QUAINT OAK BANCORP INC
Form 10-Q
November 14, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2008

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 T 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	T

(Do not check if 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 T

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: As of October 31, 2008, 1,377,625 shares of common stock were issued and outstanding.

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PART I

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

Quaint Oak Bancorp, Inc.

Consolidated Balance Sheets (Unaudited)

ASSETS	At September 30, 2008	At December 31, 2007
	(In thousands, except share data)	
Due from banks, non-interest-bearing	$ 606	$ 1,220
Due from banks, interest-bearing	983	3,767
Cash and cash equivalents	1,589	4,987
Investment in interest-earning time deposits	2,591	1,835
Investment securities available for sale	1,350	2,001
Investment securities held to maturity (fair value-2008 $2,248; 2007 $2,265)	2,250	2,253
Mortgage-backed securities held to maturity (fair value- 2008 $10,133)	10,145	-
Loans receivable, net of allowance for loan losses 2008 $744; 2007 $667	65,486	61,656
Accrued interest receivable	395	293
Investment in Federal Home Loan Bank stock, at cost	664	237
Premises and equipment, net	72	59
Prepaid expenses and other assets	274	224
Total Assets	$ 84,816	$ 73,545
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits, interest-bearing	$ 57,398	$ 55,261
Federal Home Loan Bank advances	9,450	-
Accrued interest payable	136	113
Advances from borrowers for taxes and insurance	443	600
Accrued expenses and other liabilities	51	14
Total Liabilities	67,478	55,988
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 1,378,625 and 1,388,625 outstanding at September 30, 2008 and December 31, 2007, respectively	14	14
Additional paid-in capital	13,381	13,337
Treasury stock, at cost, 10,000 shares	(93)	-
Unallocated common stock held by:		
Employee Stock Ownership Plan (ESOP)	(969)	(1,021)

Recognition & Retention Plan Trust (RRP)		(520)		-
Retained earnings		5,525		5,227
Total Stockholders' Equity		17,338		17,557
Total Liabilities and Stockholders' Equity	$	84,816	$	73,545

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 September 30,		For the Nine Months Ended September 30,	
	2008	2007	2008	2007
Interest Income	(In thousands, except for share data)			
Loans receivable, including fees	$ 1,089	$ 999	$ 3,261	$ 2,875
Short-term investments, investments and mortgage-backed securities	156	192	420	335
Dividends	4	4	9	11
Total Interest Income	1,249	1,195	3,690	3,221
Interest Expense				
Deposits	547	586	1,738	1,767
Federal Home Loan Bank advances	59	-	90	-
Total Interest Expense	606	586	1,828	1,767
Net Interest Income	643	609	1,862	1,454
Provision for Loan Losses	31	14	97	32
Net Interest Income after Provision for Loan Losses	612	595	1,765	1,422
Non-Interest Income				
Fees and services charges	6	9	36	26
Investment securities losses	(2)	-	(22)	-
Total Non-Interest Income, net	4	9	14	26
Non-Interest Expense				
Salaries and employee benefits	235	174	636	507
Directors' fees and expenses	45	44	148	124
Occupancy and equipment	25	19	72	58
Professional fees	57	26	167	69
Regulatory	18	16	51	26
Other	21	28	90	86
Total Non-Interest Expense	401	307	1,164	870
Income before Income Taxes	215	297	615	578
Income Taxes	92	115	248	224
Net Income	$ 123	$ 182	$ 367	$ 354
Earnings per share - basic	$ 0.10	$ 0.14	$ 0.29	NA
Average shares outstanding - basic	1,226,199	1,344,018	1,255,655	NA
Earnings per share - diluted	$ 0.10	NA	$ 0.29	NA
Average shares outstanding - diluted	1,229,151	NA	1,258,257	NA

See accompanying notes to consolidated financial statements.

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Quaint Oak Bancorp, Inc.

Consolidated Statements of Stockholders' Equity (Unaudited)

Nine Months Ended September 30, 2008

(In thousands, except share data)	Common Stock: Number of Shares	Common Stock: Amount	Additional Paid-in Capital	Treasury Stock	Unallocated Common Stock Held by ESOP	Unallocated Common Stock Held by RRP	Retained Earnings	Total Stockholders' Equity
BALANCE – DECEMBER 31, 2007	1,388,625	$ 14	$ 13,337	$ -	$ (1,021)	$ -	$ 5,227	$ 17,557
Common stock allocated by ESOP			(1)		52			51
Treasury stock purchased (10,000 shares)				(93)				(93)
Common stock acquired for Recognition and Retention Plan Trust						(520)		(520)
Stock based compensation expense			45					45
Cash dividends declared ($0.05 per share)							(69)	(69)
Net income							367	367
BALANCE – September 30, 2008	1,388,625	$ 14	$ 13,381	$ (93)	$ (969)	$ (520)	$ 5,525	$ 17,338

See accompanying notes to consolidated financial statements.

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Quaint Oak Bancorp, Inc.

Consolidated Statements of Cash Flows (Unaudited)

	For the Nine Months Ended September 30,	
	2008	2007
Cash Flows from Operating Activities	(In Thousands)	
Net income	$ 367	$ 354
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	97	32
Depreciation expense	21	11
Amortization of deferred loan fees and costs	(9)	7
Deferred income taxes	(36)	-
Stock-based compensation expense	96	-
Loss on investment securities	22	-
Gain on the sale of other real estate owned	(1)	-
Changes in assets and liabilities which provided (used) cash:		
Accrued interest receivable	(102)	(54)
Prepaid expenses and other assets	(14)	(12)
Accrued interest payable	23	11
Accrued expenses and other liabilities	37	146
Net Cash Provided by Operating Activities	501	495
Cash Flows from Investing Activities		
Net increase in investment in interest-earning time deposits	(756)	(105)
Purchase of investment securities available for sale	(509)	-
Purchase of investment securities held to maturity	(1,000)	(1,004)
Purchase of mortgage-backed securities held to maturity	(10,333)	-
Proceeds from the sale or redemption of investment securities available for sale	1,138	-
Proceeds from calls of investment securities held to maturity	1,000	-
Principal payments on mortgage-backed securities	191	-
Net increase in loans receivable	(3,999)	(2,075)
Net (increase) decrease in Federal Home Loan Bank stock	(427)	31
Proceeds from the sale of other real estate owned	82	-
Purchase of property and equipment	(34)	(17)
Net Cash Used in Investing Activities	(14,647)	(3,170)
Cash Flows from Financing Activities		
Net increase (decrease) in deposits	2,137	(1,432)
Increase in Federal Home Loan Bank advances	9,450	-
Proceeds from issuance of common stock, net	-	13,351
Dividends paid	(69)	-
Purchase of treasury stock	(93)	-
Purchase of common shares for ESOP	-	(514)
Purchase of common shares for Recognition and Retention Plan Trust	(520)	-
Decrease in advances from borrowers for taxes and insurance	(157)	(242)
Net Cash Provided by Financing Activities	10,748	11,163

Net Increase (Decrease) in Cash and Cash Equivalents		(3,398)		8,488
Cash and Cash Equivalents – Beginning of Period		4,987		4,197
Cash and Cash Equivalents – End of Period	$	1,589	$	12,685
Supplementary Disclosure of Cash Flow and Non-Cash Information:				
Cash payments for interest	$	1,805	$	1,756
Cash payments for taxes	$	315	$	296
Transfer of loan to other real estate owned	$	81		-

See accompanying notes to consolidated financial statements.

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Quaint Oak Bancorp, Inc.

Notes to Unaudited Consolidated Financial Statements

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 Company sold 1,388,625 shares of its common stock, raising $13,886,250 of gross proceeds. Costs incurred in connection with the conversion and offering totaled $535,000 and were recorded as a reduction of the proceeds from the offering. The Company invested approximately $7.1 million or 53.0% of the net proceeds in Quaint Oak Bank. All remaining proceeds were retained by Quaint Oak Bancorp for future capital needs. 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.

Prior to the conversion, Quaint Oak Savings Bank operated under a state bank charter as a mutual savings bank. Upon completion of the conversion and the offering, the Bank changed its name to Quaint Oak Bank and began to operate as a stock savings bank. The Bank is subject to regulation of 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. The principal deposit products offered by the Bank are certificates of deposit, passbook savings accounts, statement savings accounts and e-savings 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, 2007 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 2007 Annual Report on Form 10-K. The results of operations for the three months and nine months ended September 30, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008.

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. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and the valuation of deferred tax assets.

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Notes to Unaudited Consolidated Financial Statements (Continued)

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

Share-Based Compensation. The Company accounts for its share-based compensation awards in accordance with Statement of Financial Accounting Standards ("SFAS") No. 123R (revised 2004) Share-Based Payment. This statement requires an entity to recognize the cost of employee services received in share-based payment transactions and measures the cost on the grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide service in exchange for the award.

At September 30, 2008, the Company has two share-based plans; the 2008 Recognition and Retention Plan ("RRP") and the 2008 Stock Option Plan. Shares were awarded under both plans in May 2008. 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. Shares held under the ESOP are accounted for in accordance with AICPA Statement of Position ("SOP") 93-6, Employers' Accounting for Employee Stock Ownership Plans. 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.

The components of comprehensive income for the three and nine months ended September 30, 2008 are as follows (in thousands):

	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2008
Net income	$ 123	$ 367
Other Comprehensive Income (Loss)		
Net unrealized loss on securities available for sale	-	(22)
Reclassification adjustment for loss on securities available for sale included in net income	-	22
	-	-
Tax effect	-	-
Total Other Comprehensive Income	-	-
Total Comprehensive Income	$ 123	$ 367

For the three and nine months ended September 30, 2007, the Company had no unrealized holding gains and losses on available for sale securities or other items of other 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. For the three and nine months ended September 30, 2008, all outstanding stock options (108,311 shares) were antidilutive. Because the initial public offering was completed on July 3, 2007, per share results for the nine months ended September 30, 2007 would not be meaningful.

Notes to Unaudited Consolidated Financial Statements (Continued)

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

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. In September 2006, the FASB issued Statement No. 157, "Fair Value Measurements," which defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. The new guidance is effective for financial statements issued for fiscal years beginning after November 15, 2007, and for interim periods within those fiscal years. FASB Statement No. 157 became effective for the Company on January 1, 2008. See Note 7 to the unaudited consolidated financial statements for fair value measurement disclosures.

In February 2008, the FASB issued FASB Staff Position (FSP) FAS 157-2, "Effective Date of FASB Statement No. 157," that would permit a one-year deferral in applying the measurement provisions of Statement No. 157 to non-financial assets and non-financial liabilities (non-financial items) that are not recognized or disclosed at fair value in an entity's financial statements on a recurring basis (at least annually). Therefore, if the change in fair value of a non-financial item is not required to be recognized or disclosed in the financial statements on an annual basis or more frequently, the effective date of application of Statement 157 to that item is deferred until fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. This deferral does not apply, however, to an entity that applied Statement 157 in interim or annual financial statements before FSP FAS 157-2 is effective. The adoption of FSP FAS 157-2 did not have a significant impact on the Company.

In October 2008, the FASB issued FSP SFAS No. 157-3, "Determining the Fair Value of a Financial Asset When The Market for That Asset Is Not Active" (FSP 157-3), to clarify the application of the provisions of SFAS 157 in an inactive market and how an entity would determine fair value in an inactive market. FSP 157-3 is effective immediately and applies to our September 30, 2008 financial statements. The application of the provisions of FSP 157-3 did not materially affect our results of operations or financial condition as of and for the periods ended September 30, 2008.

In February 2007, the FASB issued Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities-Including an amendment of FASB Statement No. 115." Statement No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be recognized in earnings at each subsequent reporting date. Statement No. 159 is effective for the Company January 1, 2008. The Company adopted FASB Statement No. 159 as of January 1, 2008, and has elected not to measure any assets or liabilities at fair value under the provisions of this statement. The adoption of this statement did not have any effect on the Company's consolidated financial position or results of operations.

In December 2007, the FASB issued Statement No. 141(R) "Business Combinations." This Statement establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. The Statement also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination.

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Notes to Unaudited Consolidated Financial Statements (Continued)

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

Recent Accounting Pronouncements (Continued)

The guidance will become effective as of the beginning of a company's fiscal year beginning after December 15, 2008. This new pronouncement will impact the Company in its accounting for any business combinations beginning January 1, 2009.

In March 2008, the FASB issued Statement No 161, "Disclosures about Derivative Instruments and Hedging Activities-and amendment of FASB Statement No. 133" (Statement 161). Statement No. 161 requires entities that utilize derivative instruments to provide qualitative disclosures about their objectives and strategies for using such instruments, as well as any details of credit-risk-related contingent features contained within derivatives. Statement 161 also requires entities to disclose additional information about the amounts and location of derivatives located within the financial statements, how the provisions of SFAS 133 has been applied, and the impact that hedges have on an equity's financial position, financial performance, and cash flows. Statement 161 is effective for fiscal years and interim periods beginning after November 15, 2008, with earlier application encouraged. The Company is currently evaluating the potential impact the new pronouncement will have on its consolidated financial statements.

In May 2008, the FASB issued SFAS 162, "The Hierarchy of Generally Accepted Accounting Principles." This Statement identifies the sources of accounting principles and the framework for electing the principles used in the preparation of financial statements. This Statement is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, "The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles." The Company is currently evaluating the potential impact the new pronouncement will have on its financial statements.

In June 2008, the FASB issued Staff Position (FSP) EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities." This FSP clarifies all outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends participating securities in undistributed earnings with common shareholders. Awards of this nature are considered participating securities and the two-class method of computing basic and diluted earnings per share must be applied. This FSP is effective for fiscal years beginning after December 15, 2008. The Company is currently evaluating the potential impact the new pronouncement will have on its financial statements.

In September 2008, the FASB issued FSP 133-1 and FIN 45-4, "Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161" (FSP 133-1 and FIN 45-4). FSP 133-1 and FIN 45-4 amends and enhances disclosure requirements for sellers of credit derivatives and financial guarantees. It also clarifies that the disclosure requirements of SFAS No. 161 are effective for quarterly periods beginning after November 15, 2008, and fiscal years that include those periods. FSP 133-1 and FIN 45-4 is effective for reporting periods (annual or interim) ending after November 15, 2008. The implementation of this standard will not have a material impact on our consolidated financial position and results of operations.

Reclassifications. Certain items in the 2007 consolidated financial statements have been reclassified to conform to the presentation in the 2008 financial statements. Such reclassifications did not have a material impact on the overall financial statements.

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Quaint Oak Bancorp, Inc.

Notes to Unaudited Consolidated Financial Statements (Continued)

Note 2 – Investment Securities

The amortized cost and fair value of investment securities available for sale and held to maturity at September 30, 2008 and December 31, 2007 are summarized below (in thousands):

	September 30, 2008			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available for Sale:				
Auction rate securities	$ 1,350	$ -	$ -	$ 1,350
Held to Maturity:				
U.S. Government agency securities	$ 2,250	$ -	$ (2)	$ 2,248

	December 31, 2007			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available for Sale:				
Mortgage securities portfolio mutual fund	$ 501	$ -	$ -	$ 501
Auction rate securities	1,500	-	-	1,500
	$ 2,001	$ -	$ -	$ 2,001
Held to Maturity:				
U.S. Government agency securities	$ 2,253	$ 12	$ -	$ 2,265

The $1.4 million of auction rate securities at September 30, 2008 are comprised of four securities. In early October 2008, each of the four auction rate securities were redeemed in full at par value which equaled the amortized cost and fair value at September 30, 2008.

Note 3 – Mortgage-backed Securities

The amortized cost and fair value of mortgage-backed securities held to maturity at September 30, 2008 are summarized below (in thousands):

September 30, 2008			
Amortized Cost	Gross Unrealized	Gross Unrealized	Estimated Fair Value

			Gains		Losses		
Held to Maturity:							
FNMA pass-through certificates	$	5,210	$	-	$	(12)	$	5,198
FHLMC pass-through certificates		4,935		-		-		4,935
	$	10,145	$	-	$	(12)	$	10,133

There were no mortgage-backed securities as of December 31, 2007.

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Quaint Oak Bancorp, Inc.

Notes to Unaudited Consolidated Financial Statements (Continued)

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

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

	September 30, 2008	December 31, 2007
Real estate loans:		
One-to four-family residential:		
Owner occupied	$ 16,284	$ 17,248
Non-owner occupied	18,849	15,757
Total one-to-four family residential	35,133	33,005
Multi-family residential	3,704	4,385
Commercial real estate	19,178	17,481
Construction	2,593	1,677
Commercial lines of credit	1,123	1,206
Home equity loans	4,330	4,431
Total real estate loans	66,061	62,185
Auto loans	83	-
Loans secured by deposits	14	36
Total loans	66,158	62,221
Deferred loan fees and costs	72	102
Allowance for loan losses	(744)	(667)
Net loans	$ 65,486	$ 61,656

Following is a summary of changes in the allowance for loan losses for the nine months ended September 30, 2008 and 2007 (in thousands):

	September 30, 2008	September 30, 2007
Balance, beginning of the year	$ 667	$ 575
Provision for loan losses	97	32
Charge-offs	(20)	(1)
Recoveries	-	-
(Charge-offs)/recoveries, net	(20)	(1)
Balance, end of period	$ 744	$ 606

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Quaint Oak Bancorp, Inc.

Notes to Unaudited Consolidated Financial Statements (Continued)

Note 5 – Deposits

Deposits consist of the following classifications (in thousands):

	September 30, 2008	December 31, 2007
Passbook savings accounts	$ 3,520	$ 3,659
Statement and e-savings accounts	5,391	5,630
Certificates of deposit	48,487	45,972
Total deposits	$ 57,398	$ 55,261

Note 6 – Federal Home Loan Bank Advances

Federal Home Loan Bank advances consist of the following at September 30, 2008 (in thousands):

Maturity Period	Amount	Weighted Interest Rate
1 to 12 months	$ 2,600	2.73%
13 to 24 months	1,250	3.38%
25 to 36 months	1,800	3.66%
37 to 48 months	1,800	3.98%
49 to 60 months	2,000	4.19%
Total	$ 9,450	3.54%

There were no Federal Home Loan Bank advances at December 31, 2007.

Note 7 – Fair Value

In September 2006, the FASB issued Statement No. 157, “Fair Value Measurements” (“SFAS 157”), which defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 applies to other accounting pronouncements that require or permit fair value measurements. The new guidance is effective for financial statements beginning after November 15, 2007 and for interim periods within those fiscal years.

The primary effect SFAS 157 on the Company was to expand the required disclosures pertaining to the methods used to determine fair values.

In October 2008, the FASB issued FSP SFAS No. 157-3, “Determining the Fair Value of a Financial Asset When The Market for That Asset Is Not Active” (FSP 157-3), to clarify the application of the provisions of SFAS 157 in an inactive market and how an entity would determine fair value in an inactive market. FSP 157-3 is effective

immediately and applies to our September 30, 2008 financial statements. The application of the provisions of FSP 157-3 did not materially affect our results of operations or financial condition as of and for the periods ended September 30, 2008.

Notes to Unaudited Consolidated Financial Statements (Continued)

Note 7 – Fair Value (Continued)

SFAS 157 establishes a fair value hierarchy about assumptions used to measure fair values and clarifies assumptions about risk and the effect of a restriction on the sale or use of an asset. 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 fair value hierarchy under SFAS 157 are as follows:

Level 1 – Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2 – Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 – Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect the Company's own estimates of assumptions that market participants would use in pricing the asset.

Under SFAS No. 157, the Company bases its fair values on 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. It is our policy to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements, in accordance with the fair value hierarchy in SFAS No. 157.

Fair value measurements for assets where there exists limited or no observable market data and, therefore, are based primarily upon the Company's or other third-party estimates, are often calculated based on the characteristics of the asset, the economic and competitive environment and other such factors. Therefore, results cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset. Additionally, there may be inherent weaknesses in any calculation technique, and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, that could significantly affect the results of current or future valuations. At September 30, 2008, the Company did not have any assets that were measured at fair value on a recurring basis that used Level 3 measurements.

The following is a description of valuation methodologies used for assets recorded at fair value.

Investment securities available for sale – Investment securities available for sale are recorded at fair value on a recurring basis. When available, we use quoted market price to measure fair value. If market prices are not available, fair value measurements are typically obtained through third party data service providers or dealer market participants. As of September 30, 2008, Level 2 securities include auction rate securities.

Impaired loans – Impaired loans are accounted for under SFAS 114, "Accounting by Creditors for Impairment of a Loan," in which the Company has measured impairment generally based on the fair value of the loan's collateral. Fair value is generally determined based upon independent third party appraisals of the properties, or discounted cash flows based upon the expected proceeds. These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements. The fair value consists of the loan balance less its valuation allowance as determined under SFAS 114.

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Quaint Oak Bancorp, Inc.

Notes to Unaudited Consolidated Financial Statements (Continued)

Note 7 – Fair Value (Continued)

The table below presents balances of assets measured at fair value on a recurring basis:

	Carrying Value	Fair Value Measurements at September 30, 2008 Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Observable Inputs (Level 3)
	(In Thousands)			
Investment securities available for sale	$ 1,350	$ -	$ 1,350	$ -

For assets measured at fair value on a nonrecurring basis in 2008 that were still held at the end of the period, the following table provides the level of valuation assumptions used to determine each adjustment in the carrying value of the related individual assets or portfolio at September 30, 2008:

	Carrying Value	Fair Value Measurements at September 30, 2008 Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Observable Inputs (Level 3)
	(In Thousands)			
Impaired loans	$ 400	$ -	$ -	$ 400

Impaired loans measured at fair value at September 30, 2008 and June 30, 2008 totaled $400,000 net of a valuation allowance of $100,000. Such loans did not require an additional provision for loan losses for the quarter ended September 30, 2008. There were no new impaired loans for the quarter ended September 30, 2008.

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. Using proceeds from a loan from the Company, the ESOP purchased 8%, or

111,090 shares of the Company's common 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 equal to the Prime Rate as published in the Wall Street Journal, 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 the Consolidated Balance Sheet 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

Quaint Oak Bancorp, Inc.

Notes to Unaudited Consolidated Financial Statements (Continued)

Note 8 – Stock Compensation Plans (Continued)

Employee Stock Ownership Plan (Continued)

price of the shares, and the shares become outstanding for earnings per share computations. During the three and nine month periods ended September 30, 2008, the Company recognized $17,000 and $51,000 of ESOP expense, respectively.

Recognition and Retention Plan

In May 2008, the shareholders of Quaint Oak Bancorp approved the adoption of the 2008 Recognition and Retention Plan (the "2008 RRP") and Trust Agreement. In order to fund the 2008 RRP, the 2008 Recognition and Retention Plan Trust (the "2008 Trust") acquired 55,545 shares of the Company's stock in the open market at an average price of $9.36 totaling $520,000 as of September 30, 2008. Pursuant to the 2008 RRP, 43,324 shares acquired by the 2008 Trust were granted to certain officers, employees and directors of the Company in May 2008 with 12,221 shares remaining available for future grant. The 2008 RRP shares generally vest at a rate of 20% per year over five years.

A summary of the status of the shares under the 2008 RRP as of September 30, 2008 is a follows:

	Number of Shares	Weighted Average Grant Date Fair Value
Unvested at December 31, 2007	--	$ --
Granted May 14, 2008	43,324	9.05
Vested	--	--
Forfeited	--	--
Unvested at September 30, 2008	43,324	$ 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 2008 RRP shares granted is recognized ratably over the five 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 nine months ended September 30, 2008, $19,000 and $29,000 in compensation expense, respectively was recognized. A tax benefit of approximately $7,000 and $10,000, respectively, was recognized during each of these periods. As of September 30, 2008, approximately $363,000 in additional compensation expense will be recognized over the remaining service period of approximately 4.7 years.

Stock Options

In May 2008, the shareholders of Quaint Oak Bancorp approved the adoption of the 2008 Stock Option Plan (the "2008 Option Plan"). The 2008 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 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 2008 Option Plan are intended to comply with the requirements of Section

422 of the Internal Revenue. Options will generally become vested and exercisable at the rate of 20% per year over five years and are generally exercisable for a period of ten years after the grant date. Pursuant to the 2008 Option Plan, 108,311 stock options were granted to certain officers, employees and directors of the Company in May 2008 with 30,552 stock options remaining available for future grant.

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Quaint Oak Bancorp, Inc.

Notes to Unaudited Consolidated Financial Statements (Continued)

Note 8 – Stock Compensation Plans (Continued)

Stock Options (Continued)

A summary of the status of the Company's stock options under the 2008 Option Plan as of September 30, 2008 is a follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value
Outstanding December 31, 2007	--	$ --		
Granted May 14, 2008	108,311	10.00		
Vested	--	--		
Forfeited	--	--		
Outstanding at September 30, 2008	108,311	$ 10.00	9.6	$ --
Exercisable	-			

The estimated fair value of the options granted in May 2008 was $2.01 per share. The fair value was estimated on the date of grant in accordance with SFAS No. 123R using the Black-Scholes option pricing model with the following assumptions:

Expected dividend yield	1.10%
Risk-free interest rate	3.5%
Expected life of options	7 .5 years
Expected stock-price volatility	19.45%

The dividend yield was calculated on the dividend amount and stock price existing at the grant date. The risk free interest rate used was based on the rates of United States Treasury securities with maturities equal to the expected lives of the options. Although the contractual term of the options granted is ten years, the expected term of the options is less. As the Company has no history of granting stock option awards, management estimated the expected term of the stock options to be the average of the vesting period and the contractual term. The expected stock-price volatility was estimated by considering the Company's own stock volatility for the period since July 5, 2007, the initial trading date. The actual future volatility may differ from our historical volatility.

The aggregate intrinsic value for outstanding stock options is calculated based on the difference between the exercise price of the underlying awards and the market price of our common stock as of the reporting date. There was no intrinsic value of the options outstanding as of September 30, 2008 as all of the outstanding options were at exercise

prices greater than the quarter-end stock price.

During the three and nine months ended September 30, 2008, approximately $11,000 and $16,000, respectively, was recognized in compensation expense for the 2008 Option Plan. A tax benefit of approximately $2,000 and $3,000, respectively, was recognized during each of these periods. At September 30, 2008, approximately $193,000 in additional compensation expense for awarded options remained unrecognized. This expense will be recognized over approximately 4.7 years.

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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 now 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 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.

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 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 at 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.

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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.

Investment Securities Impairment Valuation. Management evaluates securities for other-than-temporary impairment on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

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 September 30, 2008 and December 31, 2007

Total Assets. The Company’s total assets at September 30, 2008 were $84.8 million, an increase of $11.3 million, or 15.3%, from $73.5 million at December 31, 2007. This increase was primarily due to an increase in mortgage-backed securities of $10.1 million, growth in loans receivable, net of the allowance for loan losses of $3.8 million and an increase in investment in interest earning time deposits of $756,000, offset by a decline in cash and cash equivalents of $3.4 million and a decrease in investment securities of $654,000. Asset growth during the nine month period ended September 30, 2008 was primarily funded by an increase in Federal Home Loan Bank advances of $9.5 million from none at December 31, 2007 and a $2.1 million increase in deposits.

Cash and Cash Equivalents. Cash and cash equivalents decreased $3.4 million, or 68.1%, from $5.0 million at December 31, 2007 to $1.6 million at September 30, 2008 as these funds were used primarily to fund loan and investment growth and to repurchase the Company’s common stock for the Company’s Recognition and Retention Plan in the amount of $520,000.

Investment Securities. Available for sale investment securities decreased $651,000, or 32.5% from $2.0 million at December 31, 2007 to $1.4 million at September 30, 2008 as purchases of $500,000 of auction rate securities and $9,000 of equity securities during the nine month period ended September 30, 2008, were offset by the redemption of $650,000 of auction rate securities and the sale of $510,000 of equity securities at a loss of $22,000. During this same period, mortgage-backed securities held to maturity increased to $10.1 million from none at December 31, 2007 as the Company invested funds borrowed from the Federal Home Loan Bank into these securities.

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Loans Receivable, Net. Loans receivable, net, increased $3.8 million, or 6.2%, to $65.5 million at September 30, 2008 from $61.7 million at December 31, 2007. This increase was funded primarily by the increase in deposits and decrease in cash and cash equivalents. Increases within the portfolio occurred in the residential mortgage one-to-four family non-owner occupied category, which grew $3.1 million or 19.6%, commercial real estate loans which increased $1.7 million or 9.7%, and construction loans which grew $916,000 or 54.6% 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 decreases of $964,000 or 5.6% in residential mortgage one-to-four family owner occupied loans, $681,000 or 15.5% in multi-family residential loans, $101,000 or 2.3% in home equity loans, and $83,000 or 6.9% in commercial lines of credit. Decreases in these loan categories are attributable to normal amortization and pay-offs.

Deposits. Total interest-bearing deposits increased $2.1 million, or 3.9%, to $57.4 million at September 30, 2008 compared to $55.3 million at December 31, 2007. This increase was attributable to a $2.5 million growth in certificates of deposit and $120,000 increase in our new e-savings accounts, offset by decreases of $359,000 in statement savings accounts and $139,000 in passbook savings accounts.

Federal Home Loan Bank Advances. Federal Home Loan Bank advances increased to $9.5 million at September 30, 2008 from none at December 31, 2007 as the Company invested the funds borrowed into mortgage-backed securities.

Stockholders' Equity. Total stockholders' equity decreased $219,000, or 1.2%, to $17.3 million at September 30, 2008. This decrease from December 31, 2007 was the result of the purchase of 55,545 shares of the Company's common stock in the open-market to fund our Recognition and Retention Plan Trust (RRP) for an aggregate purchase price of $520,000, the purchase of 10,000 shares of the Company's common stock in the open-market as part of the Company's stock repurchase program for an aggregate purchase price of $93,000 and dividends paid of $69,000, offset by net income for the nine months ended September 30, 2008 of $367,000, a decrease in unallocated shares held by the ESOP of $51,000 and $45,000 of compensation expense related to stock compensation plans.

Comparison of Operating Results for the Three Months Ended September 30, 2008 and 2007

Net Income. Net income amounted to $123,000 for the three months ended September 30, 2008, a decrease of $59,000, or 32.4% compared to net income of $182,000 for the same period in 2007. The decrease in net income on a quarter over quarter basis was primarily the result of increases in non-interest expense of $94,000 and the provision for loan losses of $17,000, and a $5,000 decline in non-interest income, which were offset by an increase in net interest income of $34,000 and decrease in income tax expense of $23,000. The increase in non-interest expense was primarily due to a $61,000 increase in salaries and employee benefits and $31,000 increase in professional fees for the three months ended September 30, 2008 compared to the same period in 2007.

Net Interest Income. Net interest income increased $34,000, or 5.6%, to $643,000 for the three months ended September 30, 2008 from $609,000 for the comparable period in 2007. The increase was driven by an increase in interest income of $54,000, or 4.5%, which was primarily attributable to an increase in average interest-earning assets of $7.4 million. The increase in interest income was offset by an increase of $20,000, or 3.4%, in interest expense driven by an $8.7 million increase in average interest-bearing liabilities.

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Interest Income. Interest income increased $54,000, or 4.5% for the three months ended September 30, 2008 from $1.2 million for the three months ended September 30, 2007. The increase resulted primarily from a $7.4 million increase in average interest-earning assets which had the effect of increasing interest income by $91,000. This increase in volume was partially offset by a $37,000 decrease in interest income resulting from a 35 basis point decrease in the overall yield on interest-earning assets to 6.32% for the three months ended September 30, 2008 from 6.67% for the three months ended September 30, 2007. The growth in average interest-earnings assets between the two periods can be attributed primarily to the increase in average net loans receivable of $8.1 million and average mortgage-backed securities of $7.0 million, offset by an $8.1 million decrease in average short-term investments and investment securities. The increase in average net loans receivable was driven by the increase in average interest-bearing deposits and the re-deployment of short-term investments, while the increase in mortgage-backed securities was driven by the $6.4 million increase in average FHLB advances. The average yield on loans decreased to 6.79% for the three months ended September 30, 2008 from 7.13% for the three months ended September 30, 2007. The decrease in yield was the result of the current interest rate environment in which the Federal Reserve Board's Open Market Committee cut the federal funds rate by 275 basis points from September 2007 to September 2008.

Interest Expense. Interest expense increased by $20,000, or 3.4%, to $606,000 for the three months ended September 30, 2008 compared to the same period in 2007. The increase resulted primarily from an $8.7 million increase in average interest-bearing liabilities, which had the effect of increasing interest expense by $64,000. This increase in volume was partially offset by a $44,000 decrease in interest expense resulting from a 47 basis point decrease in the overall cost of interest-bearing liabilities to 3.88% for the three months ended September 30, 2008 from 4.35% for the three months ended June 30, 2007. The decrease in liability yields is a result of the Company lowering its rates to reflect the current interest rate environment mentioned previously.

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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 September 30,					
	2008			2007		
	Average Balance	Interest	Average Yield/ Rate	Average Balance	Interest	Average Yield/ Rate
Interest-earning assets:			(Dollars in thousands)			
Short-term investments and investment securities	$ 7,297	$ 72	3.95%	$ 15,393	$ 192	4.99%
Mortgage-backed securities	7,025	84	4.78	-	-	-
Loans receivable, net (1)	64,210	1,090	6.79	56,062	999	7.13
Other interest-earning assets	545	3	2.20	235	4	6.81
Total interest-earning assets	79,077	1,249	6.32%	71,690	1,195	6.67%
Non-interest-earning assets	1,501			971		
Total assets	$ 80,578			$ 72,661		
Interest-bearing liabilities:						
Passbook accounts	$ 3,441	11	1.28%	$ 4,123	14	1.36%
Statement and e-savings accounts	5,394	31	2.30	6,040	42	2.78
Certificate of deposit accounts	47,108	505	4.29	43,662	530	4.86
Total deposits	55,943	547	3.91	53,825	586	4.35
FHLB advances	6,538	59	3.61	-	-	-
Total interest-bearing liabilities	62,481	606	3.88%	53,825	586	4.35%
Non-interest-bearing liabilities	731			669		
Total liabilities	63,212			54,494		
Stockholders' equity	17,366			18,167		
Total liabilities and stockholders' equity	$ 80,578			$ 72,661		
Net interest-earning assets	$ 16,596			$ 17,685		
Net interest income; average interest rate spread		$ 643	2.44%		$ 609	2.32%
Net interest margin (2)			3.25%			3.40%
Average interest-earning assets to average interest-bearing liabilities			126.56%			133.19%

(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.

The Company increased its provision for loan losses by $17,000, from $14,000 for the quarter ended September 30, 2007 to $31,000 for the same period in 2008, 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 September 30, 2008. Non-performing loans amounted to $2.1 million, or

3.17% of net loans receivable at September 30, 2008, consisting of 10 loans, five of which are 90 days or more past due and still accruing interest and five of which are on non-accrual status. The non-performing loans include commercial real estate, one-to-four family owner and non-owner occupied residential, multi-family residential and construction loans and all are generally well-collateralized or adequately reserved for. Management does not anticipate any significant losses on these loans. The allowance for loan losses as a percent of total loans receivable was 1.12% at September 30, 2008 and 1.07% at December 31, 2007.

Non-interest income decreased $5,000, or 55.6%, from $9,000 for the three months ended September 30, 2007 to $4,000 for the three months ended September 30, 2008. A $3,000 decrease in fees and service charges combined with a $2,000 loss on investment securities accounted for the decline.

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Non-interest expense increased $94,000, or 30.6%, from $307,000 for the three months ended September 30, 2007 to $401,000 for the three months ended September 30, 2008. Salaries and benefits expense accounted for $61,000 of the change as this expense increased 35.1% from $174,000 for the three months ended September 30, 2007 to $235,000 for the three months ended September 30, 2008 due to annual salary increases and the compensation expense associated with the stock compensation plans. In addition, professional fees accounted for $31,000 of the change as this expense increased 119.2% from $26,000 to $57,000 quarter over quarter due primarily to the increase in costs associated with being a publicly held company. Also contributing to the quarter over quarter increase in non-interest expense were increases in directors' fees and expenses, occupancy and equipment expenses, and regulatory expenses of $1,000, $6,000 and $2,000, respectively, which were offset by a $7,000 decrease in other expenses.

The provision for income tax decreased $23,000 from $115,000 for the three months ended September 30, 2007 to $92,000 for the three months ended September 30, 2008 due primarily to the decrease in pre-tax income. The Company's effective tax rate, including federal and state income taxes, was 42.8% and 38.7% for the three months ended September 30, 2008 and 2007, respectively.

Comparison of Operating Results for the Nine Months Ended September 30, 2008 and 2007

Net Income. Net income amounted to $367,000 for the nine months ended September 30, 2008, an increase of $13,000, or 3.7% compared to net income of $354,000 for the same period in 2007. The increase was primarily the result of the increase in net interest income of $408,000, which was offset by a decrease in non-interest income of $12,000, and increases in the provision for loan losses of $65,000, non-interest expense of $294,000 and income tax expense of $24,000.

Net Interest Income. Net interest income increased $408,000, or 28.1%, to $1.9 million for the nine months ended September 30, 2008 from $1.5 million for the comparable period in 2007. The increase was driven by an increase in interest income of $469,000, or 14.6% which was primarily attributable to an increase in average interest-earning assets of $11.4 million, as the proceeds from the Company's initial stock offering completed in July 2007 were invested into loans, short-term investments and investment securities. The increase in interest income was offset by a $61,000, or 3.5% increase in interest expense driven by a $4.8 million increase in average interest-bearing liabilities.

Interest Income. Interest income increased $469,000, or 14.6% for the nine months ended September 30, 2008 from $3.2 million for the nine months year ended September 30, 2007. The increase resulted primarily from an $11.4 million increase in average interest-earning assets which had the effect of increasing interest income by $476,000. This increase in volume was partially offset by a $7,000 decrease in interest income resulting from a 17 basis point decrease in the overall yield on interest-earning assets to 6.43% for the nine months ended September 30, 2008 from 6.60% for the nine months ended September 30, 2007. The growth in average interest-earnings assets between the two periods can be attributed primarily to the increase in average net loans receivable of $7.9 million and average mortgage-backed securities of $3.6 million. The increase in average net loans receivable was driven by the net proceeds received in the stock offering and the increase in average interest-bearing deposits, while the increase in mortgage-backed securities was driven by the $3.3 million increase in average FHLB advances. The average yield on loans decreased slightly to 6.92% for the nine months ended September 30, 2008 from 6.98% for the nine months ended September 30, 2007.

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Interest Expense. Interest expense increased by $61,000, or 3.5%, to $1.8 million for the nine months ended September 30, 2008 compared to the same period in 2007. The increase resulted primarily from a $4.8 million increase in average interest-bearing liabilities, which had the effect of increasing interest expense by $136,000. This increase in volume was partially offset by a $75,000 decrease in interest expense resulting from a 21 basis point decrease in the overall cost of interest-bearing liabilities to 4.08% for the nine months ended September 30, 2008 from 4.29% for the nine months ended September 30, 2007.

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.

	Nine Months Ended September 30,					
	2008			2007		
	Average Balance	Interest	Average Yield/ Rate	Average Balance	Interest	Average Yield/ Rate
Interest-earning assets:			(Dollars in thousands)			
Short-term investments and investment securities	$ 9,681	$ 293	4.04%	$ 9,945	$ 335	4.49%
Mortgage-backed securities	3,591	127	4.72	-	-	-
Loans receivable, net (1)	62,840	3,261	6.92	54,920	2,875	6.98
Other interest-earning assets	399	9	3.01	246	11	5.96
Total interest-earning assets	76,511	3,690	6.43%	65,111	3,221	6.60%
Non-interest-earning assets	1,462			726		
Total assets	$ 77,973			$ 65,837		
Interest-bearing liabilities:						
Passbook accounts	$ 3,482	34	1.30%	$ 4,427	46	1.39%
Statement and e-savings accounts	5,556	102	2.45	6,423	133	2.76
Certificate of deposit accounts	47,348	1,602	4.51	44,064	1,588	4.81
Total deposits	56,386	1,738	4.11	54,914	1,767	4.29
FHLB advances	3,346	90	3.59	-	-	-
Total interest-bearing liabilities	59,732	1,828	4.08%	54,914	1,767	4.29%
Non-interest-bearing liabilities	708			1,582		
Total liabilities	60,440			56,496		
Stockholders' equity	17,533			9,341		
Total liabilities and stockholders' equity	$ 77,973			$ 65,837		
Net interest-earning assets	$ 16,779			$ 10,197		
Net interest income; average interest rate spread		$ 1,862	2.35%		$ 1,454	2.31%
Net interest margin (2)			3.24%			2.98%
Average interest-earning assets to average interest-bearing liabilities			128.09%			118.57%

(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.

The Company increased its provision for loan losses by $65,000 from $32,000 for the nine months ended September 30, 2007 to $97,000 for the same period in 2008, 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 September 30, 2008. See additional discussion under "Comparison of Operating Results for the Three Months Ended September 30, 2008 and 2007."

During the nine months ended September 30, 2008, a $20,000 home equity loan was charged off against the allowance for loan losses.

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In addition, during the nine months ended September 30, 2008 one commercial real estate loan acquired as real estate owned at a value of approximately $81,000 was sold for $110,000 resulting in a gain of $29,000. The Company financed the purchase of the property. In accordance with SFAS No. 66, $1,000 was recognized as income for the nine months ended September 30, 2008 and $28,000 was deferred and will be taken into income as payments on the loan are received.

Non-interest income decreased $12,000, or 46.2%, from $26,000 for the nine months ended September 30, 2007 to $14,000 for the nine months ended September 30, 2008, as a $10,000 increase in fees and service charges was offset by a $22,000 loss on investment securities.

Non-interest expense increased $294,000, or 33.8%, from $870,000 for the nine months ended September 30, 2007 to $1.2 million for the nine months ended September 30, 2008. Salaries and benefits expense accounted for $129,000 of the change as this expense increased 25.4% from $507,000 for the nine months ended September 30, 2007 to $636,000 for the nine months ended September 30, 2008 due to annual salary increases and the compensation expense associated with the stock compensation plans. In addition, professional fees accounted for $98,000 of the change as this expense increased 142.0% from $69,000 for the nine months ended September 30, 2007 to $167,000 for the comparable period in 2008 due primarily to the increase in costs associated with being a publicly held company. Also contributing to the period over period increase in non-interest expense were increases in directors' fees and expenses, occupancy and equipment expenses, regulatory and other expenses of $24,000, $14,000, $25,000 and $4,000, respectively.

The provision for income tax increased $24,000 from $224,000 for the nine months ended September 30, 2007 to $248,000 for the nine months ended September 30, 2008 due primarily to the increase in pre-tax income. The Company's effective tax rate, including federal and state income taxes, was 40.3% and 38.8% for the nine months ended September 30, 2008 and 2007, 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 repayments 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 September 30, 2008, the Company's cash and cash equivalents amounted to $1.6 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 September 30, 2008, Quaint Oak Bank had outstanding commitments to originate loans of $941,000 and commitments under unused lines of credit of $1.5 million.

At September 30, 2008, certificates of deposit scheduled to mature in less than one year totaled $32.2 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. At September 30, 2008, Quaint Oak Bank had $9.5 million of advances from the Federal Home Loan Bank of Pittsburgh and had $31.5 million in borrowing capacity.

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Our stockholders' equity amounted to $17.3 million at September 30, 2008, a decrease of $219,000 from December 31, 2007. This decrease from December 31, 2007 was the result of the purchase of 55,545 shares of the Company's common stock in the open-market to fund our Recognition and Retention Plan Trust (RRP) for an aggregate purchase price of $520,000, the purchase of 10,000 shares of the Company's common stock in the open-market as part of the Company's stock repurchase program for an aggregate purchase price of $93,000 and dividends paid of $69,000, offset by net income for the nine months ended September 30, 2008 of $367,000, a decrease in unallocated shares held by the ESOP of $51,000 and $45,000 of compensation expense related to stock compensation plans.

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 September 30, 2008, Quaint Oak Bank exceeded each of its capital requirements with ratios of 16.51%, 20.09% and 21.28%, 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 September 30, 2008, we had unfunded commitments under lines of credit of $1.5 million and $941,000 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.

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ITEM 3. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

Not Applicable.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosures Controls and Procedures. Under the supervision and with the participation of our management, including our Chief Executive Officer and our principal financial officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and the principal financial officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934, is recorded, processed, summarized and reported within the applicable time periods specified by the Securities and Exchange Commission's rules and forms.

Changes in Internal Control over Financial Reporting. There has been no change in the Company's internal control over financial reporting during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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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 September 30, 2008 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)
Month #1 July 1, 2008 – July 31, 2008	- -	$ - -	- -	138,862
Month #2 August 1, 2008 – August 31, 2008	1,000	9.39	1,000	137,862
Month #3 September 1, 2008 – September 30, 2008	9,000	9.23	9,000	128,862
Total	10,000	$ 9.25	10,000	128,862

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.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

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

Not applicable.

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ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS

The following Exhibits are filed as part of this report:

No.	Description
3.1	Articles of Incorporation of Quaint Oak Bancorp, Inc. (1)
3.2	Bylaws of Quaint Oak Bancorp, Inc. (1)
4.1	Form of Stock Certificate of Quaint Oak Bancorp, Inc. (1)
10.1	Employment Agreement by and between Robert T. Strong and Quaint Oak Savings Bank, as amended (1)
10.2	2008 Stock Option Plan (2)
10.3	2008 Recognition and Retention Plan and Trust Agreement (2)
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
32.0	Certification Pursuant to 18 U.S.C Section 1350

(1) Incorporated by reference from the Company's Registration Statement on Form SB-2, filed on March 21, 2007, as amended, and declared effective on May 14, 2007 (File No. 333-141474).

(2) Incorporated by reference from the Company's proxy statement on Schedule 14A, filed with the Securities and Exchange Commission on April 11, 2008.

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SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: November 14, 2008	By: /s/ Robert T. Strong Robert T. Strong President and Chief Executive Officer
Date: November 14, 2008	By: /s/ Diane J. Colyer Diane J. Colyer Operations Officer (principal financial and accounting officer)