SOUTHERN CONNECTICUT BANCORP INC
Form 10-Q
May 13, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2013

or

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

For the transition period from ___________________________ to ___________________________

Commission file number: 0-49784

Southern Connecticut Bancorp, Inc.
(Exact Name of Registrant as Specified in Its Charter)

Connecticut	06-1609692
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
215 Church Street, New Haven, Connecticut	06510
(Address of Principal Executive Offices)	(Zip Code)

(203) 782-1100
(Registrant’s Telephone Number, Including Area Code)

Not Applicable
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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

Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes x No o

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

Large accelerated filer o	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company x

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

Yes o No x

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding as of May 13 2013
Common Stock, $.01 par value per share	2,810,273 shares

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Part I – Financial Information

Item 1. Financial Statements.

SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
March 31, 2013 and December 31, 2012

ASSETS	March 31, 2013	December 31, 2012
Cash and due from banks	$ 11,845,637	$ 6,913,610
Short term investments	4,569,865	4,674,556
Cash and cash equivalents	16,415,502	11,588,166
Interest bearing certificates of deposit	409,811	655,278
Available for sale securities (at fair value)	2,350,000	1,249,925
Federal Home Loan Bank stock	60,600	60,600
Loans receivable		
Loans receivable	100,202,426	105,508,771
Allowance for loan losses	(2,234,391)	(2,229,334)
Loans receivable, net	97,968,035	103,279,437
Accrued interest receivable	362,323	397,497
Premises and equipment	1,850,234	1,928,353
Other real estate owned	582,911	582,911
Other assets held for sale	315,000	315,000
Other assets	1,453,152	1,389,394
Total assets	$ 121,767,568	$ 121,446,561
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Noninterest bearing deposits	$ 25,974,461	$ 29,906,051
Interest bearing deposits	80,649,013	78,345,187
Total deposits	106,623,474	108,251,238
Capital lease obligations	1,148,753	1,152,509
Accrued expenses and other liabilities	2,533,974	495,122
Total liabilities	110,306,201	109,898,869
Commitments and Contingencies		
Shareholders' Equity		
Preferred stock, no par value; shares authorized: 500,000; none issued	—	—
Common stock, par value $.01; shares authorized: 5,000,000; shares issued and outstanding: 2013 2,810,273; 2012 2,772,816	28,103	27,728
Additional paid-in capital	22,742,539	22,742,914
Accumulated deficit	(11,309,275)	(11,222,875)
Accumulated other comprehensive loss - net unrealized loss on available for sale securities	—	(75)
Total shareholders' equity	11,461,367	11,547,692
Total liabilities and shareholders' equity	$ 121,767,568	$ 121,446,561

See Notes to Consolidated Financial Statements

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SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
For the Three Months Ended March 31, 2013 and 2012

	March 31,			
	2013		2012	
Interest Income:				
Interest and fees on loans	$	1,340,940	$	1,541,169
Interest on securities		251		67
Interest on short-term and other investments		17,129		16,964
Total interest income		1,358,320		1,558,200
Interest Expense:				
Interest expense on deposits		179,473		286,590
Interest expense on capital lease obligations		40,198		41,969
Interest expense on repurchase agreements and other borrowings		—		98
Total interest expense		219,671		328,657
Net interest income		1,138,649		1,229,543
Provision for loan losses		—		30,000
Net interest income after provision for loan losses		1,138,649		1,199,543
Noninterest Income:				
Service charges and fees		68,264		74,418
Loan prepayment fees		18,296		51,507
Other noninterest income		44,980		50,322
Total noninterest income		131,540		176,247
Noninterest Expenses:				
Salaries and benefits		680,273		804,110
Professional services		175,188		161,619
Occupancy and equipment		172,653		159,707
Data processing and other outside services		75,771		66,823
FDIC Insurance		68,201		55,450
Directors fees		45,025		36,550
Insurance		26,552		32,427
Other operating expenses		112,926		116,737
Total noninterest expenses		1,356,589		1,433,423
Net loss	$	(86,400)	$	(57,633)
Basic and diluted loss per share	$	(0.03)	$	(0.02)

See Notes to Consolidated Financial Statements

SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
For the Three Months Ended March 31, 2013 and 2012

	March 31, 2013	2012
Net loss	$ (86,400)	$ (57,633)
Other comprehensive income (loss), net of taxes:		
Net change in unrealized holding gain (loss) on available for sale securities	75	(1,666)
Comprehensive loss	$ (86,325)	$ (59,299)

See Notes to Consolidated Financial Statements

SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
For the Three Months Ended March 31, 2013 and 2012

	Number of Common Shares	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Other Comprehensive (Loss) Income	Total
Balance, December 31, 2011	2,697,902	$ 26,979	$ 22,569,489	$ (11,050,382)	$ (153)	$ 11,545,933
Net loss	—	—	—	(57,633)	—	(57,633)
Other comprehensive loss	—	—	—	—	(1,666)	(1,666)
Restricted stock compensation	37,457	375	72,197	—	—	72,572
Balance, March 31, 2012	2,735,359	$ 27,354	$ 22,641,686	$ (11,108,015)	$ (1,819)	$ 11,559,206
Balance, December 31, 2012	2,772,816	$ 27,728	$ 22,742,914	$ (11,222,875)	$ (75)	$ 11,547,692
Net Loss	—	—	—	(86,400)	—	(86,400)
Other comprehensive income	—	—	—	—	75	75
Issuance of restricted stock	37,457	375	(375)	—	—	—
Balance, March 31, 2013	2,810,273	$ 28,103	$ 22,742,539	$ (11,309,275)	$ —	$ 11,461,367

See Notes to Consolidated Financial Statements

SOUTHERN CONNECTICUT BANCORP, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Three Months Ended March 31, 2013 and 2012

	2013	2012
Cash Flows From Operations		
Net loss	$ (86,400)	$ (57,633)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	55,065	58,519
Share based compensation	—	72,572
Provision for loan losses	—	30,000
Gain on sale of other real estate owned	—	(2,896)
Increase in cash surrender value of life insurance	(13,214)	(9,990)
Changes in assets and liabilities:		
Increase (decrease) in accrued expenses and other liabilities	2,038,852	(134,787)
Decrease in accrued interest receivable	35,174	63,471
(Decrease) increase in deferred loan fees	(4,489)	9,845
(Increase) decrease in other assets	(50,544)	133,658
Net cash provided by operating activities	1,974,444	162,759
Cash Flows From Investing Activities		
Net decrease in loans receivable	5,315,891	4,942,953
Proceeds from maturities of available for sale securities	2,350,000	3,550,000
Purchases of available for sale securities	(3,450,000)	(3,596,158)
Proceeds from maturities of interest bearing certificates of deposits	245,467	—
Proceeds from disposal of premises and equipment	23,054	—
Purchases of premises and equipment	—	(9,248)
Purchases of interest bearing certificates of deposits	—	(555,000)
Proceeds from the sale of other real estate owned	—	181,644
Redemptions of Federal Home Loan Bank stock	—	5,500
Net cash provided by investing activities	4,484,412	4,519,691
Cash Flows From Financing Activities		
Net increase (decrease) in certificates of deposit	1,952,349	(3,747,655)
Net decrease in demand, savings and money market deposits	(3,580,113)	(7,812,388)
Principal repayments on capital lease obligations	(3,756)	(1,873)
Net decrease in repurchase agreements	—	121,551
Net cash used in financing activities	(1,631,520)	(11,440,365)
Net increase (decrease) in cash and cash equivalents	4,827,336	(6,757,915)
Cash and cash equivalents		
Beginning	11,588,166	24,932,203
Ending	$ 16,415,502	$ 18,174,288

See Notes to Consolidated Financial Statements

(Continued)

SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS, Continued
For the Three Months Ended March 31, 2013 and 2012

	2013	2012
Supplemental Disclosures of Cash Flow Information:		
Cash paid for interest	$ 232,026	$ 338,686
Unrealized holding gains (losses) on available for sale securities arising during the period	$ 75	$ (1,666)

See Notes to Consolidated Financial Statements

Southern Connecticut Bancorp, Inc.
Notes to Consolidated Financial Statements
(Unaudited)

Note 1. Nature of Operations

Southern Connecticut Bancorp, Inc. (the "Company") is a bank holding company headquartered in New Haven, Connecticut that was incorporated on November 8, 2000. The Company's strategic objective is to serve as a bank holding company for a community-based commercial bank serving primarily New Haven County (the "Greater New Haven Market"). The Company owns 100% of the capital stock of The Bank of Southern Connecticut (the "Bank"), a Connecticut-chartered bank with its headquarters in New Haven, Connecticut, and 100% of the capital stock of SCB Capital, Inc. The Company and its subsidiaries focus on meeting the financial service needs of consumers and small to medium-sized businesses, professionals and professional corporations, and their owners and employees in the Greater New Haven Market.

The Bank operates branches at four locations, including downtown New Haven, the Amity/Westville section of New Haven, Branford and North Haven. The Bank's branches have a consistent, attractive appearance. Each location has an open lobby, comfortable waiting area, offices for the branch manager and a loan officer, and a conference room. The design of the branches complements the business development strategy of the Bank, affording an appropriate space to deliver personalized banking services in professional, confidential surroundings.

The Bank focuses on serving the banking needs of small to medium-sized businesses, professionals and professional corporations, and their owners and employees in the Greater New Haven Market. The Bank's target commercial customer has between $1.0 and $30.0 million in revenues, 15 to 150 employees, and borrowing needs of up to $3.0 million. The primary focus on this commercial market makes the Bank uniquely qualified to move deftly in responding to the needs of its clients. The Bank has been successful in winning business by offering a combination of competitive pricing for its services, quick decision making processes and a high level of personalized, "high touch" customer service.

On January 16, 2013, the Company and the Bank entered into an Agreement and Plan of Merger (the "Merger Agreement") with Liberty Bank, a Connecticut-chartered mutual savings bank with its main office in Middletown, Connecticut ("Liberty"), pursuant to which a to-be-formed wholly-owned subsidiary of Liberty will be merged with and into the Company with the Company being the surviving entity, immediately followed by the merger of the Company with and into Liberty with Liberty being the surviving entity (collectively, the "Merger"), and immediately followed by the merger of the Bank with and into Liberty with Liberty being the surviving bank, as described in Note 14.

Note 2. Basis of Financial Statement Presentation

The consolidated interim financial statements include the accounts of the Company and its subsidiaries. The consolidated interim financial statements and notes thereto have been prepared in conformity with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. All significant intercompany transactions have been eliminated in consolidation. Amounts in prior period financial statements are reclassified whenever necessary to conform to current period presentations. The results of operations for the three months ended March 31, 2013 are not necessarily indicative of the results which may be expected for the year as a whole. The accompanying consolidated financial statements and notes thereto should be read in conjunction with the audited financial statements of the Company and notes thereto as of December 31, 2012, filed with the

Securities and Exchange Commission on Form 10-K\A on April 8, 2013. Certain amounts included in the 2012 consolidated financial statements have been reclassified to conform with the 2013 presentation. Such reclassification had no impact on net loss.

Note 3. Available for Sale Securities

The amortized cost, gross unrealized gains, gross unrealized losses and approximate fair values of available for sale securities at March 31, 2013 and December 31, 2012 were as follows:

March 31, 2013	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury Bills	$ 2,350,000	$ —	$ —	$ 2,350,000

December 31, 2012	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury Bills	$ 1,250,000	$ —	$ (75)	$ 1,249,925

The following table presents the Company's available for sale securities, gross unrealized losses and fair value, aggregated by the length of time the individual securities have been in a continuous loss position, at March 31, 2013 and December 31, 2012:

	Less Than 12 Months		12 Months or More		Total	
March 31, 2013	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Treasury Bills	$ 2,350,000	$ —	$ —	$ —	$ 2,350,000	$ —

	Less Than 12 Months		12 Months or More		Total	
December 31, 2012	Value	Loss	Value	Loss	Value	Loss
U.S. Treasury Bills	$ 1,249,925	$ 75	$ —	$ —	$ 1,249,925	$ 75

At March 31, 2013, the Company had no available for sale securities in an unrealized loss position. At December 31, 2012, the Company had two available for sale securities in an unrealized loss position.

The amortized cost and fair value of available for sale debt securities at March 31, 2013 by contractual maturity are presented below:

Maturity:	Amortized Cost	Fair Value
Within one year	$ 2,350,000	$ 2,350,000

Note 4. Loans Receivable and Allowance for Loan Losses

A summary of the Company's loan portfolio at March 31, 2013 and December 31, 2012 was as follows:

	2013	2012
Commercial loans secured by real estate	$ 64,594,296	$ $ 64,677,545
Commercial	21,143,983	25,911,897
Residential mortgages	12,817,625	13,182,841
Construction and land	1,421,183	1,441,740
Consumer	329,683	403,581
Total loans	100,306,770	105,617,604

Net deferred loan fees		(104,344)	(108,833)
Allowance for loan losses		(2,234,391)	(2,229,33)
Loans receivable, net		$ 97,968,035	$ 103,279,437

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The following tables detail the period end loan balances and the period end allowance for loan losses balances by portfolio segment that were collectively and individually evaluated for impairment as of March 31, 2013 and December 31, 2012.

March 31, 2013	Commercial Loans Secured by Real Estate	Commercial	Residential Mortgages	Construction and Land	Consumer	Total
Period-end loan balances:						
Loans collectively evaluated for impairment	$60,196,149	$17,612,307	$12,040,913	$ 96,632	$ 329,683	$90,275,684
Loans individually evaluated for impairment	4,398,147	3,531,676	776,712	1,324,551	—	10,031,086
Total	$64,594,296	$21,143,983	$12,817,625	$ 1,421,183	$ 329,683	$100,306,770
Period-end allowance amount allocated to:						
Loans collectively evaluated for impairment	$1,257,720	$730,116	$238,079	$ 2,202	$ 6,274	$2,234,391
Loans individually evaluated for impairment	—	—	—	—	—	—
Balance at end of period	$1,257,720	$730,116	$238,079	$ 2,202	$ 6,274	$2,234,391

December 31, 2012	Commercial Loans Secured by Real Estate	Commercial	Residential Mortgages	Construction and Land	Consumer	Total
Period-end loan balances:						
Loans collectively evaluated for impairment	$60,179,921	$22,347,966	$12,322,319	$ 98,445	$ 403,581	$95,352,232
Loans individually evaluated for impairment	4,497,624	3,563,931	860,522	1,343,295	—	10,265,372
Total	$64,677,545	$25,911,897	$13,182,841	$ 1,441,740	$ 403,581	$105,617,604
Period-end allowance amount allocated to:						
Loans collectively evaluated for impairment	$1,150,619	$844,347	$225,601	$ 2,062	$ 6,705	$2,229,334
Loans individually evaluated for impairment	—	—	—	—	—	—
Balance at end of period	$1,150,619	$844,347	$225,601	$ 2,062	$ 6,705	$2,229,334

The following tables detail activity in the allowance for loan losses by portfolio segment for the three months ended March 31, 2013 and 2012. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories:

March 31, 2013	Commercial Loans Secured by	Commercial	Residential Mortgages	Construction and Land	Consumer	Total

	Real Estate					
Balance at beginning of year	$ 1,150,619	$ 844,347	$ 225,601	$ 2,062	$ 6,705	$ 2,229,334
Provision for loan losses	104,512	(116,699)	12,478	140	(431)	—
Loans charged-off	—	(9,944)	—	—	—	(9,944)
Recoveries of loans previously charged-off	2,589	12,412	—	—	—	15,001
Net recoveries (charge-offs)	2,589	2,468	—	—	—	5,057
Balance at end of period	$ 1,257,720	$ 730,116	$ 238,079	$ 2,202	$ 6,274	$ 2,234,391
Period-end amount allocated to:						
Loans collectively evaluated for impairment	$ 1,257,720	$ 730,116	$ 238,079	$ 2,202	$ 6,274	$ 2,234,391
Loans individually evaluated for impairment	—	—	—	—	—	—
Balance at end of period	$ 1,257,720	$ 730,116	$ 238,079	$ 2,202	$ 6,274	$ 2,234,391

March 31, 2012	Commercial Loans Secured by Real Estate	Commercial	Residential Mortgages	Construction and Land	Consumer	Total
Balance at beginning of year	$ 1,122,699	$ 965,979	$ 187,224	$ 20,431	$ 3,292	$ 2,299,625
Provision for (credit to) loan losses	(85,023)	119,871	(4,970)	(80)	202	30,000
Loans charged-off	—	—	—	—	—	—
Recoveries of loans previously charged-off	28,543	41,732	—	—	—	70,275
Net charge-offs	28,543	41,732	—	—	—	70,275
Balance at end of period	$ 1,066,219	$ 1,127,582	$ 182,254	$ 20,351	$ 3,494	$ 2,399,900
Period-end amount allocated to:						
Loans collectively evaluated for impairment	$ 1,066,219	$ 935,516	$ 182,254	$ 20,351	$ 3,494	$ 2,207,834
Loans individually evaluated for impairment	—	192,066	—	—	—	192,066
Balance at end of period	$ 1,066,219	$ 1,127,582	$ 182,254	$ 20,351	$ 3,494	$ 2,399,900

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

The following tables relate to impaired loans as of March 31, 2013 and December 31, 2012:

March 31, 2013	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance
Commercial loans secured by real estate	$ 4,511,270	$ 4,398,147	$ —	$ 4,398,147	$ —
Commercial	4,857,300	3,531,676	—	3,531,676	—
Construction and land	1,324,551	1,324,551	—	1,324,551	—
Residential mortgages	990,503	776,712	—	776,712	—
Total	$ 11,683,624	$ 10,031,086	$ —	$ 10,031,086	$ —

December 31, 2012	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance
Commercial loans secured by real estate	$4,610,747	$4,497,624	$—	$4,497,624	$—
Commercial	4,880,211	3,563,931	—	3,563,931	—
Construction and land	1,343,295	1,343,295	—	1,343,295	—
Residential mortgages	1,074,313	860,522	—	860,522	—
Total	$11,908,566	$10,265,372	$—	$10,265,372	$—

The following table relates to interest income recognized by class of impaired loans as of and for the three months ended March 31, 2013 and 2012:

	Three Months Ended March 31,			
	2013		2012	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Commercial loans secured by real estate	$ 4,466,201	$ 17,410	$ 2,095,449	$ 23,867
Commercial	3,542,248	40,861	3,639,330	31,238
Construction and land	1,335,485	18,533	1,415,208	12,500
Residential mortgages	836,663	9,096	658,201	2,768

Consumer	—	—	930	13
Total	$ 10,180,597	$ 85,900	$ 7,809,118	$ 70,386

The Company's lending activities are conducted principally in New Haven County of Connecticut. The Company grants commercial and residential real estate loans, commercial business loans and a variety of consumer loans. In addition, the Company may grant loans for the construction of residential homes, residential developments and land development projects. All residential and commercial mortgage loans are collateralized by first or second mortgages on real estate. The ability and willingness of borrowers to satisfy their loan obligations is dependent in large part upon the status of the regional economy and regional real estate market. Accordingly, the ultimate collectability of a substantial portion of the loan portfolio and the recovery of a substantial portion of any resulting real estate acquired is susceptible to changes in market conditions.

The Company has established credit policies applicable to each type of lending activity in which it engages, evaluates the creditworthiness of each customer on an individual basis and, when deemed appropriate, obtains collateral. Collateral varies by each borrower and loan type. The market value of collateral is monitored on an ongoing basis and additional collateral is obtained when warranted. Important types of collateral include business assets, real estate, commercial vehicles, equipment, automobiles, marketable securities and time deposits. While collateral provides assurance as a secondary source of repayment, the Company ordinarily requires the primary source of repayment to be based on the borrower’s ability to generate continuing cash flows.

Loan Origination/Risk Management. Management and the Board of Directors have adopted policies and procedures which dictate the guidelines for all loan originations for the Company. All loan originations are either approved by the Board of Directors or by a management committee comprised of the CEO, the President and Senior Loan Officer and the senior loan officers of the Company. Any loans approved by the management committee are reviewed and ratified by the Board of Directors.

The Company underwrites commercial and industrial loans, loans secured by commercial real estate, loans secured by residential real estate, loans related to commercial and residential development, and loans to consumers. The principal requirement of any borrower is the demonstrated ability to service the interest and principal payments of the loan as structured.

Commercial and industrial loans are underwritten after evaluating and understanding the borrower’s ability to operate profitably and generate the cash flow necessary to repay the loan as agreed with respect to principal and interest. Commercial and industrial loans are primarily made based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. Most commercial and industrial loans are secured by the assets being financed or other business assets such as accounts receivable or inventory and require a personal guarantee. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers.

Like commercial and industrial loans, commercial real estate loans are underwritten after evaluating and understanding the borrower’s ability to operate profitably and generate the cash flow necessary to repay the loan as agreed with respect to principal and interest. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate lending typically involves higher loan principal amounts and the repayment of these loans is generally largely dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Management monitors and evaluates commercial real estate loans based on collateral, geography and risk rating.

While the Company does have a small number of loans to individual borrowers to finance their primary residence, the majority of the Company’s loans secured by residential real estate are made in connection with a commercial loan for which residential real estate is offered as collateral. These loans are underwritten to the same standards as commercial real estate loans.

With respect to loans to developers and builders that are secured by non-owner occupied properties that the Company may originate from time to time, the Company requires the borrower to have a proven record of success, and typically requires a personal guarantee from all the principals of the project. Construction loans are underwritten utilizing independent appraisal reviews and lease rates and financial analysis of the developers and property owners. Construction loans are generally based upon estimates of costs and value associated with the complete project.

The Company originates consumer loans on a limited basis. Applications for consumer loans are analyzed on an individual basis based on the borrower’s ability to repay the loan. Where available, collateral is used to secure consumer loans.

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Not less than annually, the Company utilizes an independent loan review company to review and validate the credit risk program. Results of these reviews are presented to management and reported to the Board of Directors. The loan review process complements and reinforces the risk identification and assessment decisions made by lenders and credit personnel, as well as the Company's policies and procedures.

Nonaccrual and Past Due Loans. The accrual of interest on loans is discontinued at the time the loan is 90 days past due unless the loan is well-secured and in process of collection. Consumer installment loans are typically charged off no later than 180 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual status or charged-off at an earlier date if collection of principal or interest is considered doubtful. All interest accrued but not collected for loans that are placed on nonaccrual status or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis method until the loans qualify for return to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

At March 31, 2013 and December 31, 2012, the unpaid principal balances of loans placed on nonaccrual status were \$5,054,364 and \$5,179,441, respectively. At March 31, 2013, three commercial real estate loans with an aggregate principal balance of \$3,611,125 and three commercial loans with an aggregate principal balance of \$1,846,196 were considered to be troubled debt restructurings. There are no further commitments to lend funds to these borrowers. There was one commercial loan past due 90 days or more and still accruing interest at March 31, 2013. There were no loans past due 90 days or more and still accruing interest at December 31, 2012.

Nonaccrual loans segregated by class of loans as of March 31, 2013 and December 31, 2012 were as follows:

Non-accrual loans by class

	2013	2012
Commercial loans secured by real estate	$ 1,026,201	$ 1,040,453
Commercial	1,926,900	1,935,171
Construction and land	1,324,551	1,343,295
Residential mortgages	776,712	860,522
	$ 5,054,364	$ 5,179,441

An age analysis of past due loans, segregated by class of loans, as of March 31, 2013 and December 31, 2012 is as follows:

March 31, 2013	Loans 30-89 Days Past Due	Loans 90 Days or More Past Due	Total Past Due Loans	Current Loans	Total Loans	Accruing Loans 90 or More Days Past Due
Commercial loans secured by real estate	$ 1,574,755	$ 1,026,201	$ 2,600,956	$ 61,993,340	$ 64,594,296	$ —
Commercial	993,897	2,426,900	3,420,797	17,723,186	21,143,983	500,000
Residential mortgages	35,131	776,712	811,843	12,005,782	12,817,625	—
Construction and land	—	1,324,551	1,324,551	96,632	1,421,183	—
Consumer	25,026	—	25,026	304,657	329,683	—
	$ 2,628,809	$ 5,554,364	$ 8,183,173	$ 92,123,597	$ 100,306,770	$ 500,000

December 31, 2012	Loans 30-89	Loans 90 Days or	Total Past Due Loans	Current Loans	Total Loans	Accruing Loans

	Days Past Due	More Past Due				90 or More Days Past Due
Commercial loans secured by real estate	$363,284	$1,040,453	$1,403,737	$63,273,808	$64,677,545	$—
Commercial	608,612	1,935,171	2,543,783	23,368,114	25,911,897	—
Residential mortgages	—	860,522	860,522	12,322,319	13,182,841	—
Construction and land	—	1,343,295	1,343,295	98,445	1,441,740	—
Consumer	26,273	—	26,273	377,308	403,581	—
	$998,169	$5,179,441	$6,177,610	$99,439,994	$105,617,604	$—

Troubled Debt Restructurings. The recorded investment balance of TDRs, net of charge-offs, as of March 31, 2013 and December 31, 2012 was $5,457,000 and $5,577,000, respectively. At March 31, 2013 and December 31, 2012, the recorded investment balance included $877,000 and $941,000, respectively, for a commercial and industrial loan which returned to accrual status during the second quarter of 2012, as it had performed in accordance with the terms and conditions of its restructuring agreement for a period of one year. At both March 31, 2013 and December 31, 2012, there were no specific reserves recorded for TDRs. There were no charge-offs of TDRs during the three months ended March 31, 2013 and 2012. There were no additional funds committed to borrowers in TDR status at March 31, 2013.

There were no loans previously modified as TDRs for which there were payment defaults during the three months ended March 31, 2013.

Credit Quality Indicators. Oversight of the credit quality of the Company’s loan portfolio is managed by members of senior management and a committee of the Board of Directors. This group meets not less than monthly to review all impaired loans, any loans identified by management as potential problem loans, and all loans that are past due. The Company’s loan portfolio is comprised principally of loans to commercial entities, but the Company offers consumer loans as well. The Company employs different methodologies for monitoring credit risk in commercial loans and consumer loans.

Commercial Loans. The Company employs a risk rating system to identify the level of risk inherent in commercial loans. The risk rating system assists management in monitoring and overseeing the loan portfolio by providing indications of credit trends, serving as a basis for pricing, and being a part of the quantitative determination of the allowance for loan losses.

All commercial relationships, including loans categorized as commercial and industrial loans, commercial real estate loans, commercial loans secured by residential real estate, and construction loans, are included in this risk rating system. Under the Company’s internal risk rating system, the Company has risk rating categories of 0 through 5 that fall into the federal regulatory risk rating of “Pass.” A risk rating of 0 is assigned to those loans that are secured by readily marketable assets (including deposits at the bank); risk ratings increase from 1 to 5 in incremental increases of risk inherent in the relationship, with a loan that is rated 5 representing moderate risk. In addition, the Company identifies criticized loans as “special mention,” “substandard,” “doubtful” or “loss,” by employing a numerical risk rating system of 6, 7, 8 and 9, respectively, which correspond with the federal regulatory risk rating definitions of special mention, substandard, doubtful and loss, respectively.

Risk ratings assigned to loans are recommended by management and approved by the Company’s loan committee. The loan officer presents a proposed risk rating based on the underlying loan and the proposal is reviewed for accuracy and confirmed by the credit department. Risk ratings take into account a variety of commonly employed financial metrics, both quantitative and qualitative, which serve to measure risk. As part of the determination, all ratings of 5 or better (which are collectively considered “Pass” ratings by the Company) require that the customers have furnished timely financial information and other data pertinent to the relationships. Cash flow is reviewed and analyzed over a period of two to five years, but particular emphasis is placed on recent data in the event of a material change in performance, particularly a downward trend. New companies are generally considered riskier than established entities and length of time in business is factored into the risk rating decision. As part of the risk rating system, the health of the overall industry in which the company operates is also considered. Risk ratings are reviewed not less than annually.

Consumer Residential Mortgage Loans. The Company does not assign risk ratings to consumer residential mortgage loans. Consumer residential mortgage loans are considered “Pass” loans until such time that it is determined that the loan is impaired. For our consumer residential real estate loans, the Company orders an appraisal at 90 days past due. In the event there is a collateral shortfall, the Company records partial or full charge-offs of the loan balances, typically immediately.

Consumer Loans. The Company does not assign risk ratings to consumer loans. Consumer loans are considered “Pass” loans until such time that it is determined that the loan is impaired. In the event a consumer loan becomes impaired, the entire balance of the loan is typically charged off immediately.

The following tables present credit risk ratings by class of loan as of March 31, 2013 and December 31, 2012:

March 31, 2013	Commercial Loans Secured by Real Estate	Commercial	Construction and Land	Residential Mortgages	Consumer	Total
Risk Rating:						
Pass	$51,201,780	$14,131,443	$ 96,632	$11,672,382	$329,683	$77,431,920
Special Mention	9,409,128	979,132	—	145,051	—	10,533,311
Substandard	3,983,388	6,033,408	1,324,551	1,000,192	—	12,341,539
Total	$64,594,296	$21,143,983	$ 1,421,183	$12,817,625	$329,683	$100,306,770

December 31, 2012	Commercial Loans Secured by Real Estate	Commercial	Construction and Land	Residential Mortgages	Consumer	Total
Risk Rating:						
Pass	$50,805,961	$19,325,262	$ 98,445	$12,176,580	$403,581	$82,809,829
Special Mention	8,006,881	2,616,278	—	145,739	—	10,768,898
Substandard	5,864,703	3,970,357	1,343,295	860,522	—	12,038,877
Total	$64,677,545	$25,911,897	$ 1,441,740	$13,182,841	$403,581	$105,617,604

Note 5. Deposits

At March 31, 2013 and December 31, 2012, deposits consisted of the following:

	2013	2012
Noninterest bearing	$ 25,974,461	$ 29,906,051
Interest bearing:		
Checking	3,615,320	5,110,736
Money Market	38,603,326	36,649,525
Savings	2,770,395	2,877,303
Time certificates, less than $100,000 (1)	10,736,846	10,873,751
Time certificates, $100,000 or more (2)	24,923,126	22,833,872
Total interest bearing	80,649,013	78,345,187
Total deposits	$ 106,623,474	$ 108,251,238

(1) Included in time certificates of deposit, less than $100,000, at March 31, 2013 and December 31, 2012 were brokered deposits totaling $472,907 and $469,037, respectively.

(2) Included in time certificates of deposit, $100,000 or more, at March 31, 2013 and December 31, 2012 were brokered deposits totaling $2,026,998 and $4,049,919, respectively.

Brokered deposits at March 31, 2013 and December 31, 2012 were as follows:

	2013	2012
Bank customer time certificates of deposit placed through CDARS to ensure FDIC coverage	$ 281,491	$279,382
	2,026,998	4,049,919

Time certificates of deposit purchased by the Bank through CDARS		
Other brokered time certificates of deposit	191,416	189,655
Total brokered deposits	$2,499,905	$ 4,518,956

As a result of the Consent Order, described in Note 13, the Bank does not intend to renew or accept brokered deposits without obtaining prior regulatory approval during the period in which the Consent Order is in place.

Note 6. Available Borrowings

The Bank is a member of the Federal Home Loan Bank of Boston ("FHLB"). At March 31, 2013, the Bank had the ability to borrow from the FHLB based on a certain percentage of the value of the Bank's qualified collateral, as defined in the FHLB Statement of Products Policy, at the time of the borrowing. In accordance with an agreement with the FHLB, the qualified collateral must be free and clear of liens, pledges and encumbrances. There were no borrowings outstanding with the FHLB at March 31, 2013.

The Bank is required to maintain an investment in capital stock of the FHLB in an amount that is based on a percentage of its outstanding residential first mortgage loans. The stock is bought from and sold to the Federal Home Loan Bank based upon its $100 par value. The stock does not have a readily determinable fair value and as such is classified as restricted stock, carried at cost and evaluated for impairment. The stock's value is determined by the ultimate recoverability of the par value rather than by recognizing temporary declines in value. The determination of whether the par value will ultimately be recovered is influenced by criteria such as the following: (a) the significance of the decline in net assets of the FHLB as compared to the capital stock amount and the length of time this situation persists; (b) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to its operating performance; (c) the impact of legislative and regulatory changes on the customer base of the FHLB; and (d) the liquidity position of the FHLB. Management evaluated the stock and concluded that the stock was not impaired for the periods presented herein.

Note 7. Shareholders' Equity

Loss Per Share

The Company is required to present basic loss per share and diluted loss per share in its statements of operations. Basic per share amounts are computed by dividing net loss by the weighted average number of common shares outstanding. Diluted per share amounts assume exercise of all potential common stock equivalents in weighted average shares outstanding, unless the effect is antidilutive. The Company is also required to provide a reconciliation of the numerator and denominator used in the computation of both basic and diluted loss per share.

The following is information about the computation of loss per share for the three months ended March 31, 2013 and 2012:

Three Months Ended March 31,	2013			2012		
	Net Loss	Weighted Average Shares	Amount Per Share	Net Loss	Weighted Average Shares	Amount Per Share
Basic Loss Per Share						
Loss available to common shareholders	$ (86,400)	2,809,857	$ (0.03)	$ (57,633)	2,711,485	$ (0.02)
Effect of Dilutive Securities						
Warrants/Restricted Stock/Stock Options outstanding	—	—	—	—	—	—
Loss available to common shareholders plus assumed conversions	$ (86,400)	2,809,857	$ (0.03)	$ (57,633)	2,711,485	$ (0.02)

For the three months ended March 31, 2013 and 2012, common stock equivalents of 0 shares and 27,167 shares have been excluded from the computation of net loss per share because the inclusion of such common stock equivalents is anti-dilutive.

Restricted stock plan

The Company had no unvested restricted stock outstanding at March 31, 2013. A summary of the status of the Company's nonvested restricted stock at March 31, 2013 and changes during the period then ended, is as follows:

	Number of Shares	Weighted-Average Grant-Date Fair Value
Nonvested restricted stock at December 31, 2012	37,457	$ 1.55
Granted	—	—
Vested and issued	(37,457)	1.55
Forfeited	—	—
Nonvested restricted stock at March 31, 2013	—	$ —

During the three months ended March 31, 2013, there were no shares of time-based restricted stock granted to senior management. As of March 31, 2013, there was no unrecognized compensation cost related to restricted stock.

Note 8. Financial Instruments with Off-Balance-Sheet Risk

In the normal course of business, the Company is a party to financial instruments with off-balance-sheet risk to meet the financing needs of its customers. These financial instruments include commitments to extend credit and involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the financial statements. The contractual amounts of these instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

The contractual amounts of commitments to extend credit represents the amounts of potential accounting loss should the contract be fully drawn upon, the customer defaults, and the value of any existing collateral become worthless. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments and evaluates each customer's creditworthiness on a case-by-case basis.

The Company controls the credit risk of these financial instruments through credit approvals, credit limits, monitoring procedures and the receipt of collateral that it deems necessary.

Financial instruments whose contract amounts represent credit risk at March 31, 2013 and December 31, 2012 were as follows:

	March 31, 2013	December 31, 2012
Commitments to extend credit:		
Future loan commitments	$ 685,000	$ 3,025,000
Unused lines of credit	16,419,056	15,629,121
Financial standby letters of credit	1,945,140	1,954,807
Undisbursed construction loans	450,000	450,000
	$ 19,499,196	$ 21,058,928

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments to extend credit generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. Since these commitments could expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the counter-party. Collateral held varies, but may include residential and commercial property, deposits and securities.

Standby letters of credit are written commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Guarantees that are not derivative contracts have been recorded on the Company's consolidated balance sheet at their fair value at inception. The liability related to guarantees recorded at March 31, 2013 and December 31, 2012 was not significant.

Note 9. Fair Value

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. A description of the valuation methodologies used for assets and liabilities recorded at fair value, and for estimating fair value for financial and non-financial instruments not recorded at fair value, is set forth below.

Cash and due from banks, short-term investments, interest bearing certificates of deposit, accrued interest receivable and accrued interest payable

The carrying amount is a reasonable estimate of fair value. The Company does not record these assets at fair value on a recurring basis. Cash and due from banks, short-term investments, interest bearing certificates of deposit, accrued interest receivable, accrued interest payable and repurchase agreements are classified as Level 1 within the fair value hierarchy.

Federal Home Loan Bank stock

The Bank is a member of the Federal Home Loan Bank ("FHLB") of Boston and is required to maintain an investment in capital stock of the FHLB. The carrying amount is a reasonable estimate of fair value. The Company does not record this asset at fair value on a recurring basis. Based on redemption provisions, the stock of the FHLB has no quoted market value and is carried at cost. FHLB stock is classified as Level 3 within the fair value hierarchy.

Available for sale securities

These financial instruments are recorded at fair value in the financial statements on a recurring basis. Where quoted prices are available in an active market, the securities are classified within Level 1 of the valuation hierarchy. If quoted prices are not available, then fair values are estimated by using pricing models (i.e., matrix pricing) or quoted prices of securities with similar characteristics and the securities are classified within Level 2 of the valuation hierarchy. Examples of such instruments include government agency bonds and mortgage-backed securities and common stock. Securities classified within Level 3 of the valuation hierarchy are securities for which significant unobservable inputs are utilized. Available for sale securities are recorded at fair value on a recurring basis.

The Company's available for sale securities, comprised of U.S. Treasury securities, are classified as Level 1 in the fair value hierarchy, as quoted prices are available in an active market.

Loans receivable

For variable rate loans that reprice frequently and have no significant change in credit risk, carrying values are a reasonable estimate of fair values, adjusted for credit losses inherent in the loan portfolio. The fair value of fixed rate loans is estimated by discounting the future cash flows using estimated period end market rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities, adjusted for credit losses inherent in the loan portfolio. The Company does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and an allowance for credit losses is established. The specific reserves for collateral dependent impaired loans are based on the fair value of collateral less estimated costs to sell. The fair value of collateral is determined based on appraisals. In some cases, adjustments are made to the appraised values due to various factors including age of the appraisal, age of comparables included in the appraisal, and known changes in the market and in the collateral. When significant adjustments are based on unobservable inputs, the resulting fair value measurement is categorized as a Level 3 measurement.

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At March 31, 2013 and December 31, 2012, the Company's collateral dependent loans receivable considered impaired that were newly measured for fair value purposes during such periods, were categorized as Level 3 within the fair value hierarchy, and the balances, net of related specific reserves, were $0 and $3,448,058, respectively. The remaining balance of loans receivable was classified as Level 2 within the fair value hierarchy.

Servicing assets

The fair value is based on market prices for comparable servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The Company does not record these assets at fair value on a recurring basis. Servicing assets are classified as Level 2 within the fair value hierarchy.

Other assets held for sale and other real estate owned

Other assets held for sale, representing real estate that is not intended for use in operations and real estate acquired through foreclosure, are recorded at fair value on a nonrecurring basis. Fair value is based upon appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company classifies the fair value measurement as Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company classifies the fair value measurement as Level 3. The Company classified the other assets held for sale and other real estate owned as Level 2 within the fair value hierarchy, as the fair value of these assets was based upon current appraisals.

Interest only strips

The fair value is based on a valuation model that calculates the present value of estimated future cash flows. The Company does not record these assets at fair value on a recurring basis. Interest only strips are classified as Level 2 within the fair value hierarchy.

Deposits

The fair value of demand deposits, savings and money market deposits is the amount payable on demand at the reporting date. The fair value of certificates of deposit is estimated using a discounted cash flow calculation that applies interest rates currently being offered for deposits of similar remaining maturities, estimated using local market data, to a schedule of aggregated expected maturities of such deposits. The Company does not record deposits at fair value on a recurring basis. Demand deposits, savings and money market deposits are classified as Level 1 within the fair value hierarchy. Certificates of deposit are classified as Level 2 within the fair value hierarchy.

Off-balance-sheet instruments

Fair values for the Company's off-balance-sheet instruments (lending commitments) are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. The Company does not record its off-balance-sheet instruments at fair value on a recurring basis. Off-balance-sheet instruments are classified as Level 3 within the fair value hierarchy.

The following tables detail the financial instruments carried at fair value and measured at fair value on a recurring basis as of March 31, 2013 and December 31, 2012 and indicate the fair value hierarchy of the valuation techniques utilized by the Company to determine the fair value:

	Balance as of March 31, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Treasury Bills	$2,350,000	$2,350,000	$—	$—

	Balance as of December 31, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Treasury Bills	$1,249,925	$1,249,925	$—	$—

The following tables detail the financial instruments carried at fair value and measured at fair value on a nonrecurring basis as of March 31, 2013 and December 31, 2012 and indicate the fair value hierarchy of the valuation techniques utilized by the Company to determine the fair value:

	Balance as of March 31, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets held at fair value				
Impaired loans (1)	$ —	$ —	$ —	$ —

	Balance as of December 31, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets held at fair value				
Impaired loans (1)	$ 3,448,058	$ —	$ —	$ 3,448,058

(1) Represents carrying value and related write-downs for which adjustments are based on appraised value. Management makes adjustments to the appraised values as necessary to consider declines in real estate values since the time of the appraisal. Such adjustments are based on management's knowledge of the local real estate markets.

The following tables detail the nonfinancial asset amounts that were carried at fair value and measured at fair value on a nonrecurring basis as of March 31, 2013 and December 31, 2012, and indicate the fair value hierarchy of the valuation techniques utilized by the Company to determine the fair value:

	Balance as of March 31, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Other assets held for sale	$315,000	$—	$315,000	$—
Other real estate owned	$582,911	$—	$—	$582,911

	Balance as of December 31, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Other assets held for sale	$315,000	$—	$315,000	$—
Other real estate owned	$582,911	$—	$—	$582,911

The Company discloses fair value information about financial instruments, whether or not recognized in the statement of financial condition, for which it is practicable to estimate that value. Certain financial instruments are excluded from disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

The estimated fair value amounts as of March 31, 2013 and December 31, 2012 have been measured as of their respective period-ends and have not been reevaluated or updated for purposes of these financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than amounts reported at such dates.

The information presented should not be interpreted as an estimate of the fair value of the Company as a whole since a fair value calculation is only required for a limited portion of the Company's assets and liabilities. Due to the wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company's disclosures and those of other companies may not be meaningful.

The following is a summary of the recorded book balances and estimated fair values of the Company's financial instruments at March 31, 2013 and December 31, 2012:

	March 31, 2013	December 31, 2012
Fair Value	Recorded	Recorded
Hieraracthy	Book	Book