QUAINT OAK BANCORP INC
Form 10-Q
August 16, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: June 30, 2010

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

QUAINT OAK BANCORP, INC.
(Exact name of registrant as specified in its charter)

Pennsylvania	35-2293957
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

607 Lakeside Drive, Southampton, Pennsylvania 18966
(Address of principal executive offices)

(215) 364-4059
(Registrant’s telephone number)

(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 [X] No [ ]

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

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

Large accelerated filer	[ ]	Accelerated filer	[ ]
Non-accelerated filer	[ ]	Smaller reporting company	[X]
(Do not check if a smaller reporting company)			

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
[ ] Yes [X] 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, 2010, 1,146,436 shares of common stock were issued and outstanding.

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SIGNATURES

PART I

ITEM 1. FINANCIAL STATEMENTS

Quaint Oak Bancorp, Inc.

Consolidated Balance Sheets (Unaudited)

	At June 30, 2010	At December 31, 2009
Assets	(In thousands, except share data)	
Due from banks, non-interest-bearing	$ 417	$ 582
Due from banks, interest-bearing	7,331	4,838
Cash and cash equivalents	7,748	5,420
Investment in interest-earning time deposits	4,182	3,153
Investment securities available for sale, at fair value (cost-2010 $2,514; 2009 $1,001)	2,529	1,002
Mortgage-backed securities held to maturity (fair value-2010 $7,193; 2009 $8,142)	6,666	7,731
Loans receivable, net of allowance for loan losses 2010 $892; 2009 $835	75,310	72,728
Accrued interest receivable	373	397
Investment in Federal Home Loan Bank stock, at cost	797	797
Premises and equipment, net	1,083	1,092
Other real estate owned	938	913
Prepaid expenses and other assets	655	704
Total Assets	$100,281	$93,937
Liabilities and Stockholders' Equity		
Liabilities		
Deposits, interest-bearing	$75,981	$68,252
Federal Home Loan Bank advances	6,350	6,850
Other borrowings	433	442
Accrued interest payable	105	117
Advances from borrowers for taxes and insurance	706	763
Accrued expenses and other liabilities	196	127
Total Liabilities	83,771	76,551
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 authorized; 1,388,625 issued and 1,168,936 and 1,299,712 outstanding at June 30, 2010 and December 31, 2009, respectively	14	14

Additional paid-in capital	13,420	13,442
Treasury stock, at cost: 2010 219,689 shares; 2009 88,913 shares	(1,937)	(735)
Unallocated common stock held by:		
Employee Stock Ownership Plan (ESOP)	(848)	(883)
Recognition & Retention Plan Trust (RRP)	(360)	(440)
Accumulated other comprehensive income	10	1
Retained earnings	6,211	5,987
Total Stockholders' Equity	16,510	17,386
Total Liabilities and Stockholders' Equity	$100,281	$93,937

See accompanying notes to consolidated financial statements.

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Quaint Oak Bancorp, Inc.

Consolidated Statements of Income (Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2010	2009	2010	2009
Interest Income	(In thousands, except for share data)			
Loans receivable, including fees	$1,200	$1,212	$2,388	$2,405
Short-term investments and investment securities	126	153	245	316
Total Interest Income	1,326	1,365	2,633	2,721
Interest Expense				
Deposits	417	572	832	1,120
Federal Home Loan Bank and other borrowings	67	74	140	152
Total Interest Expense	484	646	972	1,272
Net Interest Income	842	719	1,661	1,449
Provision for Loan Losses	28	23	57	85
Net Interest Income after Provision for Loan Losses	814	696	1,604	1,364
Non-Interest Income				
Mortgage banking fees	61	-	100	-
Other fees and services charges	11	24	23	44
Other	4	-	24	-
Total Non-Interest Income	76	24	147	44
Non-Interest Expense				
Salaries and employee benefits	337	242	658	472
Directors' fees and expenses	52	63	104	133
Occupancy and equipment	38	23	83	46
Professional fees	95	109	181	203
FDIC deposit insurance assessment	38	65	76	83
Other real estate owned expense	18	73	26	73
Advertising	19	3	29	6
Other	61	39	111	62
Total Non-Interest Expense	658	617	1,268	1,078
Income before Income Taxes	232	103	483	330
Income Taxes	93	41	191	131

Net Income	$139	$62	$292	$199
Earnings per share - basic	$0.13	$0.05	$0.27	$0.17
Average shares outstanding - basic	1,042,956	1,167,861	1,083,942	1,178503
Earnings per share - diluted	$0.13	$0.05	$0.27	$0.17
Average shares outstanding - diluted	1,047,902	1,172,715	1,089,524	1,183,370

See accompanying notes to consolidated financial statements.

Quaint Oak Bancorp, Inc.

Consolidated Statements of Stockholders' Equity (Unaudited)

Six Months Ended June 30, 2010

(In thousands, except share data)	Common Stock Number of Shares Outstanding	Common Stock Amount	Additional Paid-in Capital	Treasury Stock	Unallocated Common Stock Held by Benefit Plans	Accumulated Other Comprehensive Income	Retained Earnings	Total Stockholders' Equity
BALANCE – DECEMBER 31, 2009	1,299,712	$ 14	$ 13,442	$ (735)	$ (1,323)	$ 1	$ 5,987	$ 17,386
Common stock allocated by ESOP			(1)		35			34
Treasury stock purchased	(130,776)			(1,202)				(1,202)
Stock based compensation expense			59					59
Release of vested common stock by the Recognition and Retention Plan Trust (8,529			(80)		80			-

shares)								
Cash dividends declared ($0.055 per share)							(68)	(68)
Net income							292	292
Unrealized gain on securities, net of deferred taxes						9		9
Comprehensive Income								$ 301
BALANCE – June 30, 2010	1,168,936	$ 14	$ 13,420	$ (1,937)	$ (1,208)	$ 10	$ 6,211	$ 16,510

See accompanying notes to consolidated financial statements.

Quaint Oak Bancorp, Inc.

Consolidated Statements of Cash Flows (Unaudited)

	For the Six Months Ended June 30,	
	2010	2009
Cash Flows from Operating Activities	(In Thousands)	
Net income	$292	$199
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	57	85
Depreciation expense	27	14
Net accretion of securities discounts	(5)	(4)
Amortization of deferred loan fees and costs	5	(12)
Deferred income tax	-	3
Stock-based compensation expense	93	89
Changes in assets and liabilities which provided (used) cash:		
Accrued interest receivable	24	(43)
Prepaid expenses and other assets	44	(189)
Accrued interest payable	(12)	-
Accrued expenses and other liabilities	69	16
Net Cash Provided by Operating Activities	594	158
Cash Flows from Investing Activities		
Net (increase) decrease in investment in interest-earning time deposits	(1,029)	862
Purchase of investment securities available for sale	(2,012)	-
Proceeds from calls of investment securities available for sale	500	1,750
Principal payments received on mortgage-backed securities held to maturity	1,069	951
Net increase in loans receivable	(2,644)	(2,292)
Capitalized expenditures on other real estate owned	(25)	-
Purchase of premises and equipment	(18)	(1,029)
Net Cash (Used in) Provided by Investing Activities	(4,159)	242
Cash Flows from Financing Activities		
Net increase in deposits	7,729	9,496
Decrease in Federal Home Loan Bank advances	(500)	(3,550)
Increase in other borrowings	-	450
Repayment of other borrowings	(9)	-
Dividends paid	(68)	(67)
Purchase of treasury stock	(1,202)	(373)
Decrease in advances from borrowers for taxes and insurance	(57)	(11)
Net Cash Provided by Financing Activities	5,893	5,945
Net Increase in Cash and Cash Equivalents	2,328	6,345
Cash and Cash Equivalents – Beginning of Period	5,420	1,035
Cash and Cash Equivalents – End of Period	$7,748	$7,380

Supplementary Disclosure of Cash Flow and Non-Cash Information:		
Cash payments for interest	$984	$1,271
Cash payments for income taxes	$180	$210
Transfer of loans to other real estate owned	$-	$208

See accompanying notes to consolidated financial statements.

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Note 1 – Financial Statement Presentation and Significant Accounting Policies

Basis of Presentation of Financial Presentation. On July 3, 2007, Quaint Oak Savings Bank completed its conversion from a Pennsylvania chartered mutual savings bank to a Pennsylvania chartered stock savings bank and changed its name to Quaint Oak Bank ("Bank"). In connection with the conversion, Quaint Oak Bank formed Quaint Oak Bancorp, Inc., a Pennsylvania chartered corporation (the "Company" or "Quaint Oak Bancorp"), which offered and sold 1,388,625 shares of its common stock at a price of $10.00 per share to eligible depositors of the Bank. Upon completion of the conversion and the offering, all of Quaint Oak Bank's common stock is owned by Quaint Oak Bancorp, and all of Quaint Oak Bancorp's common stock is, in turn, owned by the public. The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Quaint Oak Bank. All significant intercompany balances and transactions have been eliminated. At June 30, 2010, the Bank has four wholly-owned subsidiaries, Quaint Oak Mortgage, LLC, Quaint Oak Real Estate, LLC, Quaint Oak Abstract, LLC, and Quaint Oak Insurance Agency, 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, in the Lehigh Valley region of Pennsylvania, and began operation in July 2009. The insurance agency is currently inactive.

The Bank is subject to regulation by the Pennsylvania Department of Banking and the Federal Deposit Insurance Corporation. Pursuant to the Bank's election under Section 10(l) of the Home Owners' Loan Act, the Company is a savings and loan holding company regulated by the Office of Thrift Supervision. The market area served by the Bank is principally Bucks County, Pennsylvania and to a lesser extent, Montgomery and Philadelphia Counties in Pennsylvania. In February 2010, the Bank opened a branch banking office in 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 (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 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, 2009 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 2009 Annual Report on Form 10-K. The results of operations for the six months ended June 30, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010.

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 and mortgage-backed securities, and the valuation of deferred tax assets.

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, 2010, the Company has two share-based plans; the 2008 Recognition and Retention Plan ("RRP") and the 2008 Stock Option Plan. Awards under both plans were made in May 2008. These plans are more fully described in Note 7.

The Company also has an employee stock ownership plan ("ESOP"). This plan is more fully described in Note 7. 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. Although 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, such items, along with net income, are components of comprehensive income.

For the three and six months ended June 30, 2010, the only components of comprehensive income were net income and unrealized gains, net of tax, on available for sale securities. Unrealized holding gains were $3,000 and $6,000, net of tax, for the three and six months ended June 30, 2010, respectively. The Company had no items of other comprehensive income (loss) for the three months and six months ended June 30, 2009.

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. For the three and six months ended June 30, 2010 and June 30, 2009, all outstanding stock options (107,570 and 108,311 options, respectively) were antidilutive.

Cash and Cash Equivalents. Cash and cash equivalents include non-interest and interest-earning demand deposits and money market accounts with various commercial financial institutions, all of which mature within ninety days.

Recent Accounting Pronouncements. The Financial Accounting Standards Board (FASB) has issued Accounting Standards Update (ASU) 2010-06, Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements. This ASU requires some new disclosures and clarifies some existing disclosure requirements about fair value measurements as set forth in FASB Accounting Standards Codification (Codification) Subtopic 820-10. The FASB's objective is to improve these disclosures and, thus, increase transparency in financial reporting. Specifically, ASU 2010-06 amends Codification Subtopic 820-10 to now require:

A reporting entity to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers; and

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

In the reconciliation for fair value measurements using significant unobservable inputs, a reporting entity should present separately information about purchases, sales, issuances, and settlements.

In addition, ASU 2010-06 clarifies the requirements of the following existing disclosures:

For purposes of reporting fair value measurements for each class of assets and liabilities, a reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities; and

A reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements.

ASU 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuance, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. Early adoption is permitted. The Company is continuing to evaluate the impact the adoption of the roll forward activity for Level 3 measurements in ASU 2010-06 will have on our financial position or results of operations.

In April 2010, the FASB issued ASU 2010-18, Effect of a Loan Modification When the Loan Is Part of a Pool That Is Accounted for as a Single Asset, which updates ASC 310, Receivables . The amendments in this update affect any entity that acquires loans subject to ASC Subtopic 310-30, Receivables: Loans and Debt Securities Acquired with Deteriorated Credit Quality, that accounts for some or all of those loans within pools, and that subsequently modifies one or more of those loans after acquisition. Under this updated guidance, modifications of loans that are accounted for within a pool under Subtopic 310-30 do not result in the removal of those loans from the pool even if the modification of those loans would otherwise be considered a troubled debt restructuring. An entity will continue to be required to consider whether the pool of assets in which the loan is included is impaired if expected cash flows for the pool change. The amended guidance is effective prospectively for modifications occurring in the first interim or annual period ending on or after July 15, 2010. The Company adopted this guidance effective July 1, 2010. The adoption is not expected to have any impact on our financial position or results of operations.

In July 2010, the FASB issued ASU 2010-20, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses, which updated ASC 310, Receivables. The updated guidance requires more robust and disaggregated disclosures about the credit quality of an entity’s financing receivables and its allowance for credit losses, including a rollforward schedule of the allowance for credit losses for the period on a portfolio segment basis, as well as additional information about the aging and credit quality of receivables by class of financing receivables as of the end of the period. The new and amended disclosures that relate to information as of the end of a reporting period will be effective for the Company as of December 31, 2010. The disclosures that include information for activity that occurs during a reporting period will be effective for the first interim reporting period beginning after December 31, 2010. The Company is currently evaluating the impact the adoption of this guidance will have on the Company’s financial position or results of operations.

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Quaint Oak Bancorp, Inc.

Notes to Unaudited Consolidated Financial Statements

Note 2 – Investment Securities

The amortized cost and fair value of investment securities available for sale at June 30, 2010 and December 31, 2009 are summarized below (in thousands):

	June 30, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale:				
U.S. Government agency securities	$1,250	$11	$-	$1,261
Short-term bond funds	1,264	4	-	1,268
	$2,514	$15	$-	$2,529

	December 31, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale:				
U.S. Government agency securities	$499	$-	$(1)	$498
Short-term bond funds	502	2	-	504
	$1,001	$2	$(1)	$1,002

Note 3 – Mortgage-backed Securities

The amortized cost and fair value of mortgage-backed securities held to maturity at June 30, 2010 and December 31, 2009 are summarized below (in thousands):

	June 30, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held to Maturity:				
FNMA pass-through certificates	$3,537	$287	$-	$3,824
FHLMC pass-through certificates	3,129	240	-	3,369
	$6,666	$527	$-	$7,193

	December 31, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held to Maturity:				
FNMA pass-through certificates	$4,071	$211	$-	$4,282
FHLMC pass-through certificates	3,660	200	-	3,860
	$7,731	$411	$-	$8,142

Notes to Unaudited Consolidated Financial Statements

Note 4 - Loans Receivable, Net and Allowance for Loan Losses

Loans receivable, net consist of the following (in thousands):

	June 30, 2010	December 31, 2009
Real estate loans:		
One-to four-family residential:		
Owner occupied	$14,930	$15,388
Non-owner occupied	26,205	25,133
Total one-to-four family residential	41,135	40,521
Multi-family residential	3,335	3,127
Commercial real estate	19,231	18,617
Construction	4,146	3,536
Commercial lines of credit	1,761	1,197
Home equity loans	6,480	6,445
Total real estate loans	76,088	73,443
Auto loans	86	78
Loans secured by deposits	12	13
Total loans	76,186	73,534
Deferred loan fees and costs	16	29
Allowance for loan losses	(892)	(835)
Net loans	$ 75,310	$ 72,728

Following is a summary of changes in the allowance for loan losses for the six months ended June 30, 2010 and 2009 (in thousands):

	June 30, 2010	June 30, 2009
Balance, beginning of the year	$835	$689
Provision for loan losses	57	85
Charge-offs	-	(12)
Recoveries	-	-
(Charge-offs)/recoveries, net	-	(12)
Balance, end of period	$892	$762

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Notes to Unaudited Consolidated Financial Statements

Note 5 – Deposits

Deposits consist of the following classifications (in thousands):

	June 30, 2010	December 31, 2009
Passbook savings accounts	$3,259	$3,277
Statement savings accounts	6,662	6,508
eSavings accounts	1,783	1,978
Certificates of deposit	64,277	56,489
Total deposits	$75,981	$68,252

Note 6 – Federal Home Loan Bank Advances and Other Borrowings

Federal Home Loan Bank advances consist of the following at June 30, 2010 (in thousands):

Maturity Period	Amount	Weighted Interest Rate	
1 to 12 months	$1,750	3.51	%
13 to 24 months	1,800	3.83	%
25 to 36 months	1,800	4.09	%
37 to 48 months	1,000	4.32	%
Total	$6,350	3.89	%

In June 2009, the Company borrowed $450,000 from a commercial bank to finance the purchase of a building in Allentown, Pennsylvania which serves as the offices for the three new active subsidiaries and branch banking office. The loan has an interest rate of 5.75%, matures on July 1, 2014 and is amortizing over 180 months. The balance on the loan was $433,000 and $442,000 at June 30, 2010 and December 31, 2009, respectively.

Note 7 – 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.

Notes to Unaudited Consolidated Financial Statements

Note 7 – Stock Compensation Plans (Continued)

Employee Stock Ownership Plan (Continued)

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 months and six months ended June 30, 2010, the Company recognized $17,000 and $34,000 of ESOP expense, respectively. During the three months and six months ended June 30, 2009, the Company recognized $15,000 and $29,000 of ESOP expense, respectively.

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 (the "RRP Trust") acquired 55,545 shares of the Company's stock in the open market at an average price of $9.36 totaling $520,000. Pursuant to the RRP, 43,324 shares acquired by the RRP Trust were granted to certain officers, employees and directors of the Company in May 2008, with 12,221 shares remaining available for future grant. Due to the forfeiture of shares by former employees in addition to unawarded shares, as of June 30, 2010, 12,459 shares remain available for future grant. The RRP share awards have vesting periods from five to seven years. On May 14, 2010 and 2009, awards totaling 8,529 shares and 8,588 shares, respectively, vested and were released from the RRP trust.

A summary of the status of the shares under the RRP as of June 30, 2010 and 2009 and changes during the six months ended June 30, 2010 and 2009 is as follows:

	June 30, 2010		June 30, 2009	
	Number of Shares	Weighted Average Grant Date Fair Value	Number of Shares	Weighted Average Grant Date Fair Value
Unvested at the beginning of the year	34,498	$9.05	43,324	$9.05
Granted	--	--	--	--
Vested	(8,529)	9.05	(8,588)	9.05
Forfeited	--	--	--	--
Unvested at the end of the period	25,969	$9.05	34,736	$9.05

The weighted average grant date fair value is the last sale price as quoted on the OTC Bulletin Board on May 14, 2008. Compensation expense on the RRP shares granted 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 months ended June 30, 2010 and 2009, $19,000 in compensation expense was recognized, respectively. A tax benefit of approximately $6,000 was recognized during each of these periods. During the six months ended June 30, 2010 and 2009, $38,000 and $39,000 in compensation expense was recognized, respectively. A tax benefit of approximately $13,000 was recognized during each of these periods. As of June 30, 2010, approximately $225,000 in additional compensation expense will be recognized over the remaining service period of approximately 2.9 years.

Note 7 – Stock Compensation Plans (Continued)

Stock Options

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 Compensation Committee of the Board of Directors determined to grant the stock options in May 2008 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 are intended to comply with the requirements of Section 422 of the Internal Revenue Code. 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. Pursuant to the Option Plan, 108,311 stock options were granted to certain officers, employees and directors of the Company in May 2008. Due to forfeiture of stock options by certain employees in addition to unawarded stock options, as of June 30, 2010, 31,293 stock options remain available for future grant.

A summary of option activity under the Company's Option Plan as of June 30, 2010 and 2009 and changes during the six months ended June 30, 2010 and 2009 is as follows:

	June 30, 2010		June 30, 2009		
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)
Outstanding at the beginning of the year	107,718	$10.00	108,311	$10.00	8.4
Granted	--	--	--	--	--
Exercised	--	--	--	--	--
Forfeited	(148)	--	--	--	--
Outstanding at the end of the period	107,570	$10.00	108,311	$10.00	7.9
Exercisable at the end of the period	42,666	$10.00	21,481	$10.00	7.9

During the three months and six months ended June 30, 2010 and June 30, 2009, approximately $10,000 and $21,000, respectively for both years, was recognized in compensation expense for the 2008 Option Plan. A tax benefit of approximately $2,000 and $4,000, respectively, was recognized during these periods. As of June 30, 2010, approximately $121,000 in additional compensation expense for awarded options remained unrecognized. This expense will be recognized over approximately 2.9 years.

Note 8 – Fair Value Measurements and Fair Values of Financial Instruments

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with the Fair Value Measurements and Disclosures topic of FASB

ASC 820, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

Notes to Unaudited Consolidated Financial Statements

Note 8 – Fair Value Measurements and Fair Values of Financial Instruments (Continued)

The recent fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such circumstances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

The fair value guidance establishes a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2: Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability.

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported with little or no market activity).

An asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The table below presents the balances of assets presented at fair value on a recurring basis at June 30, 2010 and December 31, 2009 (in thousands):

	June 30, 2010			
	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Observable Inputs (Level 3)
Investment securities available for sale:				
U.S. Government agency securities	$1,261	$-	$1,261	$-
Short-term bond funds	1,268	-	1,268	-
	$2,529	$-	$2,529	$-

	December 31, 2009			
	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Observable Inputs (Level 3)
Investment securities available for sale:				
U.S. Government agency securities	$498	$-	$498	$-
Short-term bond funds	504	-	504	-
	$1,002	$-	$1,002	$-

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Note 8 – Fair Value Measurements and Fair Values of Financial Instruments (Continued)

For assets measured at fair value on a nonrecurring basis that were still held at the end of the period, the following table provides the fair value measurements by level within the fair value hierarchy used at June 30, 2010 and December 31, 2009 (in thousands):

	June 30, 2010			
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Observable Inputs (Level 3)
Other real estate owned	$938	$-	$-	$938
Impaired loans	$268	$-	$-	$268

	December 31, 2009			
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Observable Inputs (Level 3)
Other real estate owned	$913	$-	$-	$913

Real estate properties acquired through, or in lieu of, foreclosure are to be sold and are carried at fair value less estimated cost to sell. Fair value is based upon independent market prices or appraised value of the property, net of selling costs. These assets are included in Level 3 fair value based upon the lowest level of input that is significant to the fair value measurement.

The following methods and assumptions were used to estimate the fair value of the Company's financial instruments at June 30, 2010 and December 31, 2009:

Cash and Cash Equivalents (Carried at Cost)

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

Interest Earning Time Deposits (Carried at Cost)

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.

Investment and Mortgage-Backed Securities

The fair value of securities available for sale (carried at fair value) and held to maturity (carried at amortized cost) 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

Notes to Unaudited Consolidated Financial Statements

Note 8 – Fair Value Measurements and Fair Values of Financial Instruments (Continued)

Investment and Mortgage-Backed Securities (Continued)

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.

Loans Receivable (Carried at Cost)

The fair values of loans are estimated using discounted cash flow analyses, using market rates at the balance sheet date that reflect the credit and interest rate-risk inherent in the loans. Projected future cash flows are calculated based upon contractual maturity or call dates, projected repayments and prepayments of principal. Generally, for variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values.

Federal Home Loan Bank Stock (Carried at Cost)

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

Accrued Interest Receivable and Payable (Carried at Cost)

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

Deposit Liabilities (Carried at Cost)

The fair values disclosed for demand deposits (e.g., passbook savings, statement savings and eSavings accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). Fair values for fixed-rate certificates of deposit 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.

Short-Term Borrowings (Carried at Cost)

The carrying amounts of short-term borrowings approximate their fair values.

Long-Term Debt and Other Borrowings (Carried at Cost)

Fair values of FHLB advances and other borrowings are estimated using discounted cash flow analysis, based on quoted prices for new FHLB advances with similar credit risk characteristics, terms and remaining maturity. These prices obtained from this active market represent a market value that is deemed to represent the transfer price if the liability were assumed by a third party.

Off-Balance Sheet Financial Instruments (Disclosed at Cost)

Fair values for the Bank's off-balance sheet financial instruments (lending commitments) are based on fees currently charged in the market to enter into similar agreements, taking into account, the remaining terms of the agreements and the counterparties' credit standing.

Notes to Unaudited Consolidated Financial Statements

Note 8 – Fair Value Measurements and Fair Values of Financial Instruments (Continued)

The following information is an estimate of the fair value of a limited portion of the Company's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company's disclosures and those of other companies may not be meaningful.

The estimated fair values of the Company's financial instruments were as follows at June 30, 2010 and December 31, 2009 (in thousands):

	June 30, 2010		December 31, 2009	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:				
Cash and cash equivalents	$7,748	$7,748	$5,420	$5,420
Investment in interest-earning time deposits	4,182	4,192	3,153	3,157
Investment securities available for sale	2,259	2,259	1,002	1,002
Mortgage-backed securities held to maturity	6,666	7,193	7,731	8,142
Loans receivable, net	75,310	77,122	72,728	74,175
Investment in FHLB stock	797	797	797	797
Accrued interest receivable	373	373	397	397
Liabilities:				
Deposits	75,981	76,578	68,252	68,917
FHLB advances, long-term	4,600	4,886	5,600	5,854
FHLB advances, short-term	1,750	1,750	1,250	1,250
Other borrowings	433	433	442	442
Accrued interest payable	105	105	117	117
Off-balance sheet financial instruments	--	--	--	--

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on many judgments.

These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates. Fair value estimates are based on existing on and off-balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Significant assets and liabilities that are not considered financial instruments include deferred income taxes and premises and equipment. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in the estimates.

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

Forward-Looking Statements

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, 2010 the Bank had four subsidiaries, Quaint Oak Mortgage, LLC, Quaint Oak Real Estate, LLC, Quaint Oak Abstract, LLC, and Quaint Oak Insurance Agency, 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, in the Lehigh Valley region of Pennsylvania, and began operation in July 2009. The insurance agency is currently inactive. In connection with the expansion into these activities, the Company acquired an office building in Allentown, Pennsylvania from which the subsidiaries operate. The Bank also opened a new branch office at this location in February 2010.

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 is established through a provision for loan losses charged to expense. Loans are charged against the allowance for loan losses when

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management believes that the collectibility of the principal is unlikely. Subsequent recoveries are added to the allowance. The allowance is an amount that management believes will cover known and inherent losses in the loan portfolio, based on evaluations of the collectibility of loans. The evaluations take into consideration such factors as changes in the types and amount of loans in the loan portfolio, historical loss experience, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, estimated losses relating to specifically identified loans, and current economic conditions. This evaluation is inherently subjective as it requires material estimates including, among others, exposure to default, the amount and timing of expected future cash flows on impaired loans, value of collateral, estimated losses on our commercial and residential loan portfolios and general amounts for historical loss experience. All of these estimates may be susceptible to significant change.

While management uses the best information available to make loan loss allowance evaluations, adjustments to the allowance may be necessary based on changes in economic and other conditions or changes in accounting guidance. Historically, our estimates of the allowance for loan losses have not required significant adjustments from management's initial estimates. In addition, the Pennsylvania Department of Banking and the Federal Deposit Insurance Corporation, as an integral part of their examination processes, periodically review our allowance for loan losses. The Pennsylvania Department of Banking and the Federal Deposit Insurance Corporation may require the recognition of adjustments to the allowance for loan losses based on their judgment of information available to them at the time of their examinations. To the extent that actual outcomes differ from management's estimates, additional provisions to the allowance for loan losses may be required that would adversely impact earnings in future periods.

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 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, 2010 and December 31, 2009

Total Assets. The Company's total assets at June 30, 2010 were $100.3 million, an increase of $6.3 million, or 6.8%, from $93.9 million at December 31, 2009. This increase was primarily due to growth in loans receivable, net of the allowance for loan losses, of $2.6 million, cash and cash equivalents of $2.3 million, investment securities available for sale of $1.5 million, and investment in interest-earning time deposits of $1.0 million. Offsetting these increases were principal payments from mortgage-backed securities held to maturity of $1.1 million. Asset growth for the six months ended June 30, 2010 was funded by a $7.7 million increase in deposits.

Cash and Cash Equivalents. Cash and cash equivalents increased $2.3 million, or 43.0%, from $5.4 million at December 31, 2009 to $7.7 million at June 30, 2010 as principal payments on mortgage-backed securities held to maturity, calls of investment securities available for sale, increases in deposits and excess liquidity, were invested in liquid money market accounts.

Investment in Interest-Earning Time Deposits. Investment in interest-earning time deposits increased $1.0 million, or 32.6%, from $3.2 million at December 31, 2009 to $4.2 million at June 30, 2010 as the Company used this investment vehicle to compliment its investment securities portfolio.

Investment Securities. Investment securities available for sale increased $1.5 million, or 152.4%, from $1.0 million at December 31, 2009 to $2.5 million at June 30, 2010. During this same period, mortgage-backed securities held to maturity decreased $1.1 million, or 13.8%, from $7.7 million to $6.7 million due to principal payments on these securities.

Loans Receivable, Net. Loans receivable, net, increased $2.6 million, or 3.6%, to $75.3 million at June 30, 2010 from $72.7 million at December 31, 2009. Increases within the portfolio occurred in the residential mortgage one-to-four family non-owner occupied loans which grew $1.1 million, or 4.3%, commercial real estate category which increased $614,000, or 3.3%, construction loans which increased $610,000, or 17.3%, commercial lines of credit which increased $564,000, or 47.1%, multi-family residential loans which increased $208,000, or 6.7%, and home equity loans which grew $35,000, or 0.5%, as the Company continues its strategy of diversifying its loan portfolio with higher yielding and shorter-term loan products. These increases were partially offset by a decrease of $458,000, or 3.0%, of residential mortgage one-to-four family owner occupied loans. The decrease in this loan category is attributable to normal amortization and pay-offs.

Deposits. Total interest-bearing deposits increased $7.7 million, or 11.3%, to $76.0 million at June 30, 2010 from $68.3 million at December 31, 2009. This increase was attributable to increases of $7.8 million in certificates of deposit and $154,000 in statement savings accounts, offset by decreases of $195,000 in eSavings accounts and $18,000 in passbook savings accounts. The increase in certificates of deposit was primarily due to the competitive interest rates offered by the Bank and investors seeking the safety of insured bank deposits.

Federal Home Loan Bank Advances. Federal Home Loan Bank advances decreased $500,000 from $6.9 million at December 31, 2009 to $6.4 million at June 30, 2010 as the Company used excess liquidity to pay-down Federal Home Loan Bank advances.

Other Borrowings. In June 2009, the Company borrowed $450,000 from a commercial bank to finance the acquisition of a building in Allentown, Pennsylvania which serves as the offices for the Bank's new subsidiaries which began operation in July 2009 and branch banking office that opened in February 2010. The loan has an interest rate of 5.75%, matures in five years on July 1, 2014 and is amortizing over 180 months. The balance on the loan at June 30, 2010 was $433,000.

Stockholders' Equity. Total stockholders' equity decreased $876,000 to $16.5 million at June 30, 2010 from $17.4 million at December 31, 2009. Contributing to the decrease was the purchase of 130,776 shares of the Company's stock in the open-market as part of the Company's stock repurchase programs, as well as other private repurchases, for an aggregate purchase price of $1.2 million, and dividends paid of $68,000. These decreases were offset by $292,000 of net income for the six months ended June 30, 2010, $59,000 amortization of stock awards and options under our stock compensation plans, $34,000 related to common stock earned by participants in the employee stock ownership plan, and $9,000 of accumulated other comprehensive income.

Comparison of Operating Results for the Three Months Ended June 30, 2010 and 2009

General. Net income amounted to $139,000 for the three months ended June 30, 2010, an increase of $77,000, or 124.2%, compared to net income of $62,000 for the same period in 2009. The increase in net income on a comparative quarterly basis was primarily the result of increases in net interest income of $123,000 and non-interest income of $52,000, which were offset by increases in the provision for income taxes of $52,000, non-interest expense of $41,000 and the provision for loan losses of $5,000.

Net Interest Income. Net interest income increased $123,000, or 17.1%, to $842,000 for the three months ended June 30, 2010 from $719,000 for the comparable period in 2009. The increase was driven by a $162,000, or 25.1%, decrease in interest expense, offset by a $39,000, or 2.9%, decrease in interest income.

Interest Income. Interest income decreased $39,000, or 2.9%, to $1.3 million for the three months ended June 30, 2010 from $1.4 million for the three months ended June 30, 2009. The decrease resulted primarily from a 53 basis point decrease in the yield on interest earning assets to 5.65% for the three months ended June 30, 2010 from 6.18% for the three months ended June 30, 2009, which had the effect of decreasing interest income by $78,000. Contributing to the decrease in yield for the quarter ended June 30, 2010 was the reversal of $31,000 of accrued interest income on loans placed on non-accrual status during the quarter. This decrease in interest income due to the yield decrease was offset by a $5.5 million increase in average interest-earning assets from $88.4 million at June 30, 2009 to $93.9 million at June 30, 2010, which had the effect of increasing interest income by $39,000. The 53 basis point decrease in the overall yield on interest earning assets was consistent with the decrease in market interest rates from June 2009 to June 2010. The growth in average interest-earnings assets between the two periods can be attributed primarily to increases in average short-term investments and investment securities of $6.2 million and average net loans receivable of $1.4 million, offset by a decrease in average mortgage-backed securities of $2.1 million. The increase in average short-term investments and investment securities and average net loans receivable was primarily funded by the $7.0 million increase in average interest-bearing deposits.

Interest Expense. Interest expense decreased $162,000, or 25.1%, to $484,000 for the three months ended June 30, 2010 compared to $646,000 for the three months ended June 30, 2009. The decrease was primarily attributable to a 107 basis point decrease in the overall cost of interest-bearing liabilities to 2.41% for the three months ended June 30, 2010 from 3.48% for the three months ended June 30, 2009, which had the effect of decreasing interest expense by $206,000. The decrease in rates was consistent with the decrease in market interest rates from June 2009 to June 2010. This decrease in interest expense due to rate was offset by a $6.1 million increase in average interest-bearing liabilities, which had the effect of increasing interest expense by $44,000. The increase in the average balance of interest-bearing liabilities was primarily driven by the growth in average certificates of deposit of $4.8 million, average statement savings accounts of $1.4 million, average eSavings accounts of $766,000, and average other borrowings of $429,000. The increase in average certificates of deposit was due to customer interest in higher yielding secure investments. These increases were offset by the decrease in average FHLB advances of $1.3 million as these advances were paid down.

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

	Three Months Ended June 30,					
	2010			2009		
	Average Balance	Interest	Average Yield/ Rate	Average Balance	Interest	Average Yield/ Rate
Interest-earning assets:			(Dollars in thousands)			
Short-term investments and investment securities	$12,919	$44	1.36 %	$6,681	$44	2.63 %
Mortgage-backed securities	6,943	82	4.72	9,098	109	4.79
Loans receivable, net (1)	74,024	1,200	6.48	72,623	1,212	6.68
Total interest-earning assets	93,886	1,326	5.65 %	88,402	1,365	6.18 %
Non-interest-earning assets	3,841			3,855		
Total assets	$97,727			$92,257		
Interest-bearing liabilities:						
Passbook accounts	$3,263	5	0.61 %	$3,287	8	0.97 %
Statement savings accounts	6,645	18	1.08	5,197	30	2.31
eSavings accounts	1,843	6	1.30	1,077	6	2.23
Certificate of deposit accounts	61,694	388	2.52	56,885	528	3.71
Total deposits	73,445	417	2.27	66,446	572	3.44
FHLB advances	6,489	61	3.76	7,781	74	3.80
Other borrowings	434	6	5.53	5	-	-
Total interest-bearing liabilities	80,368	484	2.41 %	74,232	646	3.48 %
Non-interest-bearing liabilities	816			771		
Total liabilities	81,184			75,003		
Stockholders' Equity	16,543			17,254		
Total liabilities and Stockholders' Equity	$97,727			$92,257		
Net interest-earning assets	$13,518			$14,170		
Net interest income; average interest rate spread		$842	3.24 %		$719	2.70 %
Net interest margin (2)			3.59 %			3.25 %
Average interest-earning assets to average interest-bearing liabilities			116.82 %			119.09 %

(1) Includes non-accrual loans during the respective periods. Calculated net of deferred fees and discounts, loans in process and allowance for loan losses.

(2) Equals net interest income divided by average interest-earning assets.

Provision for Loan Losses. The Company increased its provision for loan losses by $5,000, from $23,000 for the quarter ended June 30, 2009 to $28,000 for the same period in 2010, 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, 2010. Non-performing loans amounted to $2.5 million, or 3.27% of net loans receivable at June 30, 2010, consisting of nineteen loans, seventeen of which are on non-accrual status and two of which are 90 days or more past due and accruing interest. This compares to eleven non-performing loans totaling $925,000, or 1.27% of net loans receivable at December 31, 2009. The non-performing loans at June 30, 2010 include twelve one-to-four family non-owner occupied residential loans, four one-to-four family owner occupied residential loans, and three home equity loans, and all are generally well-collateralized or adequately reserved for. Management does not anticipate any significant losses on these loans. During the quarter ended June 30, 2010, eight loans were placed on non-accrual status resulting in the reversal of $31,000 of previously accrued interest income. In July 2010, a one-to-four family non-owner occupied residential loan for $60,000 was placed back on accrual status resulting in the receipt of approximately $2,000 of previously reversed and past due interest. Also in July 2010, the collateral property underlying a one-to-four family non-owner occupied residential loan in the amount of $260,000, previously classified as non-accrual, was acquired as real estate owned at a fair value of approximately $260,000.

Not included in non-performing loans are performing troubled debt restructurings which totaled $648,000 at June 30, 2010 compared to $1.5 million at December 31, 2009. The allowance for loan losses as a percent of total loans receivable was 1.17% at June 30, 2010 and 1.14% at December 31, 2009. Other real estate owned was $938,000 at June 30, 2010 compared to $913,000 at December 31, 2009. Non-performing assets amounted to $3.4 million, or 3.39% of total assets at June 30, 2010 compared to $1.8 million, or 1.96% of total assets at December 31, 2009.

Non-Interest Income. Non-interest income increased $52,000, or 216.7%, for the three months ended June 30, 2010 over the comparable period in 2009 due primarily to the fees generated by Quaint Oak Bank's mortgage banking, title abstract and real estate sales subsidiaries which began operation in July of 2009.

Non-Interest Expense. Non-interest expense increased $41,000, or 6.6%, from $617,000 for the three months ended June 30, 2009 to $658,000 for the three months ended June 30, 2010. Salaries and employee benefits expense accounted for $95,000 of the change as this expense increased 39.3%, from $242,000 for the three months ended June 30, 2009 to $337,000 for the three months ended June 30, 2010, due primarily to increased staff as the Company expanded its operations, including the new subsidiaries and branch banking office. The other expense category increased $22,000, or 56.4%, from $39,000 for the three months ended June 30, 2009 to $61,000 for the three months ended June 30, 2010, due primarily to expenses incurred with respect to the new subsidiaries and branch banking office. Advertising accounted for $16,000 of the change as this expense increased from $3,000 for the three months ended June 30, 2009 to $19,000 for the three months ended June 30, 2010, due primarily to increased marketing of the new subsidiaries and branch banking office. Occupancy and equipment expense accounted for $15,000 of the change as this expense increased 65.2%, from $23,000 for the three months ended June 30, 2009 to $38,000 for the three months ended June 30, 2010. This quarter over quarter increase was primarily attributable to the costs associated with the building on Union Boulevard in Allentown, Pennsylvania, which was acquired late in the second quarter of 2009 to serve as the offices for Quaint Oak Bank's mortgage banking, abstract title and real estate sales subsidiaries and branch banking office. Offsetting these increases was a decrease in other real estate owned expense which declined $55,000, or 75.3%, from $73,000 for the three months ended June 30, 2009 to $18,000 for the three months ended June 30, 2010, as costs were incurred in the second quarter of 2009 on the Bank's three foreclosed properties to prepare them for resale. FDIC deposit insurance assessment also decreased $27,000, or 41.5%, from $65,000 for the three months ended June 30, 2009 to $38,000 for the three months ended June 30, 2010, due primarily to a special assessment by the FDIC on all insured institutions in the second quarter of 2009. Also offsetting the increases in non-interest expense was a $14,000, or 12.8%, decrease in professional fees, and an $11,000, or 17.5%, decrease in directors' fees and expenses.

Provision for Income Tax. The provision for income tax increased $52,000 from $41,000 for the three months ended June 30, 2009 to $93,000 for the three months ended June 30, 2010 due primarily to the increase in pre-tax income. The Company's effective tax rate, including federal and state income taxes, was 40.1% and 39.8% for three months ended June 30, 2010 and 2009, respectively.

Comparison of Operating Results for the Six Months Ended June 30, 2010 and 2009

General. Net income amounted to $292,000 for the six months ended June 30, 2010, an increase of $93,000, or 46.7%, compared to net income of $199,000 for the same period in 2009. The increase in net income on a period over period basis was primarily the result of increases in net interest income of $212,000 and non-interest income of $103,000 and a decrease in the provision for loan losses of $28,000, offset by an increase in non-interest expense of $190,000 and the provision for income taxes of $60,000.

Net Interest Income. Net interest income increased $212,000 or 14.6%, to $1.7 million for the six months ended June 30, 2010 from $1.4 million for the comparable period in 2009. The increase was driven by a $300,000, or 23.6%, decrease in interest expense, offset by an $88,000, or 3.2%, decrease in interest income.

Interest Income. Interest income decreased $88,000, or 3.2%, to $2.6 million for the six months ended June 30, 2010 from $2.7 million for the six months ended June 30, 2009. The decrease resulted primarily from a 47 basis point decrease in the yield on interest earning assets to 5.74% for the six months ended June 30, 2010 from 6.21% for the six months ended June 30, 2009, which had the effect of decreasing interest income by $152,000. Contributing to the decrease in yield for the quarter ended June 30, 2010 was the reversal of $66,000 of accrued interest income on loans placed on non-accrual status during the quarter. This decrease in interest income due to the yield decrease was offset by a $4.0 million increase in average interest-earning assets from $87.7 million at June 30, 2009 to $91.7 million at June 30, 2010, which had the effect of increasing interest income by $64,000. The 47 basis point decrease in the overall yield on interest earning assets was consistent with the decrease in market interest rates from June 2009 to June 2010. The growth in average interest-earnings assets between the two periods can be attributed primarily to increases in average short-term investments and investment securities of $4.6 million and average net loans receivable of $1.5 million, offset by a decrease in average mortgage-backed securities of $2.2 million. The increase in average short-term investments and investment securities and average net loans receivable was primarily funded by the $7.1 million increase in average interest-bearing deposits.

Interest Expense. Interest expense decreased $300,000, or 23.6%, to $972,000 for the six months ended June 30, 2010 compared to $1.3 million for the six months ended June 30, 2009. The decrease was primarily attributable to a 101 basis point decrease in the overall cost of interest-bearing liabilities to 2.48% for the six months ended June 30, 2010 from 3.49% for the six months ended June 30, 2009, which had the effect of decreasing interest expense by $382,000. The decrease in rates was consistent with the decrease in market interest rates from June 2009 to June 2010. This decrease in interest expense due to rate was offset by a $5.6 million increase in average interest-bearing liabilities, which had the effect of increasing interest expense by $82,000. The increase in the average balance of interest-bearing liabilities was primarily driven by the growth in average certificates of deposit of $4.9 million, average statement savings accounts of $1.4 million, average eSavings accounts of $924,000, and average other borrowings of $435,000. The increase in average certificates of deposit was due to customer interest in higher yielding secure investments. These increases were offset by the decrease in average FHLB advances of $1.9 million as these advances were paid down.

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

	Six Months Ended June 30,					
	2010			2009		
	Average Balance	Interest	Average Yield/ Rate	Average Balance	Interest	Average Yield/ Rate
Interest-earning assets:	(Dollars in thousands)					
Short-term investments and investment securities	$11,170	$74	1.32 %	$6,540	$91	2.78 %
Mortgage-backed securities	7,197	171	4.75	9,364	225	4.81
Loans receivable, net (1)	73,327	2,388	6.51	71,787	2,405	6.70
Total interest-earning assets	91,694	2,633	5.74 %	87,691	2,721	6.21 %
Non-interest-earning assets	4,586			3,298		
Total assets	$96,280			$90,989		
Interest-bearing liabilities:						
Passbook accounts	$3,279	11	0.67 %	$3,327	17	1.02 %
Statement savings accounts	6,597	38	1.15	5,208	54	2.07
eSavings accounts	1,892	12	1.27	968	10	2.07
Certificate of deposit accounts	59,658	771	2.58	54,780	1,039	3.79
Total deposits	71,426	832	2.33	64,283	1,120	3.48
FHLB advances	6,667	127	3.81	8,602	152	3.53
Other borrowings	437	13	5.95	2	-	-
Total interest-bearing liabilities	78,530	972	2.48 %	72,887	1,272	3.49 %
Non-interest-bearing liabilities	855			802		
Total liabilities	79,385			73,689		
Stockholders' Equity	16,895			17,300		
Total liabilities and Stockholders' Equity	$96,280			$90,989		
Net interest-earning assets	$13,164			$14,804		
Net interest income; average interest rate spread		$1,661	3.26 %		$1,449	2.72 %
Net interest margin (2)			3.62 %			3.30 %
Average interest-earning assets to average interest-bearing liabilities			116.76 %			120.31 %

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

Provision for Loan Losses. The Company decreased its provision for loan losses by $28,000 from $85,000 for the six months ended June 30, 2009 to $57,000 for the same period in 2010, 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, 2010. See additional discussion under "Comparison of Operating Results for the Three Months Ended June 30, 2010."

Non-Interest Income. Non-interest income increased $103,000, or 234.1%, for the six months ended June 30, 2010 over the comparable period in 2009 due primarily to the fees generated by Quaint Oak Bank's mortgage banking, title abstract and real estate sales subsidiaries which began operation in July of 2009.

Non-Interest Expense. Non-interest expense increased $190,000, or 17.6%, from $1.1 million for the six months ended June 30, 2009 to $1.3 million for the six months ended June 30, 2010. Salaries and employee benefits expense accounted for $186,000 of the change as this expense increased 39.4%, from $472,000 for the six months ended June 30, 2009 to $658,000 for the six months ended June 30, 2010, due primarily to increased staff as the Company expanded its operations, including the new subsidiaries and branch banking office. The other expense category increased $49,000, or 79.0%, from

$62,000 for the six months ended June 30, 2009 to $111,000 for the six months ended June 30, 2010, due primarily to expenses incurred with respect to the new subsidiaries and branch banking office. Occupancy and equipment expense accounted for $37,000 of the change as this expense increased 80.4%, from $46,000 for the six months ended June 30, 2009 to $83,000 for the six months ended June 30, 2010. This period over period increase was primarily attributable to the costs associated with the building on Union Boulevard in Allentown, Pennsylvania, which was acquired late in the second quarter of 2009 to serve as the offices for Quaint Oak Bank's mortgage banking, abstract title and real estate sales subsidiaries and branch banking office. Advertising accounted for $23,000 of the change as this expense increased 383.3%, from $6,000 for the six months ended June 30, 2009 to $29,000 for the six months ended June 30, 2010, due primarily to increased marketing of the new subsidiaries and branch banking office. Offsetting these increases was a decrease in other real estate owned expense which declined $47,000, or 64.4%, from $73,000 for the six months ended June 30, 2009 to $26,000 for the six months ended June 30, 2010, as costs were incurred in the second quarter of 2009 on the Bank's three foreclosed properties to prepare them for resale. Also offsetting the increases in non-interest expense was a $29,000, or 21.8%, decrease in directors' fees and expenses, $22,000, or 10.8%, decrease in professional fees, and a $7,000, or 8.4%, decrease in FDIC deposit insurance assessment.

Provision for Income Tax. The provision for income tax increased $60,000 from $131,000 for the six months ended June 30, 2009 to $191,000 for the six months ended June 30, 2010 due primarily to the increase in pre-tax income. The Company's effective tax rate, including federal and state income taxes, was 39.5% and 39.7% for six months ended June 30, 2010 and 2009, respectively

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, 2010, the Company's cash and cash equivalents amounted to $7.7 million. At such date, the Company also had $4.0 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, 2010, Quaint Oak Bank had outstanding commitments to originate loans of $40,000 and commitments under unused lines of credit of $3.2 million.

At June 30, 2010, certificates of deposit scheduled to mature in less than one year totaled $40.5 million. Based on prior experience, management believes that a significant portion of such deposits will remain with us, although 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, 2010, we had $6.4 million of advances from the Federal Home Loan Bank of Pittsburgh and had $45.1 million in borrowing capacity. We are reviewing our continued utilization of advances from the Federal Home Loan Bank as a source of funding based on the decision in December 2008 by the Federal Home Loan Bank of Pittsburgh to suspend the dividend on, and restrict the repurchase of, Federal Home Loan Bank stock. The amount of Federal Home Loan Bank stock that a member institution is required to hold is directly proportional to the volume of advances taken by that institution. Should we decide to utilize sources of funding other than advances from the Federal Home Loan Bank, we believe that additional funding is available in the form of advances or repurchase agreements through various other sources. The Bank currently has a line of credit commitment from another bank for borrowings up to $1.5 million. There were no borrowings under this line of credit at June 30, 2010.

Our stockholders' equity amounted to $16.5 million at June 30, 2010, a decrease of $876,000 from December 31, 2009. Contributing to the decrease was the purchase of 130,776 shares of the Company's stock in the open-market as part of the Company's stock repurchase program, as well as other private repurchases, for an aggregate purchase price of $1.2 million, and dividends paid of $68,000. These decreases were offset by $292,000 of net income for the six months ended June 30, 2010, $59,000 amortization of stock awards and options under our stock compensation plans, $34,000 related to common stock earned by participants in the employee stock ownership plan, and $9,000 of accumulated other comprehensive income. For further discussion of the stock compensation plans, see Note 7 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, 2010, Quaint Oak Bank exceeded each of its capital requirements with ratios of 14.16%, 20.51% and 21.79%, respectively. As a savings and loan holding company, the Company is not 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, 2010, we had unfunded commitments under lines of credit of $3.2 million and $40,000 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, 2010. Based on their evaluation of the Company's disclosure controls and procedures, the Company's Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are designed to ensure that information required to be disclosed by 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 2010 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, 2010 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, 2010 – April 30, 2010	-	$-	-	7,249
May 1, 2010 – May 31, 2010	20,576	9.25	20,576	56,104
June 1, 2010 – June 30, 2010	500	9.30	500	55,604
Total	21,076	$9.25	21,076	55,604

Notes to this table:

(1) On June 12, 2008 the Company announced by press release its first stock repurchase program to repurchase 138,862 shares, or 10% of its outstanding common stock over a two-year period. The program became effective July 5, 2008. On March 11, 2010, the Company announced by press release a second repurchase program to repurchase up to an additional 69,431 shares, or approximately 5.5% of the Company's current outstanding shares of common stock as of March 11, 2010. The Company commenced this second stock repurchase program on April 29, 2010 upon the completion of its prior repurchase program.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. (REMOVED AND RESERVED)

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS

No.	Description
31.1	Rule 13a-14(a) Certification of Chief Executive Officer
31.2	Rule 13a-14(a) Certification of Chief Financial Officer
32.0	Certification pursuant to 18 U.S.C. Section 1350

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 16, 2010	/s/Robert T. Strong Robert T. Strong President and Chief Executive Officer
Date:	August 16, 2010	/s/John J. Augustine John J. Augustine Chief Financial Officer