SI Financial Group, Inc.
Form 10-Q
November 13, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2009

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: 0-50801

SI FINANCIAL GROUP, INC.

(Exact name of registrant as specified in its charter)

United States	**84-1655232**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
803 Main Street, Willimantic, Connecticut	**06226**
(Address of principal executive offices)	**(Zip Code)**

(860) 423-4581

(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 ¨

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 (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

As of November 6, 2009, there were 11,789,202 shares of the registrant s common stock outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

SI FINANCIAL GROUP, INC.

CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands, Except Share Amounts / Unaudited)

	September 30, 2009	December 31, 2008
ASSETS:		
Cash and due from banks:		
Noninterest-bearing	$ 13,368	$ 14,008
Interest-bearing	4,990	465
Federal funds sold	20,505	8,730
Total cash and cash equivalents	38,863	23,203
Available for sale securities, at fair value	174,212	162,699
Loans held for sale	1,389	
Loans receivable (net of allowance for loan losses of $5,429 at September 30, 2009 and $6,047 at December 31, 2008)	609,393	617,263
Federal Home Loan Bank stock, at cost	8,388	8,388
Bank-owned life insurance	8,661	8,714
Premises and equipment, net	13,309	12,225
Goodwill and other intangibles	4,262	4,294
Accrued interest receivable	3,471	3,721
Deferred tax asset, net	5,967	7,938
Other real estate owned	1,098	
Other assets	4,430	4,677
Total assets	$ 873,443	$ 853,122
LIABILITIES AND STOCKHOLDERS EQUITY:		
Liabilities:		
Deposits:		
Noninterest-bearing	$ 62,872	$ 57,647
Interest-bearing	592,663	563,004
Total deposits	655,535	620,651
Mortgagors and investors escrow accounts	1,768	3,625
Federal Home Loan Bank advances	123,100	139,600
Junior subordinated debt owed to unconsolidated trust	8,248	8,248
Accrued expenses and other liabilities	7,350	8,071
Total liabilities	796,001	780,195
Stockholders Equity:		
Preferred stock ($.01 par value; 1,000,000 shares authorized; none issued)		

Common stock ($.01 par value; 75,000,000 shares authorized; 12,563,750 shares issued; 11,789,202 and 11,800,445 shares outstanding at September 30, 2009 and December 31, 2008, respectively)	126	126
Additional paid-in capital	52,191	52,103
Unallocated common shares held by ESOP	(3,311)	(3,553)
Unearned restricted shares	(295)	(714)
Retained earnings	38,263	35,848
Accumulated other comprehensive loss	(1,567)	(2,986)
Treasury stock, at cost (774,548 and 763,305 shares at September 30, 2009 and December 31, 2008, respectively)	(7,965)	(7,897)
Total stockholders equity	77,442	72,927
Total liabilities and stockholders equity	$ 873,443	$ 853,122

See accompanying notes to unaudited interim consolidated financial statements.

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SI FINANCIAL GROUP, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in Thousands, Except Per Share Amounts / Unaudited)

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Interest and dividend income:				
Loans, including fees	$ 9,228	$ 9,414	$ 27,819	$ 27,948
Securities:				
Taxable interest	1,864	2,166	5,912	6,324
Tax-exempt interest	17	3	30	10
Dividends	10	85	37	348
Other	14	81	91	265
Total interest and dividend income	11,133	11,749	33,889	34,895
Interest expense:				
Deposits	3,297	3,837	10,128	11,969
Federal Home Loan Bank advances	1,337	1,576	4,258	4,764
Subordinated debt	47	92	177	308
Total interest expense	4,681	5,505	14,563	17,041
Net interest income	6,452	6,244	19,326	17,854
Provision for loan losses	700	233	2,630	518
Net interest income after provision for loan losses	5,752	6,011	16,696	17,336
Noninterest income (loss):				
Service fees	1,291	1,353	3,739	3,966
Wealth management fees	983	968	2,910	2,959
Increase in cash surrender value of bank-owned life insurance	74	78	220	230
Net (loss) gain on sale of securities	(127)	2	127	146
Total other-than-temporary impairment losses on securities		(7,058)	(1,862)	(7,058)
Portion of loss recognized in accumulated other comprehensive loss			1,712	
Net impairment losses recognized in net loss		(7,058)	(150)	(7,058)
Net (loss) gain on disposal of equipment	(5)		99	
Net gain on sale of loans	205	27	587	108
Other	270	20	(17)	127
Total noninterest income (loss)	2,691	(4,610)	7,515	478
Noninterest expenses:				
Salaries and employee benefits	4,194	4,077	12,957	12,382
Occupancy and equipment	1,376	1,453	4,182	4,318
Computer and electronic banking services	941	788	2,564	2,270

Outside professional services	235	173	704	586
Marketing and advertising	215	205	624	596
Supplies	119	124	401	444
FDIC deposit insurance and regulatory assessment	333	167	1,205	390
Other	611	592	1,987	1,670
Total noninterest expenses	8,024	7,579	24,624	22,656
Income (loss) before income tax provision (benefit)	419	(6,178)	(413)	(4,842)
Income tax provision (benefit)	41	(1,460)	(228)	(1,042)
Net income (loss)	$ 378	$ (4,718)	$ (185)	$ (3,800)
Net income (loss) per share:				
Basic	$ 0.03	$ (0.41)	$ (0.02)	$ (0.33)
Diluted	$ 0.03	$ (0.41)	$ (0.02)	$ (0.33)

See accompanying notes to unaudited interim consolidated financial statements.

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SI FINANCIAL GROUP, INC.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2009

(Dollars in Thousands, Except Share Amounts / Unaudited)

	Common Stock Shares	Common Stock Dollars	Additional Paid-in Capital	Unallocated Common Shares Held by ESOP	Unearned Restricted Shares	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Stockholders Equity
Balance at December 31, 2008	**12,563,750**	**$ 126**	**$ 52,103**	**$ (3,553)**	**$ (714)**	**$ 35,848**	**$ (2,986)**	**$ (7,897)**	**$ 72,927**
Comprehensive income:									
Net loss						(185)			(185)
Net unrealized gains on available for sale securities, net of reclassification adjustment and tax effects							4,136		4,136
Total comprehensive income									3,951
Treasury stock purchased								(68)	(68)
Restricted shares activity			31		86	(117)			
Equity incentive plan shares earned			225		333				558
Committed to release 24,222 ESOP shares			(125)	242					117
Vesting of restricted stock			(43)						(43)
Cumulative effect adjustment of a change in accounting principle adoption of FASB ASC 320						2,717	(2,717)		
Balance at September 30, 2009	**12,563,750**	**$ 126**	**$ 52,191**	**$ (3,311)**	**$ (295)**	**$ 38,263**	**$ (1,567)**	**$ (7,965)**	**$ 77,442**

See accompanying notes to unaudited interim consolidated financial statements.

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SI FINANCIAL GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in Thousands / Unaudited)

	Nine Months Ended September 30, 2009	2008
Cash flows from operating activities:		
Net loss	$ (185)	$ (3,800)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Provision for loan losses	2,630	518
Employee stock ownership plan expense	117	226
Equity incentive plan expense	558	599
Accretion of investment premiums and discounts, net	(129)	(167)
Amortization of loan premiums and discounts, net	178	142
Depreciation and amortization of premises and equipment	1,442	1,564
Amortization of core deposit intangible	32	40
Amortization of mortgage servicing rights	111	82
Net gain on sale of securities	(127)	(146)
Deferred income tax benefit	(38)	(1,874)
Loans originated for sale	(47,585)	(10,358)
Proceeds from sale of loans held for sale	46,783	8,716
Net gain on sale of loans	(587)	(108)
Net gain on disposal of equipment	(99)	
Net gain on sale of other real estate owned	(7)	(10)
Increase in cash surrender value of bank-owned life insurance	(220)	(230)
Gain on bank-owned life insurance	(288)	
Other-than-temporary impairment loss on securities	150	7,058
Change in operating assets and liabilities:		
Accrued interest receivable	250	13
Other assets	40	(390)
Accrued expenses and other liabilities	(764)	579
Net cash provided by operating activities	2,262	2,454
Cash flows from investing activities:		
Purchases of available for sale securities	(64,105)	(80,860)
Proceeds from sales of available for sale securities	13,610	9,953
Proceeds from maturities of and principal repayments on available for sale securities	45,233	35,123
Net decrease (increase) in loans	29,405	(10,773)
Purchase of loans	(27,037)	(6,140)
Purchases of Federal Home Loan Bank stock		(586)
Proceeds from bank-owned life insurance	561	
Proceeds from sale of other real estate owned	1,600	923
Purchases of premises and equipment	(3,377)	(1,696)
Branch (sale) acquisitions	(619)	15,805
Net cash used in investing activities	(4,729)	(38,251)
Cash flows from financing activities:		
Net increase in deposits	36,552	33,950
Net decrease in mortgagors and investors escrow accounts	(1,857)	(1,686)

Proceeds from Federal Home Loan Bank advances	4,032	47,761
Repayments of Federal Home Loan Bank advances	(20,532)	(41,880)
Cash dividends on common stock		(498)
Treasury stock purchased	(68)	(2,606)
Net cash provided by financing activities	18,127	35,041

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SI FINANCIAL GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (concluded)

(Dollars in Thousands / Unaudited)

	Nine Months Ended September 30, 2009	2008
Net change in cash and cash equivalents	15,660	(756)
Cash and cash equivalents at beginning of period	23,203	20,669
Cash and cash equivalents at end of period	$ 38,863	$ 19,913
Supplemental cash flow information:		
Interest paid	$ 14,653	$ 17,022
Income taxes paid, net	731	754
Transfer of loans to other real estate owned	2,691	

Branch sale:

Cash paid for the disposition of net liabilities related to the sale of the branch office located in Gales Ferry, Connecticut in January 2009 were as follows:

Assets:	
Loans receivable	$ 3
Fixed assets, net	950
Other assets	96
Total assets	1,049
Liabilities:	
Deposits	1,668
Total liabilities	1,668
Net liabilities	$ 619

Branch acquisitions:

Cash received for the assumption of net liabilities related to the purchase of branch offices located in Colchester and New London, Connecticut in January 2008 and March 2008, respectively, were as follows:

Assets:	
Loans receivable	$ 7,441
Accrued interest - loans	40
Core deposit intangible	159
Fixed assets, net	685
Goodwill	3,545
Total assets	11,870

Liabilities:	
Deposits	27,668
Accrued interest - deposits	7
Total liabilities	27,675
Net liabilities	$ 15,805

See accompanying notes to unaudited interim consolidated financial statements.

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SI FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2009 AND 2008 AND DECEMBER 31, 2008

NOTE 1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

SI Financial Group, Inc. (the Company) is the holding company for Savings Institute Bank and Trust Company (the Bank). Established in 1842, the Bank is a community-oriented financial institution headquartered in Willimantic, Connecticut. The Bank provides a variety of financial services to individuals, businesses and municipalities through its twenty-one offices in eastern Connecticut. Its primary products include savings, checking and certificate of deposit accounts, residential and commercial mortgage loans, commercial business loans and consumer loans. In addition, wealth management services, which include trust, financial planning, life insurance and investment services, are offered to individuals and businesses. The Company does not conduct any material business other than owning all of the stock of the Bank and paying interest on its subordinated debentures.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, the Bank, and the Bank s wholly-owned subsidiaries, 803 Financial Corp., SI Mortgage Company and SI Realty Company, Inc. All significant intercompany accounts and transactions have been eliminated.

Basis of Financial Statement Presentation

The interim consolidated financial statements and related notes have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information, with the instructions to Form 10-Q and Rule 8-03 of Regulation S-X of the Securities and Exchange Commission (SEC) and general practices within the banking industry. Accordingly, certain information and footnote disclosures required by GAAP for complete financial statements have been omitted. Information in the accompanying interim consolidated financial statements and notes to the financial statements of the Company as of September 30, 2009 and for the three and nine months ended September 30, 2009 and 2008 is unaudited. These unaudited interim consolidated financial statements and related notes should be read in conjunction with the audited financial statements of the Company and the accompanying notes for the year ended December 31, 2008 contained in the Company s Form 10-K.

Interim financial statements are subject to possible adjustment in connection with the annual audit of the Company for the year ending December 31, 2009. In the opinion of management, the accompanying unaudited interim consolidated financial statements reflect all of the adjustments, consisting only of normal and recurring adjustments, necessary for a fair presentation of the financial condition, results of operations and cash flows as of and for the period covered herein. The results of operations for the three and nine months ended September 30, 2009 are not necessarily indicative of the operating results for the year ending December 31, 2009.

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities, as of the date of the statement of financial condition and reported amounts of revenues and expenses for the periods presented. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, other-than-temporary impairment of securities, deferred income taxes and the impairment of long-lived assets.

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SI FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

SEPTEMBER 30, 2009 AND 2008 AND DECEMBER 31, 2008

Reclassifications

Certain amounts in the Company s 2008 consolidated financial statements have been reclassified to conform to the 2009 presentation. Such reclassifications had no effect on net (loss) income.

Recent Accounting Pronouncements

In September 2009, the Company adopted the FASB Accounting Standards Codification . The Codification was officially launched on July 1, 2009, and became the primary source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The subsequent issuance of new standards will be in the form of Accounting Standards Updates (ASU) that will be included in the Codification. As the Codification is neither expected nor intended to change GAAP, the Company s adoption of the Codification did not have a material impact on the consolidated financial statements.

In June 2009, the Company adopted new authoritative guidance under FASB ASC Topic 825 regarding interim disclosures about fair value of financial instruments. This guidance requires a company to provide disclosures about the fair value of financial instruments for interim reporting periods of publicly-traded companies as well as in annual financial statements and amends prior guidance to require these disclosures in summarized financial information for interim reporting periods. The adoption of this new authoritative guidance did not have a material impact on the Company s consolidated financial statements.

In June 2009, the Company adopted new authoritative guidance under FASB ASC Topic 855 regarding subsequent events. This new guidance is based on the same principles that exist within the existing standards and thus formally establishes accounting standards for disclosing those events occurring after the balance sheet date but before the financial statements are issued or available to be issued. In particular, this guidance sets forth (1) the period after the balance sheet date during which management of a reporting entity shall evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, (2) circumstances under which an entity shall recognize events or transactions occurring after the balance sheet date in its financial statements and (3) disclosures that an entity shall make about events or transactions that occurred after the balance sheet date. The adoption of this new authoritative guidance did not have a material impact on the Company s consolidated financial statements.

In June 2009, the FASB issued Statement of Financial Accounting Standards, (SFAS) No. 166, *Accounting for Transfers of Financial Assets* (SFAS 166), which improves the relevance, representational faithfulness and comparability of the information that a reporting entity provides in its financial reports about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor s continuing involvement in transferred financial assets. SFAS 166 amends FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* (SFAS 140). Under FASB ASC 105-10-65-1-d, SFAS 166 will remain authoritative until integrated into the Codification. This Statement shall be effective as of the beginning of each reporting entity s first annual reporting period that begins after November 15, 2009, for interim periods within the first annual reporting period and for interim and annual reporting periods thereafter. Earlier application is prohibited. The recognition and measurement provisions of the Statement shall be applied to transfers that occur on or after the effective date. This Statement is not expected to have a material impact on the Company s consolidated financial statements.

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SI FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

SEPTEMBER 30, 2009 AND 2008 AND DECEMBER 31, 2008

In April 2009, new authoritative guidance under FASB ASC Topic 820, regarding determining fair value when the volume and level of activity for the asset or liability have significantly decreased and identifying transactions that are not orderly, affirms that the objective of fair value when the market for an asset is not active is the price that would be received to sell the asset in an orderly transaction, and clarifies and includes additional factors for determining whether there has been a significant decrease in market activity for an asset when the market for that asset is not active. FASB ASC Topic 820 requires an entity to base its conclusion about whether a transaction was not orderly on the weight of the evidence. The new accounting guidance amended prior guidance to expand certain disclosure requirements. The adoption of the new authoritative guidance under FASB ASC Topic 820 did not have a material impact on the Company s consolidated financial statements. *See Note 9 for more details*.

Accounting Standards Update No. 2009-05 under FASB ASC Topic 820 provides guidance for measuring the fair value of a liability in circumstances in which a quoted price in an active market for the identical liability is not available. In such instances, a reporting entity is required to measure fair value utilizing a valuation technique that uses (1) the quoted price of the identical liability when traded as an asset, (2) quoted prices for similar liabilities or similar liabilities when traded as assets, or (3) another valuation technique that is consistent with the existing principles of FASB ASC Topic 820, such as an income approach or market approach. The new authoritative accounting guidance also clarifies that when estimating the fair value of a liability, a reporting entity is not required to include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the liability. The new authoritative accounting guidance under FASB ASC Topic 820 will be effective for the Company s financial statements beginning October 1, 2009 and is not expected to have a material impact on the Company s consolidated financial statements.

In April 2009, new authoritative guidance was issued under FASB ASC Topic 320, regarding recognition and presentation of other-than-temporary impairments which amends the other-than-temporary impairment (OTTI) guidance for debt securities to make the guidance more operational and to improve the presentation and disclosure of OTTI on debt and equity securities in the financial statements. This guidance does not amend existing recognition and measurement guidance related to OTTI of equity securities. Declines in the fair value of debt securities below their amortized cost basis that are deemed to be other-than-temporarily impaired are recognized in earnings to the extent the impairment is related to credit losses. The amount of the OTTI related to other factors is recognized in other comprehensive income (loss), net of applicable taxes. The Company elected to adopt the provisions of the new authoritative guidance during the quarter ended March 31, 2009. The adoption of this new authoritative guidance resulted in a cumulative effect adjustment of $2.7 million (net of taxes) to retained earnings with a corresponding adjustment to accumulated other comprehensive loss. *See Notes 3 and 6 for more details.*

Effective January 2009, the Company adopted new authoritative guidance under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC or Codification) Topic 350 regarding the useful life of intangible assets. This new authoritative guidance amends the list of factors that should be considered in developing renewal extension assumptions used to determine the useful life of a recognized intangible asset. The intent of this guidance is to improve the consistency between the useful life of a recognized intangible asset and the period of expected cash flows used to measure the fair value of the asset under superseded content. The adoption of this new authoritative guidance did not have a material impact on the Company s consolidated financial statements.

Effective January 2009, the Company adopted new authoritative guidance under FASB ASC Topic 260, which addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share under the two-class method. It affects entities that accrue or pay nonforfeitable cash dividends on share-based payment awards during the awards service periods. All prior-period earnings

SI FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

SEPTEMBER 30, 2009 AND 2008 AND DECEMBER 31, 2008

per share data presented shall be adjusted retrospectively (including interim financial statements, summaries of earnings and selected financial data) to conform to the provisions of this guidance. The adoption of this new authoritative guidance did not have a material impact on the Company s consolidated financial statements. *See Note 2 for more details.*

Effective January 2009, new authoritative guidance under FASB ASC Topic 805, which relates to business combinations became applicable to the Company s accounting for business combinations closing on or after January 1, 2009. This guidance applies to all transactions and other events in which one entity obtains control over one or more other businesses. This guidance requires an acquirer, upon initially obtaining control of another entity, to recognize the assets, liabilities and any non-controlling interest in the acquiree at fair value as of the acquisition date. In April 2009, a further update in relation to accounting for assets acquired and liabilities assumed in a business combination that arise from contingencies, which amends the previous guidance to require contingent assets acquired and liabilities assumed in a business combination to be recognized at fair value on the acquisition date if fair value can be reasonably estimated during the measurement period. If fair value cannot be reasonably estimated during the measurement period, the contingent asset or liability would be recognized in accordance with FASB ASC Topic 450, which relates to contingencies. The adoption of this guidance would apply prospectively to any future business combinations and may have a material impact on the Company s consolidated financial statements when any business combination may occur.

NOTE 2. EARNINGS PER SHARE

Basic net income (loss) per share is calculated by dividing the net income (loss) available to common stockholders by the weighted-average number of common shares outstanding during the period. Diluted net income (loss) per share is computed in a manner similar to basic net income (loss) per share except that the weighted-average number of shares outstanding is increased to include the incremental common shares (as computed using the treasury stock method) that would have been outstanding if all potentially dilutive common stock equivalents were issued during the period. The Company s common stock equivalents relate solely to stock options. Treasury shares and unallocated common shares held by the Employee Stock Ownership Plan (ESOP) are not deemed outstanding for earnings per share calculations.

Anti-dilutive shares are common stock equivalents with weighted-average exercise prices in excess of the weighted-average market value for the periods presented. The Company had anti-dilutive shares outstanding of 468,837 and 473,271 for the three and nine months ended September 30, 2009, respectively, and 500,370 and 501,608 for the three and nine months ended September 30, 2008, respectively. For the three and nine months ended September 30, 2009 and 2008, all common stock equivalents were anti-dilutive and were not included in the computation of diluted earnings per share. The computation of earnings per share is as follows:

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SI FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

SEPTEMBER 30, 2009 AND 2008 AND DECEMBER 31, 2008

(Dollars in Thousands, Except Per Share Amounts)	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Net income (loss)	$ 378	$ (4,718)	$ (185)	$ (3,800)
Weighted-average common shares outstanding:				
Basic	11,450,188	11,432,136	11,447,940	11,489,356
Effect of dilutive stock options				
Diluted	11,450,188	11,432,136	11,447,940	11,489,356
Net income (loss) per share:				
Basic	$ 0.03	$ (0.41)	$ (0.02)	$ (0.33)
Diluted	$ 0.03	$ (0.41)	$ (0.02)	$ (0.33)

In accordance with FASB ASC Topic 260, which was effective for the Company for the interim period beginning January 1, 2009, all prior period earnings per share data was recalculated to include restricted shares that participate in dividends.

NOTE 3. SECURITIES

The amortized cost, gross unrealized gains and losses and fair values of securities at September 30, 2009 and December 31, 2008 are as follows:

September 30, 2009 (Dollars in Thousands)	Amortized Cost [1]	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities:				
U.S. Government and agency obligations	$ 24,824	$ 465	$ (29)	$ 25,260
Government-sponsored enterprises	11,741	249		11,990
Mortgage-backed securities: [2]				
Agency residential	88,154	3,587	(3)	91,738
Non-agency residential	22,226	9	(3,032)	19,203
Non-agency HELOC	4,381		(1,879)	2,502
Corporate debt securities	7,665	520		8,185
Collateralized debt obligations	8,169	104	(2,533)	5,740
Obligations of state and political subdivisions	5,003	190		5,193
Tax-exempt securities	3,280	10		3,290
Foreign government securities	100			100
Total debt securities	175,543	5,134	(7,476)	173,201
Equity securities:				
Equity securities financial services	1,043	48	(80)	1,011

Total available for sale securities	$ 176,586	$ 5,182	$ (7,556)	$ 174,212

(1) Net of OTTI write-downs recognized in earnings, other than such noncredit-related amounts reclassified on January 1, 2009 in accordance with the new authoritative accounting guidance under FASB ASC Topic 320.

(2) Agency securities refer to debt obligations issued or guaranteed by government corporations or government-sponsored enterprises (GSEs). Non-agency securities, or private-label securities, are the sole obligation of their issuer and are not guaranteed by one of the GSEs or the U.S. Government.

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SI FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

SEPTEMBER 30, 2009 AND 2008 AND DECEMBER 31, 2008

December 31, 2008 (Dollars in Thousands)	Amortized Cost [1]	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities:				
U.S. Government and agency obligations	$ 2,453	$	$ (38)	$ 2,415
Government-sponsored enterprises	25,985	615	(13)	26,587
Mortgage-backed securities: [2]				
Agency residential	81,383	2,380	(112)	83,651
Non-agency residential	36,347	9	(5,893)	30,463
Non-agency HELOC	3,089		(273)	2,816
Corporate debt securities	5,901	154	(97)	5,958
Collateralized debt obligations	6,625	501	(1,734)	5,392
Obligations of state and political subdivisions	4,000	63	(26)	4,037
Tax-exempt securities	280	1	(1)	280
Foreign government securities	100			100
Total debt securities	166,163	3,723	(8,187)	161,699
Equity securities:				
Equity securities financial services	1,060		(60)	1,000
Total available for sale securities	$ 167,223	$ 3,723	$ (8,247)	$ 162,699

(1) Net of OTTI write-downs recognized in earnings.

(2) Agency securities refer to debt obligations issued or guaranteed by government corporations or government-sponsored enterprises (GSEs). Non-agency securities, or private-label securities, are the sole obligation of their issuer and are not guaranteed by one of the GSEs or the U.S. Government.

The amortized cost and fair value of debt securities at September 30, 2009 by contractual maturities are presented below. Actual maturities of mortgage-backed securities may differ from contractual maturities because the mortgages underlying the securities may be called or repaid without any penalties. Because mortgage-backed securities are not due at a single maturity date, they are not included in the maturity categories in the following maturity summary.

(Dollars in Thousands)	Amortized Cost	Fair Value
Within 1 year	$ 3,095	$ 3,100
After 1 but within 5 years	20,312	21,053
After 5 but within 10 years	11,289	11,504
After 10 years	26,086	24,101
	60,782	59,758

Mortgage-backed securities	114,761	113,443
Total debt securities	$ 175,543	$ 173,201

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SI FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

SEPTEMBER 30, 2009 AND 2008 AND DECEMBER 31, 2008

The following is a summary of realized gains and losses on the sale of securities for the three and nine months ended September 30, 2009 and 2008:

(Dollars in Thousands)	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Gross gains on sales	$ 153	$ 2	$ 634	$ 146
Gross losses on sales	(280)		(507)	
Net (loss) gain on sale of securities	$ (127)	$ 2	$ 127	$ 146

Proceeds from the sale of available for sale securities were $4.1 million and $13.6 million for the three and nine months ended September 30, 2009, respectively, and $10.0 million for the nine months ended September 30, 2008. There were no proceeds from the sale of available for sale securities for the three months ended September 30, 2008.

The following tables present information pertaining to securities with gross unrealized losses at September 30, 2009 and December 31, 2008, aggregated by investment category and length of time the individual securities have been in a continuous unrealized loss position.

September 30, 2009:	**Less Than 12 Months**		**12 Months Or More**		**Total**	
(Dollars in Thousands)	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
U.S. Government and agency obligations	$ 6,837	$ 20	$ 507	$ 9	$ 7,344	$ 29
Mortgage-backed securities:						
Agency residential	5,394	3			5,394	3
Non-agency residential	537	741	17,869	2,291	18,406	3,032
Non-agency HELOC			2,502	1,879	2,502	1,879
Collateralized debt obligations	2,280	1,214	3,105	1,319	5,385	2,533
Equity securities financial services	217	56	725	24	942	80
Total	$ 15,265	$ 2,034	$ 24,708	$ 5,522	$ 39,973	$ 7,556

December 31, 2008:	**Less Than 12 Months**		**12 Months Or More**		**Total**	
(Dollars in Thousands)	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**