding lines of credit or undisbursed construction loans.

Impact of Inflation and Changing Prices

The consolidated financial statements and related financial data presented herein have been prepared in accordance with accounting principles generally accepted in the United States of America which generally require the measurement of financial position and operating results in terms of historical dollars, without considering changes in relative purchasing power over time due to inflation. Unlike most industrial companies, virtually all of Company's assets and liabilities are monetary in nature. As a result, interest rates generally have a more significant impact on the Company's performance than does the effect of inflation. Interest rates do not necessarily move in the same direction or in the same magnitude as the prices of goods and services, since such prices are affected by inflation to a larger extent than interest rates.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not Applicable.

ITEM 4. CONTROLS AND PROCEDURES

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the “Exchange Act”)) as of June 30, 2013. Based on their evaluation of the Company’s disclosure controls and procedures, the Company’s Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and regulations are operating in an effective manner.

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15(d)-15(f) under the Securities Exchange Act of 1934) occurred during the second fiscal quarter of fiscal 2013 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II

ITEM 1. LEGAL PROCEEDINGS

The Company is not involved in any pending legal proceedings other than routine legal proceedings occurring in the ordinary course of business, which involve amounts in the aggregate believed by management to be immaterial to the financial condition and operating results of the Company.

ITEM 1A. RISK FACTORS

Not applicable.

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

(a) Not applicable.

(b) Not applicable.

(c) Purchases of Equity Securities

The Company's repurchases of its common stock made during the quarter ended June 30, 2013 are set forth in the table below:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (1)
April 1, 2013 – April 30, 2013	3,800	\$ 15.86	3,800	45,620
May 1, 2013 – May 31, 2013	47	16.24	47	45,573
June 1, 2013 – June 30, 2013	700	16.05	700	44,873
Total	4,547	\$ 15.89	4,547	44,873

Notes to this table:

(1) On September 10, 2010, the Company announced by press release its third repurchase program to repurchase up to an additional 69,431 shares, or approximately 6.2% of the Company's then current outstanding shares of common stock. The Company commenced this third stock repurchase program upon the completion of its prior repurchase program on December 3, 2010. The repurchase program does not have an expiration date.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY PROCEDURES

Not applicable.

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ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS

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

The following Exhibits are being furnished as part of this report:

No.	Description
101.INS	XBRL Instance Document.*
101.SCH	XBRL Taxonomy Extension Schema Document.*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.*
101.DEF	XBRL Taxonomy Extension Definitions Linkbase Document.*

*The interactive data files are being furnished on Exhibit 101 hereto and, in accordance with Rule 402 of Regulation S-T, shall not be deemed filed for purposes of Section 11 or 12 of the Securities Act of 1933, as amended, or Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability under those sections.

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.

Date: August 14, 2013

/s/Robert T. Strong
By: Robert T. Strong
President and Chief Executive Officer

Date: August 14, 2013

/s/John J. Augustine
By: John J. Augustine
Chief Financial Officer