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BCB BANCORP INC
Form 10-Q
November 13, 2008

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended 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: 0-50275

BCB Bancorp, Inc.

(Exact name of registrant as specified in its charter)

New Jersey

26-0065262

(State or other jurisdiction of incorporation or organization)

(IRS Employer I.D. No.)

104-110 Avenue C Bayonne, New Jersey

07002

(Address of principal executive offices)

(Zip Code)

(201) 823-0700

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer
Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in rule 12b-2 of the Exchange Act).

Yes No

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APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by the court.

[] Yes [] No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. As of November 10, 2008, BCB Bancorp, Inc., had 4,585,761 shares of common stock, no par value outstanding.

BCB BANCORP INC., AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

ITEM I. FINANCIAL STATEMENTS

BCB BANCORP INC. AND SUBSIDIARIES
 Consolidated Statements of Financial Condition at
 September 30, 2008 and December 31, 2007
 (Unaudited)
 (in thousands except for share data)

	At 30-Sep-08 -----	At 31-Dec-07 -----
ASSETS -----		
Cash and amounts due from depository institutions	\$ 2,927	\$ 2,970
Interest-earning deposits	4,821	8,810
	-----	-----
Total cash and cash equivalents	7,748	11,780
	-----	-----
Securities available for sale	1,016	2,056
Securities held to maturity, fair value \$150,907 and \$165,660 respectively	152,406	165,017
Loans held for sale	1,310	2,132
Loans receivable, net of allowance for loan losses of \$4,854 and \$4,065 respectively	400,150	364,654
Premises and equipment	5,682	5,929
Federal Home Loan Bank of New York stock	6,299	5,560
Interest receivable, net	3,597	3,776
Other real estate owned	1,435	287
Deferred income taxes	1,782	1,352
Other assets	1,062	934
	-----	-----
Total assets	\$ 582,487	\$ 563,477
	=====	=====
 LIABILITIES AND STOCKHOLDERS' EQUITY -----		
 LIABILITIES -----		
Non-interest bearing deposits	\$ 32,317	\$ 35,897
Interest bearing deposits	371,163	362,922
	-----	-----
Total deposits	403,480	398,819
Short-term Borrowings	14,500	--
Long-term Debt	114,124	114,124
Other Liabilities	2,326	2,024
	-----	-----
Total Liabilities	534,430	514,967

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STOCKHOLDERS' EQUITY		

Common stock, stated value \$0.06 10,000,000 shares authorized; 5,148,136 and 5,078,858 shares respectively, issued	329	325
Additional paid-in capital	46,525	45,795
Treasury stock, at cost, 507,992 and 440,651 shares, respectively	(8,394)	(7,385)
Retained Earnings	9,741	9,749
Accumulated other comprehensive income (loss)	(144)	26
	-----	-----
Total stockholders' equity	48,057	48,510
	-----	-----
Total liabilities and stockholders' equity	\$ 582,487	\$ 563,477
	=====	=====

See accompanying notes to consolidated financial statements.

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BCB BANCORP INC. AND SUBSIDIARIES
Consolidated Statements of Income (Loss)
For the three and nine months ended
September 30, 2008 and 2007
(Unaudited)
(in thousands except for per share data)

	Three Months Ended September 30,		Nine Months September	
	2008	2007	2008	
	-----	-----	-----	-----
Interest income:				
Loans	\$ 6,949	\$ 6,271	\$ 20,217	\$
Securities	2,348	2,353	6,968	
Other interest-earning assets	7	323	188	
	-----	-----	-----	-----
Total interest income	9,304	8,947	27,373	
	-----	-----	-----	-----
Interest expense:				
Deposits:				
Demand	247	271	789	
Savings and club	337	442	1,036	
Certificates of deposit	2,209	2,641	6,950	
	-----	-----	-----	-----
	2,793	3,354	8,775	
	-----	-----	-----	-----
Borrowed money	1,294	1,231	3,834	
	-----	-----	-----	-----
Total interest expense	4,087	4,585	12,609	

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Net interest income	5,217	4,362	14,764	
Provision for loan losses	300	200	850	
	-----	-----	-----	
Net interest income after provision for loan losses	4,917	4,162	13,914	
	-----	-----	-----	
Non-interest income:				
Fees and service charges	165	146	470	
Gain on sales of loans originated for sale	15	108	115	
Other than temporary write-down on security	(2,756)	--	(2,756)	
Other	7	7	23	
	-----	-----	-----	
Total non-interest income (loss)	(2,569)	261	(2,148)	
	-----	-----	-----	
Non-interest expense:				
Salaries and employee benefits	1,368	1,463	4,121	
Occupancy expense of premises	281	268	806	
Equipment	511	487	1,513	
Advertising	59	73	181	
Other	488	486	1,452	
	-----	-----	-----	
Total non-interest expense	2,707	2,777	8,073	
	-----	-----	-----	
Income (Loss) before income tax provision	(359)	1,646	3,693	
Income tax provision	890	616	2,362	
	-----	-----	-----	
Net Income (Loss)	\$ (1,249)	\$ 1,030	\$ 1,331	\$
	=====	=====	=====	=====
Net Income (Loss) per common share				
basic	\$ (0.27)	\$ 0.22	\$ 0.29	\$
	=====	=====	=====	=====
diluted	\$ (0.27)	\$ 0.21	\$ 0.28	\$
	=====	=====	=====	=====
Weighted average number of common shares outstanding-				
basic	4,640	4,743	4,620	
	=====	=====	=====	
diluted	4,640	4,862	4,708	
	=====	=====	=====	

See accompanying notes to consolidated financial statements.

BCB BANCORP INC. AND SUBSIDIARIES
Consolidated Statement of Changes in Stockholders' Equity
For the nine months ended September 30, 2008
(Unaudited)
(in thousands except for share data)

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	Common Stock -----	Additional Paid-In Capital -----	Treasury Stock -----	R E
Balance, December 31, 2007	\$ 325	\$ 45,795	\$ (7,385)	
Exercise of Stock Options (69,278 shares)	4	618	--	
Tax benefit from exercise of stock options	--	112	--	
Treasury Stock Purchases (67,341 shares)	--	--	(1,009)	
Cash dividend (\$0.29 per share) declared	--	--	--	
Net income for the nine months ended September 30, 2008	--	--	--	
Unrealized gain (loss) on securities, available for sale, net of deferred income tax of \$114	--	--	--	
Total Comprehensive income	--	--	--	
Balance, September 30, 2008	\$ 329	\$ 46,525	\$ (8,394)	

See accompanying notes to consolidated financial statements.

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BCB BANCORP INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the nine months ended
September 30, 2008 and 2007
(Unaudited)
(in thousands)

	Nine Months Ended September 30,	
	2008	2007
	-----	-----
Cash flows from operating activities:		
Net Income	\$ 1,331	\$ 3,42
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	306	29
Amortization and accretion, net	(529)	(47)
Provision for loan losses	850	20
Other than temporary write-down of security	2,756	-
Deferred income tax	(316)	3
Loans originated for sale	(5,137)	(19,66

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Proceeds from sale of loans originated for sale	6,074	20,70
(Gain) on sale of loans originated for sale	(115)	(35)
Decrease (Increase) in interest receivable	179	(7)
(Increase) in other assets	(128)	(21)
(Decrease) Increase in accrued interest payable	(121)	19
Increase (Decrease) in other liabilities	535	(5)
	-----	-----
Net cash provided by operating activities	5,685	4,00
	-----	-----
Cash flows from investing activities:		
Purchase of FHLB stock	(739)	(1,83
Proceeds from calls of securities held to maturity	68,870	-
Purchases of securities held to maturity	(60,606)	(20,00
Proceeds from repayments on securities held to maturity	4,398	2,70
Purchases of securities available for sale	(2,000)	-
Proceeds from sale of real estate owned	287	-
Net (increase) in loans receivable	(37,062)	(30,40
Improvements to other real estate owned	(241)	-
Additions to premises and equipment	(59)	(41
	-----	-----
Net cash (used in) investing activities	(27,152)	(49,94
	-----	-----
Cash flows from financing activities:		
Net increase in deposits	4,661	25,22
Net change in short-term debt	14,500	-
Proceeds of long-term debt	--	40,00
Purchases of treasury stock	(1,009)	(5,25
Cash dividend paid	(1,339)	(1,13
Exercise of stock options	622	4
	-----	-----
Net cash provided by financing activities	17,435	58,88
	-----	-----
Net increase in cash and cash equivalents	(4,032)	12,94
Cash and cash equivalents-begininng	11,780	25,83
	-----	-----
Cash and cash equivalents-ending	\$ 7,748	\$ 38,77
	=====	=====
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Income taxes	\$ 2,461	\$ 2,17
Interest	\$ 12,730	\$ 12,35
Transfer of loans to Real Estate Owned	\$ 1,194	\$ 1,44

See accompanying notes to consolidated financial statements.

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Note 1 - Basis of Presentation

The accompanying unaudited consolidated financial statements include the accounts of BCB Bancorp, Inc. (the "Company") and the Company's wholly owned subsidiaries, BCB Community Bank (the "Bank") and BCB Holding Company Investment Company. The Company's business is conducted principally through the Bank. All significant intercompany accounts and transactions have been eliminated in consolidation.

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and, therefore, do not necessarily include all information that would be included in audited financial statements. The information furnished reflects all adjustments that are, in the opinion of management, necessary for a fair presentation of consolidated financial condition and results of operations. All such adjustments are of a normal recurring nature. The results of operations for the three and nine months ended September 30, 2008 are not necessarily indicative of the results to be expected for the fiscal year ended December 31, 2008 or any other future interim period.

These statements should be read in conjunction with the Company's audited consolidated financial statements and related notes for the year ended December 31, 2007, which are included in the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission.

Note 2 - Earnings (Loss) Per Share

Basic net income (loss) per common share is computed by dividing net income (loss) by the weighted average number of shares of common stock outstanding. The diluted net income (loss) per common share is computed by adjusting the weighted average number of shares of common stock outstanding to include the effects of outstanding stock options, if dilutive, using the treasury stock method.

Note 3 - Fair Values of Financial Instruments

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("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. Statement No. 157 applies to other accounting pronouncements that require or permit 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.

The primary effect of Statement No. 157 on the Company was to expand the required disclosures pertaining to the methods used to determine fair values.

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Statement No. 157 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 and liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under Statement No. 157 are as follows:

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

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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 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.

For assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at September 30, 2008 are as follows, (in thousands):

Description	Sept. 30, 2008	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
Securities available for sale	\$ 1,016	\$ 1,016	\$ --	\$ --
Total	\$ 1,016	\$ 1,016		

The fair value for the securities illustrated in the aforementioned table were obtained through a primary broker/dealer from readily available price quotes as of September 30, 2008.

Note 4 - Investment Securities

The Company recorded an Other Than Temporary Impairment charge of \$2.8 million on its \$3.0 million investment in Federal National Mortgage Association, (FNMA) preferred stock during the current quarter. The OTTI charge resulted from a significant decline in the market value of these securities following the announcement by the Federal Housing Finance Agency (FHFA) that FNMA would be placed under conservatorship. Additionally, the FHFA eliminated the payment of dividends on common stock and preferred stock and assumed the powers of the Board and management of FNMA. Based on these factors, the Company evaluated the

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impairment as other than temporary. Given a lack of eligible capital gain for federal and state income tax purposes to offset capital losses at September 30, 2008, no tax benefit was recognized for the OTTI charge. A tax benefit of \$1.1 million on the OTTI charge will be recognized in the fourth quarter of 2008 as a result of the Emergency Economic Stabilization Act of 2008 enacted in October 2008 which allows entities to treat losses on these securities as ordinary losses for tax purposes.

Note 5 - New Accounting Pronouncements

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

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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 our Company January 1, 2008. The adoption of Statement No. 159 had no impact on our consolidated financial statements.

In March 2007, the FASB ratified Emerging Issues Task Force ("EITF") Issue No. 06-10 "Accounting for Collateral Assignment Split-Dollar Life Insurance Agreements" (EITF 06-10"). EITF 06-10 provides guidance for determining a liability for postretirement benefit obligation as well as recognition and measurement of the associated asset on the basis of the terms of the collateral assignment agreement. EITF 06-10 is effective for fiscal years beginning after December 15, 2007. The application of EITF 06-10 had no impact on the consolidated financial statements.

In June 2007, the EITF reached a consensus on Issue No. 06-11, "Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards" ("EITF 06-11"). EITF 06-11 states that an entity should recognize a realized tax benefit associated with dividends on nonvested equity shares, nonvested equity share units and outstanding equity share options charged to retained earnings as an increase in additional paid in capital. The amount recognized in additional paid in capital should be included in the pool of excess tax benefits available to absorb potential future tax deficiencies on share-based payment awards. EITF 06-11 should be applied prospectively to income tax benefits of dividends on equity-classified share-based payment awards that are declared in fiscal years beginning after December 15, 2007. The application of EITF 06-11 had no impact on the consolidated financial statements.

FASB Statement No. 160 "Noncontrolling Interests in Consolidated Financial Statements--an amendment of ARB No. 51" was issued in December of 2007. This Statement establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. The guidance will become effective as of the beginning of a company's fiscal year beginning after December 15, 2008. The Company believes that this new pronouncement will not have a material impact on its consolidated financial statements.

Staff Accounting Bulletin ("SAB") No. 109, "Written Loan Commitments Recorded at Fair Value Through Earnings" expresses the views of the staff regarding written loan commitments

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that are accounted for at fair value through earnings under generally accepted accounting principles. To make the staff's views consistent with current authoritative accounting guidance, the SAB revises and rescinds portions of SAB No. 105, "Application of Accounting Principles to Loan Commitments." Specifically, the SAB revises the SEC staff's views on incorporating expected net future cash flows related to loan servicing activities in the fair value measurement of a written loan commitment. The SAB retains the staff's views on incorporating expected net future cash flows related to internally-developed intangible assets in the fair value measurement of a written loan commitment. The staff expects registrants to apply the views in Question 1 of SAB No. 109 on a prospective basis to derivative loan commitments issued or modified in fiscal quarters beginning after December 15, 2007. The application of SAB 109 had no impact on the consolidated financial statements.

SAB No. 110 amends and replaces Question 6 of Section D.2 of Topic 14, "Share-Based Payment," of the Staff Accounting Bulletin series. Question 6 of Section D.2 of Topic 14 expresses the views of the staff regarding the use of the "simplified" method in developing an estimate of expected term of "plain

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vanilla" share options and allows usage of the "simplified" method for share option grants prior to December 31, 2007. SAB No. 110 allows public companies which do not have historically sufficient experience to provide a reasonable estimate to continue use of the "simplified" method for estimating the expected term of "plain vanilla" share option grants after December 31, 2007. SAB No. 110 is effective January 1, 2008. The Company uses the "simplified" method as permitted under SAB No. 110.

In February 2008, the FASB issued FASB Staff Position ("FSP") 157-2, "Effective Date of FASB Statement No. 157," that permits 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 No. 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 No. 157 in interim or annual financial statements prior to the issuance of FSP 157-2. The Company is currently evaluating the potential impact, if any, of the adoption of FSP 157-2 on its consolidated financial statements.

In May 2008, the FASB issued Statement No. 162, "The Hierarchy of Generally Accepted Accounting Principles." This Statement identifies the sources of accounting principles and the framework for selecting 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 consolidated financial statements.

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In June 2008, the FASB issued FSP EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities." This FSP clarifies that all outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends participate 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 consolidated financial statements.

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 Statement No. 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.

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ITEM 2.

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Management's Discussion and Analysis of Financial Condition and Results of Operations

Financial Condition

Total assets increased by \$19.0 million or 3.4% to \$582.5 million at September 30, 2008 from \$563.5 million at December 31, 2007. The Bank continued to grow assets, funded primarily through cash flow provided by retail deposit growth, repayments and prepayments of loans and mortgage backed securities as well as the utilization of Federal Home Loan Bank advances. During the first nine months of 2008 the Company decreased its interest earning deposits to fund loan originations which provide higher yields than the money market instruments representing a high level of our interest earning deposits. Asset growth stabilized as management is concentrating on controlled growth and maintaining adequate liquidity in the anticipation of funding outstanding loan commitments. The composition of the Bank's assets has shifted more to loans reflecting management's desire to obtain higher yields from loan products than are obtainable from other types of investments. We intend to continue to grow at a measured pace consistent with our capital levels, the current economic environment and as business opportunities permit.

Total cash and cash equivalents decreased by \$4.1 million or 34.7% to \$7.7 million at September 30, 2008 from \$11.8 million at December 31, 2007. Investment securities classified as available-for-sale decreased by \$1.04 million or 50.5% to \$1.02 million at September 30, 2008 from \$2.06 million at December 31, 2007. Additionally, investment securities classified as available-for-sale decreased by \$2.71 million or 72.7% to \$1.02 million at September 30, 2008 from \$3.73 million at June 30, 2008. The Company recorded an other than temporary impairment (OTTI) charge of \$2.8 million on its \$3.0 million investment in two Federal National Mortgage Association, (FNMA) preferred stock issues during the current quarter. The OTTI charge resulted from a significant decline in the market value of these securities following the announcement by the Federal Housing Finance Agency (FHFA) that FNMA would be placed under conservatorship. Additionally, the FHFA eliminated the payment of dividends on common stock and preferred stock and assumed the powers of the Board and management of FNMA. Based on these factors, the Company evaluated the impairment as other than temporary. Given a lack of eligible capital gain for federal and state income tax purposes to offset capital losses at September 30, 2008, no tax benefit was recognized for the OTTI charge. A tax benefit of \$1.1 million on the OTTI charge will be recognized in the fourth quarter of 2008 as a result of the Emergency Economic Stabilization Act of 2008 enacted in October 2008 which allows entities to treat losses on these securities as ordinary losses for tax purposes.

Investment securities classified as held-to-maturity decreased by \$12.6 million or 7.6% to \$152.4 million at September 30, 2008 from \$165.0 million at December 31, 2007. This decrease was primarily attributable to call options exercised on \$68.9 million of callable agency securities during the nine months ended September 30, 2008, partially offset by

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the reinvestment of \$60.7 million into the investment portfolio and \$4.4 million of repayments and prepayments in the mortgage backed securities portfolio. The balance of the proceeds was deployed to the loan portfolio in an effort to increase yield with higher yielding loan products.

Loans receivable increased by \$35.5 million or 9.7% to \$400.2 million at September 30, 2008 from \$364.7 million at December 31, 2007. The increase resulted primarily from a \$30.8 million increase in real estate mortgages

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comprising residential, commercial, construction and participation loans with other financial institutions, net of amortization, a \$4.2 million increase in commercial loans comprising business loans and commercial lines of credit, net of amortization, and a \$762,000 increase in consumer loans, net of amortization. The balance of loans in process as of September 30, 2008 was \$20.0 million. At September 30, 2008 the allowance for loan losses was \$4.9 million or 109.24% of non-performing assets.

Deposits increased by \$4.7 million or 1.2% to \$403.5 million at September 30, 2008 from \$398.8 million at December 31, 2007. The increase resulted primarily from an increase of \$3.7 million in time deposit accounts, and a \$1.1 million increase in savings and club accounts, partially offset by a \$114,000 decrease in transaction accounts. During the nine months ended September 30, 2008, the Federal Open Market Committee, (FOMC) decreased short term interest rates in an effort to lessen the impact of a possible recession. This has significantly resulted in an upward sloping normalization of the yield curve. As shorter term interest rates have decreased, our cost of short term time deposits have also decreased.

The balance of borrowed money increased by \$14.5 million or 12.7% to \$128.6 million at September 30, 2008 from \$114.1 million at December 31, 2007. The purpose of the borrowings reflects the use of long term advances as well as an overnight line of credit from the Federal Home Loan Bank to augment deposits as the Bank's funding source for originating loans and investing in Government Sponsored Enterprise (GSE) investment securities.

Stockholders' equity decreased by \$453,000 to \$48.1 million at September 30, 2008 from \$48.5 million at December 31, 2007. The decrease in stockholders' equity is primarily attributable to the payment of three quarterly cash dividends totaling \$1.3 million as well as \$1.0 million paid to repurchase 67,341 shares of common stock, partially offset by net income of the Company of \$1.3 million for the nine months ended September 30, 2008 and \$622,000 from 69,278 shares issued from stock option exercises. At September 30, 2008 the Bank's Tier 1, Tier 1 Risk-Based and Total Risk Based Capital Ratios were 9.02%, 13.16% and 14.38% respectively.

On October 14, 2008, the U.S. Treasury announced that it would purchase equity stakes in a number of banks and savings and loan associations. Under the Capital Purchase Program of the Troubled Assets Relief Program (TARP), \$250 billion of the \$700 billion authorized by the Emergency Economic Stabilization Act of 2008 will be made available by the U.S. Treasury to a variety of U.S. financial institutions in exchange for

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preferred stock. In connection with its purchase of preferred stock, the U.S. Treasury will receive warrants to purchase common stock with an aggregate market price equal to 15% of the preferred investment. Financial institutions that take part in the TARP Capital Purchase Program will be required to adopt the U.S. Treasury's standards for executive compensation and corporate governance for the period during which the U.S. Treasury holds equity issued under the TARP Capital Purchase Program. The U.S. Treasury also announced that nine major financial institutions had already agreed to participate in the TARP Capital Purchase Program, and numerous other financial institutions have subsequently agreed to take part.

On October 14, 2008, the FDIC announced the establishment of the Temporary Liquidity Guarantee Program, which was designed to strengthen confidence and encourage liquidity in the banking system by guaranteeing the (1) newly issued senior unsecured debt and (2) non-interest-bearing transaction accounts of

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participating institutions. All eligible entities will be covered under the program unless they opt out of one or both of these components by December 5, 2008 (an extension from the original opt-out date of November 12, 2008). Following that deadline, institutions that have opted out of either or both components cannot then opt in. Similarly, institutions that have opted in by the December 5th deadline may not then opt out. The Temporary Liquidity Guarantee Program will be in effect through December 31, 2009.

As of this date, we have not applied to the U.S. Treasury to receive equity capital through the TARP Capital Purchase Program nor have we applied to the FDIC to opt in or out of the Temporary Liquidity Guarantee Program. However, as the details and ramifications of these and any other plans that may be introduced, are clarified, we will continue to review them in order to determine whether or not we should participate in them.

Results of Operations Three Months

Net income decreased by \$2.28 million to a net loss of \$1.25 million for the three months ended September 30, 2008 from net income of \$1.03 million for the three months ended September 30, 2007. The decrease in net income was due to primarily to an OTTI charge, as previously discussed, on two securities in our securities available-for-sale portfolio, an increase in provision for loan losses, a decrease in non-interest income and an increase in income tax expense, partially offset by an increase in net interest income and a decrease in non-interest expense.

Net interest income increased by \$855,000 or 19.6% to \$5.2 million for the three months ended September 30, 2008 from \$4.4 million for the three months ended September 30, 2007. This increase in net interest income resulted primarily from an increase of \$23.6 million or 4.3% in the average balance of interest earning assets to \$569.3 million for the three months ended September 30, 2008 from \$545.7 million for the three months ended September 30, 2007, partially offset by a slight decrease in the average yield on interest earning assets to 6.54% for the three months ended September 30, 2008 from 6.56% for the three months ended September 30, 2007. The average balance of interest bearing

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liabilities increased by \$28.0 million or 6.0% to \$495.7 million for the three months ended September 30, 2008 from \$467.7 million for the three months ended September 30, 2007 and the average cost of interest bearing liabilities decreased by 62 basis points to 3.30% for the three months ended September 30, 2008 from 3.92% for the three months ended September 30, 2007. As a consequence, our net interest margin increased to 3.67% for the three months ended September 30, 2008 from 3.20% for the three months ended September 30, 2007.

Interest income on loans receivable increased by \$678,000 or 10.8% to \$6.95 million for the three months ended September 30, 2008 from \$6.27 million for the three months ended September 30, 2007. The increase was primarily attributable to an increase in the balance of average loans receivable of \$56.3 million or 16.4% to \$400.0 million for the three months ended September 30, 2008 from \$343.7 million for the three months ended September 30, 2007, partially offset by a decrease in the average yield on loans receivable to 6.93% for the three months ended September 30, 2008 from 7.26% for the three months ended September 30, 2007. The increase in average loans reflects management's philosophy to deploy funds in higher yielding instruments, specifically commercial real estate loans, in an effort to achieve higher returns. The decrease in average yield reflects the competitive price environment prevalent in the Bank's primary market area on loan facilities as well as the repricing downward of certain

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rates on loan facilities tied to variable indices, consistent with the decrease in the prime lending rate through the reduction in rates forwarded by the FOMC's philosophy of easing market rates. The current economic environment may have an adverse impact on this business strategy as more conservative loan underwriting standards may preclude loan origination opportunities, thereby possibly limiting loan growth to an undetermined degree.

Interest income on securities decreased by \$5,000 or 0.2% to \$2.348 million for the three months ended September 30, 2008 from \$2.353 million for the three months ended September 30, 2007. This decrease was primarily due to a decrease in the average balance of securities held-to-maturity of \$8.9 million or 5.2% to \$162.9 million for the three months ended September 30, 2008 from \$171.8 million for the three months ended September 30, 2007, partially offset by an increase in the average yield on securities held-to-maturity to 5.77% for the three months ended September 30, 2008 from 5.48% for the three months ended September 30, 2007. The decrease in average balance reflects management's philosophy to deploy funds in higher yielding instruments, specifically commercial real estate loans, in an effort to achieve higher returns.

Interest income on other interest-earning assets decreased by \$316,000 to \$7,000 for the three months ended September 30, 2008 from \$323,000 for the three months ended September 30, 2007. This decrease was primarily due to a \$23.2 million decrease in the average balance of other interest-earning assets to \$5.1 million for the three months ended September 30, 2008 from \$28.3 million for the three months ended September 30, 2007 and a decrease in the average yield on other interest-earning assets to 0.63% for the three months ended September 30, 2008 from 4.57% for the three months ended September 30, 2007. The decrease in the average yield reflects the lower short-term interest rate environment for overnight deposits during the three months ended September

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30, 2008 as compared to the three months ended September 30, 2007. The decrease in the average balance primarily reflects management's philosophy to deploy funds into loans in an effort to achieve higher returns.

Total interest expense decreased by \$498,000 or 10.8% to \$4.1 million for the three months ended September 30, 2008 from \$4.6 million for the three months ended September 30, 2007. The decrease resulted primarily from a decrease in the average cost of interest bearing liabilities to 3.30% for the three months ended September 30, 2008 from 3.92% for the three months ended September 30, 2007, partially offset by an increase in the balance of average interest bearing liabilities of \$28.0 million or 6.0% to \$495.7 million for the three months ended September 30, 2008 from \$467.7 million for the three months ended September 30, 2007. The decrease in the average cost reflects the lower short term interest rate environment which occurred following the Federal Reserve's significant reduction of short-term interest rates.

The provision for loan losses totaled \$300,000 and \$200,000 for the three month periods ended September 30, 2008 and 2007, respectively. The provision for loan losses is established based upon management's review of the Bank's loans and consideration of a variety of factors including, but not limited to, (1) the risk characteristics of the loan portfolio, (2) current economic conditions, (3) actual losses previously experienced, (4) the level of loan growth and (5) the existing level of reserves for loan losses that are possible and estimable. During the three months ended September 30, 2008, the Bank experienced \$7,000 in net charge-offs, (consisting of \$8,000 in charge-offs and \$1,000 in recoveries). During the three months ended September 30, 2007, the Bank experienced \$61,000 in net charge-offs (consisting of \$61,000 in charge-offs and no recoveries). The Bank had non-performing loans totaling \$3.0 million or 0.74% of gross loans at

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September 30, 2008, \$282,000 or 0.07% of gross loans at June 30, 2008 and \$1.7 million or 0.48% of gross loans at September 30, 2007. The allowance for loan losses was \$4.9 million or 1.20% of gross loans at September 30, 2008, \$4.6 million or 1.15% of gross loans at June 30, 2008 and \$3.7 million or 1.04% of gross loans at September 30, 2007. The amount of the allowance is based on estimates and the ultimate losses may vary from such estimates. Management assesses the allowance for loan losses on a quarterly basis and makes provisions for loan losses as necessary in order to maintain the adequacy of the allowance. While management uses available information to recognize losses on loans, future loan loss provisions may be necessary based on changes in the aforementioned criteria. In addition various regulatory agencies, as an integral part of their examination process, periodically review the allowance for loan losses and may require the Bank to recognize additional provisions based on their judgment of information available to them at the time of their examination. Management believes that the allowance for loan losses was adequate at September 30, 2008.

Total non-interest income decreased by \$2.8 million to a loss of \$2.6 million for the three months ended September 30, 2008 from income of \$261,000 for the three months ended September 30, 2007. The decrease in non-interest income resulted primarily from an OTTI charge of \$2.8 million on \$3.0 million of FNMA preferred stock during the third quarter, as discussed previously. The Bank also recorded a decrease in gain on sale of

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loans originated for sale of \$93,000 or 86.1% to \$15,000 for the three months ended September 30, 2008, from \$108,000 for the three months ended September 30, 2007. The decrease in gain on sale of loans originated for sale reflects the softening one- to four-family residential real estate market. The Company recently made a strategic decision to eliminate our Retail Mortgage Division as a separate division. Due to a continuing softening in the one- to four-family residential real estate market, it was decided that this division's operation, on an on-going basis, was determined to be cost prohibitive. The aforementioned decreases in non-interest income were partially offset by an increase in general fees, service charges and other income of \$19,000 or 12.4% to \$172,000 for the three months ended September 30, 2008 from \$153,000 for the three months ended September 30, 2007.

Total non-interest expense decreased by \$70,000 or 2.5% to \$2.7 million for the three months ended September 30, 2008 from \$2.8 million for the three months ended September 30, 2007. Salaries and employee benefits expense decreased by \$95,000 or 6.5% to \$1.37 million for the three months ended September 30, 2008 from \$1.46 million for the three months ended September 30, 2007. This decrease was primarily attributable to a decrease in the number of full time equivalent employees to 82 for the three months ended September 30, 2008 from 92 for the three months ended September 30, 2007, partially offset by salary increases in conjunction with annual reviews. Equipment expense increased by \$24,000 or 4.9% to \$511,000 for the three months ended September 30, 2008 from \$487,000 for the three months ended September 30, 2007. The primary component of this expense item is data service provider expense. Occupancy expense, advertising and other non-interest expense increased by \$1,000 or 0.1% to \$828,000 for the three months ended September 30, 2008 from \$827,000 for the three months ended September 30, 2007 as the Bank has endeavored to manage our non-interest expense category somewhat conservatively during this challenging economic environment. Other non-interest expense is comprised of directors' fees, stationary, forms and printing, professional fees, legal fees, check printing, correspondent bank fees, telephone and communication, shareholder relations and other fees and expenses. During 2009 the Bank expects a significant increase in non-interest expenses as a result of higher FDIC deposit insurance assessment.

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Income tax expense increased \$274,000 or 44.5% to \$890,000 for the three months ended September 30, 2008 from \$616,000 for the three months ended September 30, 2007. The increase in income tax expense reflects the increase in net income exclusive of the OTTI charge of \$2.8 million discussed earlier. Excluding the effect of the OTTI charge on income, the consolidated effective income tax rate for the three months ended September 30, 2008 was 37.1% as compared to 37.4% for the three months ended September 30, 2007.

Nine Months of Operations

Net income decreased by \$2.1 million to \$1.3 million for the nine months ended September 30, 2008 from \$3.4 million for the nine months ended September 30, 2007. The decrease in net income was due to primarily to an OTTI charge, as previously

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discussed, on two securities in our securities available-for-sale portfolio, an increase in provision for loan losses, a decrease in non-interest income, an increase in non-interest expense and an increase in income tax expense, partially offset by an increase in net interest income.

Net interest income increased by \$2.02 million or 15.9% to \$14.76 million for the nine months ended September 30, 2008 from \$12.74 million for the nine months ended September 30, 2007. The increase in net interest income resulted primarily from an increase of \$43.0 million or 8.3% in the average balance of interest earning assets to \$560.7 million for the nine months ended September 30, 2008 from \$517.7 million for the nine months ended September 30, 2007, while the average yield on interest earning assets remained static at 6.51% for the respective nine month time periods ended September 30, 2008 and 2007. The average balance of interest bearing liabilities increased by \$45.9 million or 10.4% to \$487.0 million for the nine months ended September 30, 2008 from \$441.1 million for the nine months ended September 30, 2007, while the average cost of interest bearing liabilities decreased to 3.45% for the nine months ended September 30, 2008 from 3.79% for the nine months ended September 30, 2007. As a consequence, our net interest margin increased to 3.51% for the nine months ended September 30, 2008 from 3.28% for the nine months ended September 30, 2007.

Interest income on loans receivable increased by \$2.3 million or 12.8% to \$20.2 million for the nine months ended September 30, 2008 from \$17.9 million for the nine months ended September 30, 2007. The increase was primarily attributable to an increase in the balance of average loans receivable of \$56.5 million or 17.1% to \$386.0 million for the nine months ended September 30, 2008 from \$329.5 million for the nine months ended September 30, 2007, partially offset by a decrease in the average yield on loans receivable to 6.96% for the nine months ended September 30, 2008 from 7.20% for the nine months ended September 30, 2007. The increase in average loans reflects management's philosophy to deploy funds in higher yielding instruments, specifically commercial real estate loans, in an effort to achieve higher returns. The current economic environment may have an adverse impact on this business strategy as more conservative loan underwriting standards may preclude loan origination opportunities, thereby possibly limiting loan growth to an undetermined degree.

Interest income on securities increased by \$509,000 or 7.8% to \$7.0 million for the nine months ended September 30, 2008 from \$6.5 million for the nine months ended September 30, 2007. The increase was primarily due to an increase in the average balance of securities of \$2.1 million or 1.3% to \$161.2 million for the nine months ended September 30, 2008 from \$159.1 million for the nine months ended September 30, 2007 and an increase in the average yield on securities to

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5.76% for the nine months ended September 30, 2008 from 5.41% for the nine months ended September 30, 2007. The increase in average balance reflects management's philosophy to deploy funds in investments absent the opportunity to invest in higher yielding loans in an effort to achieve higher returns. The increase in average yield reflects the higher long term interest rate environment during the nine months ended September 30, 2008.

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Interest income on other interest-earning assets decreased by \$738,000 or 79.7% to \$188,000 for the nine months ended September 30, 2008 from \$926,000 for the nine months ended September 30, 2007. This decrease was primarily due to a decrease of \$14.9 million or 55.6% in the average balance of other interest-earning assets to \$11.9 million for the nine months ended September 30, 2008 from \$26.8 million for the nine months ended September 30, 2007 and a decrease in the average yield on other interest-earning assets to 2.11% for the nine months ended September 30, 2008 from 4.60% for the nine months ended September 30, 2007. The decrease in the average yield reflects the lower short-term interest rate environment for overnight deposits in 2008 as compared to 2007. The decrease in the average balance primarily reflects management's philosophy to deploy funds in higher yielding instruments, specifically commercial real estate loans, in an effort to achieve higher returns.

Total interest expense increased by \$61,000 or 0.5% to \$12.61 million for the nine months ended September 30, 2008 from \$12.55 million for the nine months ended September 30, 2007. The increase resulted primarily from an increase in the balance of average interest bearing liabilities of \$45.9 million or 10.4% to \$487.0 million for the nine months ended September 30, 2008 from \$441.1 million for the nine months ended September 30, 2007, partially offset by a decrease in the average cost of interest bearing liabilities to 3.45% for the nine months ended September 30, 2008 from 3.79% for the nine months ended September 30, 2007.

The provision for loan losses totaled \$850,000 and \$200,000 for the nine-month periods ended September 30, 2008 and 2007, respectively. The provision for loan losses is established based upon management's review of the Bank's loans and consideration of a variety of factors including, but not limited to, (1) the risk characteristics of the loan portfolio, (2) current economic conditions, (3) actual losses previously experienced, (4) the level of loan growth and (5) the existing level of reserves for loan losses that are possible and estimable. During the nine months ended September 30, 2008, the Bank experienced \$60,000 in net charge-offs (consisting of \$101,000 in charge-offs and \$41,000 in recoveries). During the nine months ended September 30, 2007, the Bank experienced \$275,000 in net charge-offs (consisting of \$283,000 in charge-offs and \$8,000 in recoveries), primarily as a result of the repossession of a loan to facilitate the construction of approximately ten residential units done in participation with another financial institution. The Bank had non-performing loans totaling \$3.0 million or 0.74% of gross loans at September 30, 2008, \$4.6 million or 1.16% of gross loans at December 31, 2007 and \$1.7 million or 0.48% of gross loans at September 30, 2007. The allowance for loan losses was \$4.9 million or 1.20% of gross loans at September 30, 2008, \$4.1 million or 1.10% of gross loans at December 31, 2007 and \$3.7 million or 1.16% of gross loans at September 30, 2007. The amount of the allowance is based on estimates and the ultimate losses may vary from such estimates. Management assesses the allowance for loan losses on a quarterly basis and makes provisions for loan losses as necessary in order to maintain the adequacy of the allowance. While management uses available information to recognize losses on loans, future loan loss provisions may be necessary based on changes in the aforementioned criteria. In addition various regulatory agencies, as an integral part of their examination process, periodically review the allowance for loan

losses and may require the Bank to recognize additional provisions based on their judgment of information available to them at the time of their examination. Management believes that the allowance for loan losses was adequate at September 30, 2008.

Total non-interest income decreased by \$2.96 million to a loss of \$2.15 million for the nine months ended September 30, 2008 from income of \$815,000 for the nine months ended September 30, 2007. The decrease in non-interest income resulted primarily from an OTTI charge of \$2.8 million on \$3.0 million of FNMA preferred stock during the third quarter, as discussed previously. The Bank also recorded a decrease in gain on sale of loans originated for sale of \$243,000 or 67.9% to \$115,000 for the nine months ended September 30, 2008, from \$358,000 for the nine months ended September 30, 2007. The decrease in gain on sale of loans originated for sale reflects the softening one- to four-family residential real estate market. The Company recently made a strategic decision to eliminate our Retail Mortgage Division as a separate division. Due to a continuing softening in the one- to four-family residential real estate market, it was decided that this division's operation, on an on-going basis, was determined to be cost prohibitive. The aforementioned decreases in non-interest income were partially offset by an increase in general fees, service charges and other income of \$36,000 or 7.9% to \$493,000 for the nine months ended September 30, 2008 from \$457,000 for the nine months ended September 30, 2007.

Total non-interest expense increased by \$100,000 or 1.3% to \$8.1 million for the nine months ended September 30, 2008 from \$8.0 million for the nine months ended September 30, 2007. Salaries and employee benefits expense decreased by \$143,000 or 3.4% to \$4.12 million for the nine months ended September 30, 2008 from \$4.26 million for the nine months ended September 30, 2007. This decrease was primarily attributable to a decrease in the number of full time equivalent employees to 82 for the nine months ended September 30, 2008 from 92 for the nine months ended September 30, 2007, partially offset by annual salary increases in conjunction with annual reviews. Equipment expense increased by \$88,000 or 6.3% to \$1.5 million for the nine months ended September 30, 2008 from \$1.4 million for the nine months ended September 30, 2007. The primary component of this expense item is data service provider expense which increases with the growth of the Bank's assets. Occupancy expense increased by \$58,000 or 7.8% to \$806,000 for the nine months ended September 30, 2008 from \$748,000 for the nine months ended September 30, 2007. Advertising expense decreased by \$87,000 or 32.5% to \$181,000 for the nine months ended September 30, 2008 from \$268,000 for the nine months ended September 30, 2007. Other non-interest expense increased by \$184,000 or 14.5% to \$1.45 million for the nine months ended September 30, 2008 from \$1.27 million for the nine months ended September 30, 2007. The increase in other non-interest expense is primarily attributable to increases in expenses commensurate with a growing franchise. Other non-interest expense is comprised of directors' fees, stationary, forms and printing, professional fees, legal fees, check printing, correspondent bank fees, telephone and communication, shareholder relations and other fees and expenses. During 2009 the Bank expects a significant increase in non-interest expenses as a result of higher FDIC deposit insurance assessment.

Income tax expense increased by \$400,000 or 20.0% to \$2.4 million for the nine months ended September 30, 2008 from \$2.0 million for the nine months ended September 30, 2007. The increase in income tax expense reflects the increase in

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net income exclusive of the OTTI charge of \$2.8 million discussed earlier. Excluding the effect of the OTTI charge on income, the consolidated effective income tax rate for the nine months ended September 30, 2008 was 36.6% as compared to 36.5% for the nine months ended September 30, 2007.

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Item 3. Quantitative and Qualitative Disclosures about Market Risk

Management of Market Risk

General. The majority of our assets and liabilities are monetary in nature. Consequently, one of our most significant forms of market risk is interest rate risk. Our assets, consisting primarily of mortgage loans, have longer maturities than our liabilities, consisting primarily of deposits. As a result, a principal part of our business strategy is to manage interest rate risk and reduce the exposure of our net interest income to changes in market interest rates. Accordingly, our Board of Directors has established an Asset/Liability Committee which is responsible for evaluating the interest rate risk inherent in our assets and liabilities, for determining the level of risk that is appropriate given our business strategy, operating environment, capital, liquidity and performance objectives, and for managing this risk consistent with the guidelines approved by the Board of Directors. Senior management monitors the level of interest rate risk on a regular basis and the Asset/Liability Committee, which consists of senior management and outside directors operating under a policy adopted by the Board of Directors, meets as needed to review our asset/liability policies and interest rate risk position.

The following table presents the Company's net portfolio value ("NPV"). These calculations were based upon assumptions believed to be fundamentally sound, although they may vary from assumptions utilized by other financial institutions. The information set forth below is based on data that included all financial instruments as of September 30, 2008. Assumptions have been made by the Company relating to interest rates, loan prepayment rates, core deposit duration, and the market values of certain assets and liabilities under the various interest rate scenarios. Actual maturity dates were used for fixed rate loans and certificate accounts. Investment securities were scheduled at either the maturity date or the next scheduled call date based upon management's judgment of whether the particular security would be called in the current interest rate environment and under assumed interest rate scenarios. Variable rate loans were scheduled as of their next scheduled interest rate repricing date. Additional assumptions made in the preparation of the NPV table include prepayment rates on loans and mortgage-backed securities, core deposits without stated maturity dates were scheduled with an assumed term of 48 months, and money market and noninterest bearing accounts were scheduled with an assumed term of 24 months. The NPV at "PAR" represents the difference between the Company's estimated value of assets and estimated value of liabilities assuming no change in interest rates. The NPV for a decrease of 300 basis points has been excluded since it would not be meaningful, in the interest rate environment as of September 30, 2008. The following sets forth the Company's NPV as of 9/30/2008.

Change in Calculation	Net Portfolio Value	\$ Change from PAR	% Change from PAR	NPV as a % of Assets	
				NPV Ratio	Change
+300bp	\$ 24,582	\$(35,763)	-59.26%	4.62%	-566 bps

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+200bp	38,779	(21,566)	-35.74	7.06	-322 bps
+100bp	53,084	(7,261)	-12.03	9.35	-93 bps
PAR	60,345	--	--	10.28	-- bps
-100bp	57,834	(2,511)	-4.16	9.68	-60 bps
-200bp	52,747	(7,598)	-12.59	8.70	-158 bps

bp - basis points

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The table above indicates that at September 30, 2008, in the event of a 100 basis point decrease in interest rates, we would experience a 4.16% decrease in NPV. In the event of a 100 basis point increase in interest rates, we would experience a 12.03% decrease in NPV.

Certain shortcomings are inherent in the methodology used in the above interest rate risk measurement. Modeling changes in NPV require making certain assumptions that may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. In this regard, the NPV table presented assumes that the composition of our interest-sensitive assets and liabilities existing at the beginning of a period remains constant over the period being measured and assumes that a particular change in interest rates is reflected uniformly across the yield curve regardless of the duration or repricing of specific assets and liabilities. Accordingly, although the NPV table provides an indication of our interest rate risk exposure at a particular point in time, such measurements are not intended to and do not provide a precise forecast of the effect of changes in market interest rates on our net interest income, and will differ from actual results.

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ITEM 4.

Controls and Procedures

Under the supervision and with the participation of the Company's management, including the Chief Executive Officer, Chief Financial Officer and Principal Accounting Officer, the Company has evaluated the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this quarterly report. Based upon that evaluation, the Chief Executive Officer, Chief Financial Officer and Principal Accounting Officer concluded that, as of the end of the period covered by this quarterly report, the Company's 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 time periods specified in the Securities and Exchange Commission's rules and forms. There has been no change in the Company's internal control over financial reporting during the 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. OTHER INFORMATION

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ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 1.A. RISK FACTORS

If Economic Conditions Deteriorate in our Primary Market, Our Results of Operations and Financial Condition could be Adversely Impacted as Borrowers' Ability to Repay Loans Declines and the Value of the Collateral Securing Loans Decreases.

Our financial results may be adversely affected by changes in prevailing economic conditions, including decreases in real estate values, changes in interest rates which may cause a decrease in interest rate spreads, adverse employment conditions, the monetary and fiscal policies of the federal government and other significant external events. Decreases in real estate values could potentially adversely affect the value of property used as collateral for our mortgage loans. In the event that we are required to foreclose on a property securing a mortgage loan, there can be no assurance that we will recover funds in an amount equal to any remaining loan balance as a result of prevailing general economic conditions, real estate values and other factors associated with the ownership of real property. As a result, the market value of the real estate underlying the loans may not, at any given time, be sufficient to satisfy the outstanding principal amount of the loans. Consequently, we would sustain loan losses and potentially incur a higher provision for loan loss expense. Adverse changes in the economy may also have a negative effect of the ability of borrowers to make timely repayments of their loans, which could have an adverse impact on earnings.

Our Securities Portfolio may be Negatively Impacted by Fluctuations in Market Value.

Our securities portfolio may be impacted by fluctuations in market value, potentially reducing accumulated other comprehensive income and/or earnings. Fluctuations in market value may be caused by changes in interest rates, lower market prices for securities and lower investor demand. Our securities portfolio is evaluated for other-than-temporary impairment on at least a quarterly basis. If this evaluation shows an impairment to cash flow connected with one or more securities, a potential loss to earnings may occur.

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Our Non-Interest Expense Will Increase As A Result of Increases In FDIC Insurance Premiums

The Federal Deposit Insurance Corporation ("FDIC") imposes an assessment against institutions for deposit insurance. This assessment is based on the risk category of the institution and currently ranges from 5 to 43 basis points of the institution's deposits. Federal law requires that the designated reserve ratio for the deposit insurance fund be established by the FDIC at 1.15% to 1.50% of estimated insured deposits. If this reserve ratio drops below 1.15% or the FDIC expects that it to do so within six months, the FDIC must, within 90 days, establish and implement a plan to restore the designated reserve ratio to 1.15% of estimated insured deposits within five years (absent extraordinary circumstances).

Recent bank failures coupled with deteriorating economic conditions have significantly reduced the deposit insurance fund's reserve ratio. As of June 30, 2008, the designated reserve ratio was 1.01% of estimated insured deposits at

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March 31, 2008. As a result of this reduced reserve ratio, on October 16, 2008, the FDIC published a proposed rule that would restore the reserve ratios to its required level. The proposed rule would raise the current deposit insurance assessment rates uniformly for all institutions by 7 basis points (to a range from 12 to 50 basis points) for the first quarter of 2009. The proposed rule would also alter the way the FDIC calculates federal deposit insurance assessment rates beginning in the second quarter of 2009 and thereafter.

Under the proposed rule, the FDIC would first establish an institution's initial base assessment rate. This initial base assessment rate would range, depending on the risk category of the institution, from 10 to 45 basis points. The FDIC would then adjust the initial base assessment (higher or lower) to obtain the total base assessment rate. The adjustments to the initial base assessment rate would be based upon an institution's levels of unsecured debt, secured liabilities, and brokered deposits. The total base assessment rate would range from 8 to 77.5 basis points of the institution's deposits. There can be no assurance that the proposed rule will be implemented by the FDIC or implemented in its proposed form.

In addition, the Emergency Economic Stabilization Act of 2008 (ESSA) temporarily increased the limit on FDIC insurance coverage for deposits to \$250,000 through December 31, 2009, and the FDIC took action to provide coverage for newly-issued senior unsecured debt and non-interest bearing transaction accounts in excess of the \$250,000 limit, for which institutions will be assessed additional premiums.

These actions will significantly increase our non-interest expense in 2009 and in future years as long as the increased premiums are in place.

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

Securities sold within the past three years without registering the securities under the Securities Act of 1933

Other than as stated below, the Company has not sold any securities during the past three years.

The Company conducted a secondary public stock offering during the fourth quarter of 2005. The Company sold 1,265,000 shares of its common stock for an aggregate offering price of \$19.3 million. The Company offered 1,100,000 shares of its common stock, (with an over-allotment option of 165,000 shares) to the public at a price of \$15.25. The stock offering was underwritten by Janney Montgomery Scott LLC on a firm commitment basis. The Company's registration statement on Form S-1 (Commission File No. 333-128214) was declared effective by the Securities and Exchange Commission on December 13, 2005. The Company also filed a rule 462 registration statement on Form S-1 (Commission File No. 333-130307) which was effective upon filing December 14, 2005. The sale of 1.1 million shares was completed on December 19, 2005, and the over-allotment was exercised in full on January 5, 2006.

During 2005, the Company announced a stock repurchase plan which provides for the purchase of up to 187,096 shares, adjusted for the 25% stock dividend paid on October 27, 2005. On April 26, 2007, the Company announced a second stock repurchase plan which provides for the repurchase of 5% or 249,080 shares of the outstanding shares of the Company's common stock. On November 20, 2007, the Company announced a third stock repurchase plan to repurchase 5% or 234,002 shares of the Company's common stock. This plan commenced upon the completion of the prior plan. The Company's stock purchases during the last three months are

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as follows:

Period	Shares Purchased	Average Price	Total Number of Shares Purchased	Maximum Number of Shares That May Yet be Purchased
7/1-7/31	--	\$ --	--	162,186
8/1-8/31	--	\$ --	--	162,186
9/1-9/30	--	\$ --	--	162,186
Total	--	\$ --	--	162,186

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

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

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit 31.1 and 31.2 Officers' Certification filed pursuant to section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 32.1 Officers' Certification filed pursuant to section 906 of the Sarbanes-Oxley Act of 2002.

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