BERKSHIRE BANCORP INC /DE/
Form 10-K
March 24, 2011

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

FORM 10-K

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

For the fiscal year ended December 31, 2010

OR

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

For the transition period from to

Commission File Number 0-13649

Berkshire Bancorp Inc.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	94-2563513 (I.R.S. employer identification number)
160 Broadway, New York, New York (Address of principal executive offices)	10038 (Zip Code)

Registrant's telephone number, including area code: (212) 791-5362

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Traded
Common Stock, par value $.10 per share	The NASDAQ Stock Market LLC (The NASDAQ Global Market)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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 website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes ¨ No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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.)

Large accelerated filer ¨ Accelerated filer ¨

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

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

Aggregate market value of voting and non-voting common stock held by non-affiliates of the Registrant as of June 30, 2010: $15,072,815.

Number of shares of Common Stock outstanding as of March 22, 2011: 7,054,183.

DOCUMENTS INCORPORATED BY REFERENCE: None

Forward-Looking Statements. Statements in this Annual Report on Form 10-K that are not based on historical fact may be "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as "believe", "may", "will", "expect", "estimate", "anticipate", "continue" or similar terms identify forward-looking statements. A wide variety of factors could cause the actual results and experiences of Berkshire Bancorp Inc. (the "Company") to differ materially from the results expressed or implied by the Company's forward-looking statements. Some of the risks and uncertainties that may affect operations, performance, results of the Company's business, the interest rate sensitivity of its assets and liabilities, and the adequacy of its loan loss allowance, include, but are not limited to: (i) deterioration in local, regional, national or global economic conditions which could result, among other things, in an increase in loan delinquencies, a decrease in property values, or a change in the housing turnover rate; (ii) changes in market interest rates or changes in the speed at which market interest rates change; (iii) changes in laws and regulations affecting the financial services industry; (iv) changes in competition; (v) changes in consumer preferences, (vi) changes in banking technology; (vii) ability to maintain key members of management, (viii) possible disruptions in the Company's operations at its banking facilities, (ix) cost of compliance with new corporate governance requirements, rules and regulations, and other factors referred to in the sections of this Annual Report entitled "Business", "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Certain information customarily disclosed by financial institutions, such as estimates of interest rate sensitivity and the adequacy of the loan loss allowance, are inherently forward-looking statements because, by their nature, they represent attempts to estimate what will occur in the future.

The Company cautions readers not to place undue reliance upon any forward-looking statement contained in this Annual Report. Forward-looking statements speak only as of the date they were made and the Company assumes no obligation to update or revise any such statements upon any change in applicable circumstances.

PART I

ITEM 1. Business.

General. Berkshire Bancorp Inc., a Delaware corporation, is a bank holding company registered under the Bank Holding Company Act of 1956. References herein to "Berkshire", the "Company" or "we" and similar pronouns shall be deemed to refer to Berkshire Bancorp Inc. and its wholly-owned consolidated subsidiaries unless the context otherwise requires. Berkshire's principal activity is the ownership and management of its indirect wholly-owned subsidiary, The Berkshire Bank (the "Bank"), a New York State chartered commercial bank. The Bank is owned through Berkshire's wholly-owned subsidiary, Greater American Finance Group, Inc. ("GAFG").

We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). You may read and copy our reports or other filings made with the SEC at the SEC's Public Reference Room, located at 100 F Street, N.E., Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. You can also access information that we file electronically on the SEC's website at WWW.SEC.GOV.

We do not presently have a website. However, as soon as practicable after filing with or furnishing to the SEC, we will provide at no cost, paper or electronic copies of our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports. Requests should be directed to:

Berkshire Bancorp Inc.
Investor Relations
160 Broadway, First Floor
New York, NY 10038

Series A Preferred Shares. On October 31, 2008, the Company sold an aggregate of 60,000 shares of its 8% Non-Cumulative Mandatorily Convertible Perpetual Series A Preferred Stock (the "Series A Preferred Shares") at $1,000 per share, or $60 million in the aggregate, to the Company's Chairman of the Board and majority stockholder, and two non-affiliated investors. Each Series A Preferred Share bears non-cumulative cash dividends at the rate of 8% per annum, payable quarterly, is mandatorily convertible into 123.153 shares of our Common Stock on October 31, 2011 and was redeemable at the option of the Company between April 30, 2009 and November 1, 2010 at a redemption price of $1,100. No Series A Preferred Shares were redeemed during the redemption period. So long as any share of Series A Preferred Shares remains outstanding, unless the full dividends for the most recent dividend payment date have been paid or declared, no dividends may be paid or declared on the Company's Common Stock. No Series A Preferred Shares have been redeemed to date.

Business of the Bank - General. The Bank's principal business consists of gathering deposits from the general public and investing those deposits primarily in loans, debt obligations issued by the U.S. Government and its agencies, debt obligations of business corporations, and mortgage-backed securities. The Bank currently operates from seven deposit-taking offices in New York City, four deposit-taking offices in Orange and Sullivan Counties, New York and deposit taking offices in Ridgefield and Teaneck, NJ. In September 2010, the Company determined to close the Ridgefield, NJ branch and the branch was closed on January 31, 2011.

Branch Locations of The Berkshire Bank
December 31, 2010

4 East 39th Street New York, NY	2 South Church Street Goshen, NY
5 Broadway New York, NY	214 Harriman Drive Goshen, NY
5010 13th Avenue Brooklyn, NY	80 Route 17M Harriman, NY
1421 Kings Highway Brooklyn, NY	60 Main Street Bloomingburg, NY
4917 16th Avenue Brooklyn, NY	1119 Avenue J Brooklyn, NY
600 Broad Avenue Ridgefield, NJ	210 Pinehurst Avenue New York, NY 10033
517 Cedar Lane Teaneck, NJ	

Principal Loan Types. The Bank's principal loan types are residential and commercial mortgage loans and commercial non-mortgage loans, both unsecured and secured by personal property. The Bank's revenues come principally from interest on loans and investment securities. The Bank's primary sources of funds are deposits, borrowings and proceeds from principal and interest payments on loans and investment securities.

Operating Plan. The Bank's operating plan concentrates on obtaining deposits from a variety of businesses, professionals and retail customers and investing those funds in conservatively underwritten loans. Due to the Bank's underwriting criteria, its deposits have significantly exceeded the level of satisfactory loans available for investment in recent years. Hence, the Bank has invested a portion of its available funds in investment, mortgage-backed and auction rate securities.

Market Area. The Bank draws its customers principally from the New York City metropolitan area and the Villages of Goshen and Harriman, New York and their surrounding communities, representing most of Orange County, NY. The Bank also has a branch in Bloomingburg, New York, just over the border between Orange and Sullivan Counties. Predominantly rural with numerous small towns, many residents of Orange and Sullivan Counties work in New York City. Consequently, the health of the economy in the New York City metropolitan area has, and will continue to have a direct effect on the economic well being of residents and businesses in these counties. From time to time, the Bank may make loans or accept deposits from outside these areas, but such transactions generally represent extensions of existing local customer relationships.

Competition. The Bank's principal competitors for deposits are other commercial banks, savings banks, savings and loan associations and credit unions in the Bank's market areas, as well as money market mutual funds, insurance companies, securities brokerage firms and other financial institutions, many of which are substantially larger in size than the Bank. The Bank's competition for loans comes principally from commercial banks, savings banks, savings and loan associations, mortgage bankers, finance companies and other institutional lenders. Many of the institutions which compete with the Bank have much greater financial and marketing resources than the Bank. The Bank's principal methods of competition include loan and deposit pricing, maintaining close ties with its local communities, the quality of the personal service it provides, the types of business services it provides, and other marketing programs.

Operations of the Bank. Reference is made to the information set forth in Item 7 herein ("Management's Discussion and Analysis of Financial Condition and Results of Operations") for information as to various aspects of the Bank's operations, activities and conditions.

Subsidiary Activities. The Bank is permitted under New York State law and federal law to own subsidiaries for certain limited purposes, generally to engage in activities which are permissible for a subsidiary of a national bank. The Bank has two subsidiaries, Berkshire Agency, Inc., a company engaged in the title insurance agency business, and Berkshire 1031 Exchange, LLC, a company that acts as a qualified intermediary in connection with tax free exchanges under Section 1031 of the Internal Revenue Code of 1986.

Regulation. The Company is a bank holding company under federal law and registered as such with the Federal Reserve. The Bank is a commercial bank chartered under the laws of New York State. It is subject to regulation at the state level by the New York Superintendent of Banks and the New York Banking Board, while at the federal level its primary regulator is the Federal Deposit Insurance Corporation (the "FDIC").

Both the Company and the Bank are subject to extensive state and federal regulation of their activities. The following discussion summarizes certain banking laws and regulations that affect Berkshire and the Bank. Proposals to change these laws and regulations are frequently proposed in Congress, in the New York State legislature, and before state and federal bank regulatory agencies. The likelihood and timing of any changes and the impact such changes might have on the Company are impossible to determine with any certainty. A change in applicable laws or regulations, or a change in the way such laws or regulations are interpreted by regulatory agencies or courts, may have a material impact on the business, operations and earnings of the Company, the nature and effect of which cannot be predicted.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010

On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act"). The Dodd-Frank Act will have a broad impact on the financial services industry, including significant regulatory and compliance changes including, among other things, (i) enhanced resolution authority of troubled and failing banks and their holding companies; (ii) increased capital and liquidity requirements; (iii) increased regulatory examination fees; (iv) changes to assessments to be paid to the FDIC for federal deposit insurance; and (v) numerous other provisions designed to improve supervision and oversight of, and strengthening safety and soundness for, the financial services sector. Additionally, the Dodd-Frank Act establishes a new framework for systemic risk oversight within the financial system to be distributed among new and existing federal regulatory agencies, including the Financial Stability Oversight Council, the Federal Reserve, the Office of the Comptroller of the Currency, and the FDIC. A summary of certain provisions of the Dodd-Frank Act is set forth below.

*Increased Capital Standards and Enhanced Supervision. The federal banking agencies are required to establish minimum leverage and risk-based capital requirements for banks and bank holding companies. These new standards will be no lower than current regulatory capital and leverage standards applicable to insured depository institutions and may, in fact, be higher when established by the agencies. The Dodd-Frank Act also increases regulatory oversight, supervision and examination of banks, bank holding companies and their respective subsidiaries by the appropriate regulatory agency.

*The Consumer Financial Protection Bureau ("Bureau"). The Dodd-Frank Act creates the Bureau within the Federal Reserve. The Bureau is tasked with establishing and implementing rules and regulations under certain federal consumer protection laws with respect to the conduct of providers of certain consumer financial products and services. The Bureau has rulemaking authority over many of the statutes governing products and services offered to bank consumers. In addition, the Dodd-Frank Act permits states to adopt consumer protection laws and regulations that are more stringent than those regulations promulgated by the Bureau and state attorneys general are permitted to enforce consumer protection rules adopted by the Bureau against state-chartered institutions.

*Deposit Insurance. The Dodd-Frank Act makes permanent the $250,000 deposit insurance limit for insured deposits. Amendments to the Federal Deposit Insurance Act also revise the assessment base against which an insured depository institution's deposit insurance premiums paid to the Deposit Insurance Fund ("DIF") will be calculated. Under the amendments, the assessment base will no longer be the institution's deposit base, but rather its average consolidated total assets less its average tangible equity during the assessment period. Additionally, the Dodd-Frank Act makes changes to the minimum designated reserve ratio of the DIF, increasing the minimum from 1.15 percent to 1.35 percent of the estimated amount of total insured deposits and eliminating the requirement that the FDIC pay dividends to depository institutions when the reserve ratio exceeds certain thresholds. In December 2010, the FDIC increased the reserve ratio to 2.0 percent. The Dodd-Frank Act also provides that, effective one year after the date of enactment, depository institutions may pay interest on demand deposits.

*Transactions with Affiliates. The Dodd-Frank Act enhances the requirements for certain transactions with affiliates under Section 23A and 23B of the Federal Reserve Act, including an expansion of the definition of "covered transactions" and increasing the amount of time for which collateral requirements regarding covered transactions must be maintained.

*Transactions with Insiders. Insider transaction limitations are expanded through the strengthening of loan restrictions to insiders and the expansion of the types of transactions subject to the various limits, including derivative transactions, repurchase agreements, reverse repurchase agreements and securities lending or borrowing transactions. Restrictions are also placed on certain asset sales to and from an insider to an institution, including requirements that such sales be on market terms and, in certain circumstances, approved by the institution's board of directors.

*Enhanced Lending Limits. The Dodd-Frank Act strengthens the existing limits on a depository institution's credit exposure to one borrower. Current banking law limits a depository institution's ability to extend credit to one person (or group of related persons) in an amount exceeding certain thresholds. The Dodd-Frank Act expands the scope of these restrictions to include credit exposure arising from derivative transactions, repurchase agreements, and securities lending and borrowing transactions.

*Compensation Practices. The Dodd-Frank Act provides that the appropriate federal regulators must establish standards prohibiting as an unsafe and unsound practice any compensation plan of a bank holding company or other "covered financial institution" that provides an insider or other employee with "excessive compensation" or could lead to a material financial loss to such firm. In June 2010, prior to the Dodd-Frank Act, the bank regulatory agencies promulgated the Interagency Guidance on Sound Incentive Compensation Policies, which requires that financial institutions establish metrics for measuring the impact of activities to achieve incentive compensation with the related risk to the financial institution of such behavior. Together, the Dodd-Frank Act and the recent guidance on compensation may impact the current compensation policies at the Company.

*Holding Company Capital Levels. The Dodd-Frank Act requires bank regulators to establish minimum capital levels for holding companies that are at least of the same nature as those applicable to financial institutions. All trust preferred securities, or TRUPs, issued by bank or thrift holding companies after May 19, 2010 will not be counted as Tier II Capital (with an exception for certain small bank holding companies). Bank holding companies with at least $15 billion in assets as of December 31, 2009 will have five years to comply with this provision, and starting on January 1, 2013, these holding companies will phase in the requirement by deducting one-third of TRUPs per year for the following three years from Tier 1 capital. TRUPs issued prior to May 19, 2010 by bank holding companies with less than $15 billion in assets as of December 31, 2009 are exempt from these capital deductions entirely.

We expect that many of the requirements called for in the Dodd-Frank Act will be implemented over time, and most will be subject to implementing regulations over the course of several years. Given the uncertainty associated with the manner in which the provisions of the Dodd-Frank Act will be implemented by the various regulatory agencies and through regulations, the full extent of the impact such requirements will have on financial institutions' operations is unclear. The changes resulting from the Dodd-Frank Act may impact the profitability of our business activities, require changes to certain of our business practices, impose upon us more stringent capital, liquidity and leverage ratio requirements or otherwise adversely affect our business. These changes may also require us to invest significant management attention and resources to evaluate and make necessary changes in order to comply with new statutory and regulatory requirements.

Supervisory Actions. The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can prompt certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators involving factors such as the risk weights assigned to assets and what items may be counted as capital. Regulators also have broad discretion to require any institution to maintain higher capital levels than otherwise required by statute or regulation, even institutions that are considered "well-capitalized" under applicable regulations.

Bank Holding Company Regulation. The Federal Reserve is authorized to make regular examinations of the Company and its nonbank subsidiaries. Under federal law and Federal Reserve regulations, the activities in which the Company and its nonbank subsidiaries may engage are limited. The Company may not acquire direct or indirect ownership or control of more than 5% of the voting shares of any company, including a bank, without the prior approval of the Federal Reserve, except as specifically authorized under federal law and Federal Reserve regulations. The Company, subject to the approval of the Federal Reserve, may acquire more than 5% of the voting shares of non-banking corporations if those corporations engage in activities which the Federal Reserve deems to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. These limitations also apply to activities in which the Company engages directly rather than through a subsidiary.

The Federal Reserve has enforcement powers over the Company and its non-bank subsidiaries. This allows the Federal Reserve, among other things, to stop activities that represent unsafe or unsound practices or constitute violations of law, rules, regulations, administrative orders or written agreements with a federal bank regulator. These powers may be exercised through the issuance of cease-and-desist orders, the imposition of civil money penalties or other actions.

Federal Reserve Capital Requirements. The Federal Reserve requires that the Company, as a bank holding company, must maintain certain minimum ratios of capital to assets. The Federal Reserve's regulations divide capital into two categories. Primary capital includes common equity, surplus, undivided profits, perpetual preferred stock, mandatory convertible instruments, the allowance for loan and lease losses, contingency and other capital reserves, and minority interests in equity accounts of consolidated subsidiaries. Secondary capital includes limited-life preferred stock, subordinated notes and debentures and certain unsecured long term debt.

The Federal Reserve requires that bank holding companies maintain a minimum ratio of primary capital to total assets of 5.5% and a minimum level of total capital (primary plus secondary capital) equal to 6% of total assets. In calculating capital ratios, the allowance for loan losses, which is a component of primary capital, is added back in determining total assets. Certain capital components, such as debt and perpetual preferred stock, are includable as capital only if they satisfy certain definitional tests.

The Company must also meet a risk-based capital standard. Capital, for the risk-based capital requirement, is divided into Tier I capital and Supplementary capital, determined as discussed below in connection with the FDIC capital requirements imposed on the Bank. The Federal Reserve requires that the Bank maintain a ratio of total capital (defined as Tier I plus Supplementary capital) to risk-weighted assets of at least 8%, of which at least 4% must be Tier I capital. Risk weighted assets are also determined in a manner comparable to the determination of risk-weighted assets under FDIC regulations as discussed below.

At December 31, 2010 and 2009, the Company met the definition of a "well capitalized" bank holding company.

Inter-state Banking. Bank holding companies may generally acquire banks in any state. Federal law also permits a bank to merge with an out-of-state bank and convert any offices into branches of the resulting bank if both states have not opted out of interstate branching; permits a bank to acquire branches from an out-of-state bank if the law of the state where the branches are located permits the interstate branch acquisition; and permits banks to establish and operate new interstate branches whenever the host state opts-in to that authority. Bank holding companies and banks that want to engage in such activities must be adequately capitalized and managed.

The New York Banking Law generally authorizes interstate branching in New York as a result of a merger, purchase of assets or similar transaction. An out of state bank may not first enter New York by opening a new branch in New York,
but once a branch is acquired as described in the preceding sentence, additional new branches may be opened state wide.

Regulation of the Bank. In general, the powers of the Bank are limited to the express powers described in the New York Banking Law and powers incidental to the exercise of those express powers. The Bank is generally authorized to accept deposits and make loans on terms and conditions determined to be acceptable to the Bank. Loans may be unsecured, secured by real estate, or secured by personal property. The Bank may also invest assets in bonds, notes or other debt securities which are not in default and certain limited classes of equity securities including certain publicly traded equity securities in an amount aggregating not more than 2% of assets or 20% of capital. The Bank may also engage in a variety of other traditional activities for commercial banks, such as the issuance of letters of credit.

The exercise of these state-authorized powers is limited by FDIC regulations and other federal laws and regulations. In particular, FDIC regulations limit the investment activities of state-chartered, FDIC-insured banks such as the Bank.

Under FDIC regulations, the Bank generally may not directly or indirectly acquire or retain any equity investment that is not permissible for a national bank. In addition, the Bank may not directly or indirectly through a subsidiary, engage as "principal" in any activity that is not permissible for a national bank unless the FDIC has determined that such activities would pose no risk to the applicable FDIC insurance fund and the Bank is in compliance with applicable regulatory capital requirements. FDIC regulations permit real estate investments under certain circumstances. The Bank does not engage in real estate investing activity.

In May 2009, in connection with the Bank's examination by the Federal Deposit Insurance Corporation (the "FDIC"), the Bank received a Joint Memorandum of Understanding (the "MOU") from the FDIC and the New York State Banking Department (the "NYSBD"), which the Bank executed. The MOU sets forth an informal understanding among the Bank, the FDIC and the NYSBD addressing asset quality, loan review, underwriting and administration and certain other concerns identified in the examination. The Bank's board has appointed a committee comprised of three directors to monitor the Bank's compliance. We do not believe that compliance with the MOU will have a material adverse effect on our results of operations or financial condition. As set forth in "Management's Discussion and Analysis of Financial Condition And Results of Operations - Capital Adequacy" and Note N to the Company's consolidated financial statements, the Bank meets the definition of well capitalized for regulatory purposes as of December 31, 2010.

Loans to One Borrower. With certain exceptions, the Bank may not make loans or other extensions of credit to a single borrower, or certain related groups of borrowers, in an aggregate amount in excess of 15% of the Bank's net worth, plus an additional 10% of the Bank's net worth if such amount is secured by certain types of readily marketable collateral. In addition, the Bank is not permitted to make a mortgage loan in excess of 15% of capital stock, surplus fund and undivided profits.

FDIC Capital Requirements. The FDIC requires that the Bank maintain certain minimum ratios of capital to assets. The FDIC's regulations divide capital into two tiers. The first tier ("Tier I") includes common equity, retained earnings, certain non-cumulative perpetual preferred stock (excluding auction rate issues) and minority interests in equity accounts of consolidated subsidiaries, minus goodwill and other intangible assets (except mortgage servicing rights and purchased credit card relationships subject to certain limitations). Supplementary ("Tier II") capital includes, among other items, cumulative perpetual and long-term limited-life preferred stock, mandatorily convertible securities, certain hybrid capital instruments, term subordinated debt and the allowance for loan losses, subject to certain limitations, less required deductions.

The FDIC requires that the highest rated banks maintain a Tier I leverage ratio (Tier I capital to adjusted total assets) of at least 3.0%. All other banks subject to FDIC capital requirements must maintain a Tier I leverage ratio of 4.0% to 5.0% or more. As of December 31, 2010 and 2009, the Bank's Tier I leverage capital ratio was 10.8% and 9.8%, respectively.

The Bank must also meet a risk-based capital standard. The risk-based standard requires the Bank to maintain total capital (defined as Tier I and Tier II capital) to risk-weighted assets of at least 8%, of which at least 4% must be Tier I capital. In determining the amount of risk-weighted assets, all assets, plus certain off-balance sheet assets, are multiplied by a risk-weight of 0% to 100%, based on the risks the FDIC believes are inherent in the type of asset. As of December 31, 2010 and 2009, the Bank maintained a 19.8% and 15.6% Tier I risk-based capital ratio and a 21.0% and 16.9% total risk-based capital ratio, respectively.

In addition to the foregoing regulatory capital requirements, the FDIC Improvements Act of 1991 created a "prompt corrective action" framework, under which decreases in a depository institution's capital category trigger various supervisory actions. Pursuant to implementing regulations adopted by the FDIC, for purposes of the prompt corrective action provisions, a state-chartered, nonmember bank, such as the Bank, is deemed to be well capitalized if it has: a total risk-based capital ratio of 10% or greater; a Tier I risk-based capital ratio of 6% or greater; and a leverage ratio of 5% or greater. As of December 31, 2010 and 2009, the Bank met the definition of a "well capitalized" financial institution.

Community Reinvestment Act. The Bank must, under federal law, meet the credit needs of its community, including low and moderate income segments of its community. The FDIC is required, in connection with its examination of the Bank, to assess whether the Bank has satisfied this requirement. Failure to satisfy this requirement could adversely affect certain applications which the Bank may make, such as branch applications, merger applications, and applications for permission to purchase branches. In the case of Berkshire, the Federal Reserve will assess the record of each subsidiary bank in considering certain applications by Berkshire. The New York Banking Law contains similar provisions applicable to the Bank. As of the most recent Community Reinvestment Act examinations by the FDIC and the New York State Banking Department, the Bank received "satisfactory" ratings.

Dividends From the Bank to the Company. One source of funds for Berkshire to pay dividends to its stockholders is dividends from the Bank to Berkshire. Under the New York Banking Law, the Bank may pay dividends to Berkshire, without regulatory approval, equal to its net profits for the year in which the payment is made, plus retained net profits for the two previous years, subject to certain limits not generally relevant. The Bank's retained net loss in fiscal 2010 was $12.0 million. The Bank's aggregate retained net loss for the 2009 and 2010 fiscal years totaled approximately $4.3 million. Therefore, the Bank may not pay dividends to Berkshire during fiscal 2011 without obtaining regulatory approval.

Under federal law, the Bank may not make any capital distribution to Berkshire, including any dividend or repurchase of the Bank's stock, if, after making such distribution, the Bank fails to meet the required minimum capital ratio requirements discussed above. The FDIC may prohibit the Bank from paying dividends if, in its opinion, the payment of dividends would constitute an unsafe or unsound practice.

Transactions With Related Parties. The Company, its direct non-banking subsidiaries and other companies controlled by stockholders who control the Company are affiliates, within the meaning of the Federal Reserve Act, of the Bank and its subsidiaries. The Bank's authority to engage in transactions with its "affiliates" is limited by Sections 23A and 23B of the Federal Reserve Act. Section 23A limits the aggregate amount of transactions with any individual affiliate to 10% of the capital and surplus of the Bank and also limits the aggregate amount of transactions with all affiliates to 20% of the Bank's capital and surplus. Extensions of credit to affiliates must be secured by certain specified collateral, and the purchase of low quality assets from affiliates is generally prohibited. Section 23B provides that certain transactions with affiliates, including loans and asset purchases, must be on terms and under circumstances, including credit standards, that are at least as favorable to the Bank as those prevailing at the time for comparable transactions with non-affiliated companies. In the absence of comparable transactions, such transactions may only occur under terms and circumstances, including credit standards, that in good faith would be offered to or would apply to non-affiliated companies.

In accordance with banking regulations, the Bank may make loans to its and the Company's directors, executive officers, and 10% stockholders, as well as to entities controlled by them, subject to specific federal and state limits. Among other things, these loans must (a) be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with unaffiliated persons and that do not involve more than the normal risk of repayment or present other unfavorable features and (b) not exceed certain limitations on the amount of credit extended to such persons, individually and in the aggregate, which limits are based, in part, on the amount of the Bank's capital. In addition, extensions of credit in excess of certain limits must be approved by the Bank's Board of Directors. However, the Bank may make loans to executive officers, directors and principal stockholders on preferential terms, provided the extension of credit is made pursuant to a benefit or compensation program of the Bank that is widely available to employees of the Bank or its affiliates and does not give preference to any insider over other employees of the Bank or affiliates. The Bank has no such benefit or compensation programs.

Enforcement. The FDIC and the Banking Department have enforcement authority over the Bank. The Superintendent of the Banking Department (the "Superintendent") may order the Bank to appear and explain an apparent violation of law, to discontinue unauthorized or unsafe practices and to keep prescribed books and accounts. If any director or officer of the Bank has violated any law, or has continued unauthorized or unsafe practices in conducting the business of the Bank after having been notified by the Superintendent to discontinue such practices, the New York Banking Board may remove the individual from office after notice and an opportunity to be heard. The Superintendent also may take over control of the Bank under specified statutory criteria.

The FDIC's enforcement authority includes, among other things, the ability to assess civil money penalties, to issue cease and desist orders and to remove directors and officers. As indicated above, the FDIC is required to take prompt action to correct deficiencies in banks which do not satisfy specified FDIC capital ratio requirements. Dividends, other capital distributions or the payment of management fees to any controlling person are prohibited if, following such distribution or payment, a bank would be undercapitalized. An undercapitalized bank must file a plan to restore its capital within 45 days after being notified that it is undercapitalized. Undercapitalized, significantly undercapitalized and critically undercapitalized institutions are subject to increasing prohibitions on permitted activities, and increasing levels of regulatory supervision, based upon the severity of their capital problems. The FDIC is required to monitor closely the condition of an undercapitalized bank. Enforcement action taken by the FDIC can escalate to the appointment of a conservator or receiver of a critically undercapitalized bank.

Insurance of Accounts. Deposit insurance premiums payable to the FDIC are based upon the perceived risk of the institution to the FDIC insurance fund. The FDIC assigns an institution to one of three capital categories: (a) well capitalized, (b) adequately capitalized or (c) undercapitalized. The FDIC also assigns an institution to one of three supervisory categories based on an evaluation by the institution's primary federal regulator and information that the FDIC considers relevant to the institution's financial condition and the risk posed to the deposit insurance funds. At present, the Bank pays no deposit insurance premium based upon its risk-based categorization.

The FDIC has raised insurance premiums to cover substantial losses incurred by the DIF due to the bank failures beginning in 2008. As a result, we expect deposit insurance premiums may be higher for the foreseeable future than they have been in the recent past. The Bank's FDIC assessments totalled $1.65 million in fiscal 2010 and $1.93 million in fiscal 2009.

In November 2009, the FDIC adopted a final rule imposing a 13 quarter prepayment of FDIC premiums. The Bank's original prepayment amount totaled $5.59 million which was paid in December 2009. At December 31, 2010, the FDIC prepayment totalled $4.1 million. This was an estimated prepayment for the fourth quarter of 2009 through the fourth quarter of 2012. The prepayment amount will be used to offset future FDIC insurance premiums beginning in March 2010.

Reserve Requirements. The Bank must maintain non-interest-earning reserves against its transaction accounts (primarily NOW and regular checking accounts). The Bank is generally able to satisfy reserve requirements with cash on hand and other non-interest bearing deposits which it maintains for other purposes, so the reserve requirements do not impose a material financial burden on the Bank.

Governmental Policies. Our earnings are significantly affected by the monetary and fiscal policies of governmental authorities, including the Federal Reserve. Among the instruments of monetary policy used by the Federal Reserve to implement these objectives are open-market operations in U.S. Government securities and Federal funds, changes in the discount rate on member bank borrowings and changes in reserve requirements against member bank deposits. These instruments of monetary policy are used in varying combinations to influence the overall level of bank loans, investments and deposits, and the interest rates charged on loans and paid for deposits. The Federal Reserve frequently uses these instruments of monetary policy, especially its open-market operations and the discount rate, to influence the level of interest rates and to affect the strength of the economy, the level of inflation or the price of the dollar in foreign exchange markets. The monetary policies of the Federal Reserve have had a significant effect on the operating results of banking institutions in the past and are expected to continue to do so in the future. It is not possible to predict the nature of future changes in monetary and fiscal policies, or the effect which they may have on our business and earnings.

Personal Holding Company Status. For the fiscal years ended December 31, 2010 and 2009, the Company has been deemed to be a Personal Holding Company (a "PHC"), as defined in the Internal Revenue Code. As a PHC, we may be required to pay an additional income tax or issue a dividend to our stockholders in an amount based upon the PHC Internal Revenue Code formulas, which is primarily based upon net income. No such dividend was required to be paid in fiscal 2010 and 2009. (See Dividends in Item 5).

Employees. On March 18, 2011, the Company had one full time employee and the Bank employed approximately 115 full time and 5 part time employees. The Bank's employees are not represented by a collective bargaining unit, and the Bank considers its relationship with its employees to be good.

ITEM 1A. Risk Factors.

Our business faces significant risks. These risks include those described below and may include additional risks and uncertainties not presently known to us or that we currently deem immaterial. Our business, financial condition and results of operations could be materially adversely affected by any of these risks, and the trading price of our common stock could decline.

Our future success depends on our ability to compete effectively in a highly competitive market and geographic area.

Our ability to return to and maintain profitability may depend in part on our ability to expand our scope of available financial services as needed to meet the needs and demands of our customers. Our business model focuses on using superior customer service to provide traditional banking services to a growing customer base. However, we face substantial competition in all phases of our operations from a variety of different competitors. We encounter competition from other commercial banks, savings and loan associations, mutual savings banks, credit unions and other financial institutions. Our competitors, including credit unions, consumer finance companies, factors, insurance companies and money market mutual funds, compete with lending and deposit-gathering services offered by us. In addition, our competitors now include securities dealers, brokers, mortgage bankers, investment advisors and finance and insurance companies who seek to offer one-stop financial services to their customers that may include services that we have not been able or allowed to offer to our customers in the past. This increasingly competitive environment is primarily a result of changes in regulation, changes in technology and product delivery systems and the accelerating pace of consolidation among financial services providers. There is very strong competition for financial services in the New York state areas in which we currently conduct our business. This geographic area includes offices of many of the largest financial institutions in the world. Many of those competing institutions have much greater financial and marketing resources than we have. Due to their size, many competitors can achieve larger economies of scale and as a result may offer a broader range of products and services than we do. If we are unable to offer competitive products and services, our earnings may be negatively affected. Some of the financial services organizations with which we compete are not subject to the same degree of regulation as is imposed on bank holding companies like ourselves and on federally insured financial institutions like our banking subsidiary, The Berkshire Bank. As a result, these nonbank competitors have certain advantages over us in accessing funding and in providing various services. The banking business in our current primary market area is very competitive, and the level of competition we face may increase further, which may limit our asset growth and profitability.

Economic conditions either nationally or locally in areas in which our operations are concentrated may be less favorable than expected.

Deterioration in local, regional, national or global economic conditions could result in, among other things, an increase in loan delinquencies, a decrease in property values, a change in housing turnover rate or a reduction in the level of bank deposits. Particularly, a weakening of the real estate or employment market in our primary market areas could result in an increase in the number of borrowers who default on their loans and a reduction in the value of the collateral securing their loans, which in turn could have an adverse effect on our profitability. Substantially all of our real estate loans are collateralized by properties located in these market areas, and substantially all of our loans are made to borrowers who live in and conduct business in these market areas. Any material economic deterioration in these market areas could have an adverse impact on our profitability.

Much of the Bank's lending is in New York City and upstate New York. As a result of this geographic concentration, a significant broad-based deterioration in economic conditions in the New York City metropolitan area and upstate New York could have a material adverse impact on the quality of the Bank's loan portfolio, and accordingly, our results of operations. Such a decline in economic conditions could restrict borrowers' ability to pay outstanding principal and interest on loans when due, and, consequently, adversely affect the cash flows of our business.

Recent negative developments in the financial services industry and U.S. and global credit markets may adversely impact our operations and results.

Negative developments in the capital markets during 2008 and 2009 resulted in uncertainty in the financial markets. Although conditions improved somewhat during 2010, loan portfolio performances have deteriorated at many institutions, including the Bank, resulting from, among other factors, high unemployment and a decline in the value of the collateral supporting their loans. The competition for our deposits has increased significantly due to liquidity concerns at many of these same institutions. Stock prices of bank holding companies like ours have been negatively affected by the current condition of the financial markets, as has our ability, if needed, to raise capital or borrow in the debt markets compared to recent years. New federal laws such as the Dodd-Frank Act, or new state laws and regulations regarding lending and funding practices and liquidity standards may negatively affect our business. Financial institution regulatory agencies are expected to be very aggressive in responding to concerns and trends identified in examinations. Negative developments in the financial services industry and the impact of new legislation in response to those developments could negatively impact our operations by restricting our business operations, including our ability to originate or sell loans, and adversely impact our financial performance. See the Section of this Report entitled "Business - The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010."

Changes in interest rates could reduce our income and cash flows.

Our income and cash flow and the value of our assets and liabilities depend to a great extent on the difference between the interest rates earned on interest-earning assets such as loans and investment securities, and the interest rates paid on interest-bearing liabilities such as deposits and borrowings. These rates are highly sensitive to many factors which are beyond our control, including general economic conditions and policies of various governmental and regulatory agencies, in particular, the Board of Governors of the Federal Reserve System. Changes in monetary policy, including changes in interest rates, will influence the origination of loans, the returns on our portfolio of investment securities and the amounts paid on deposits. If the rate of interest we pay on deposits and other borrowings increases more than the rate of interest we earn on loans and other investments, our net interest income, and therefore our earnings, could be adversely affected. In addition, there is a risk that certain deposits would not be renewed. Our earnings could also be adversely affected if the rates on our loans and other investments fall more quickly than those on our deposits and other borrowings. During 2010, interest rates continued at historic lows, a situation which has negatively affected and continues to negatively affect the yield we achieve on interest-earning assets.

Due to the recent downturn in the market, certain of the marketable securities we own may take longer to auction than initially anticipated, if at all.

Since 2008, our portfolio of investment securities includes auction rate securities which have failed to auction due to sell orders exceeding buy orders. Unless we hold these securities to maturity, these funds will not be available to us until a successful auction occurs or a buyer is found outside the auction process. During 2010 and 2009, we recorded approximately $1.2 million and $2.0 million, respectively, in OTTI charges related to auction rate securities.

Declines in value may adversely impact the investment portfolio.

As of December 31, 2010 and 2009, we had approximately $341.8 million and $357.8 million in available for sale and held to maturity investment securities, respectively. We may be required to record OTTI charges on our investment securities if they suffer a decline in value that is related to the credit quality of the issue. Numerous factors, including lack of liquidity for re-sales of certain investment securities, absence of reliable pricing information for investment securities, adverse changes in business climate, adverse actions by regulators, or unanticipated changes in the competitive environment, could have a negative effect on our investment portfolio in future periods. In 2010 and 2009, impairment charges on investment securities were $1.2 million and $17.4, respectively. There can be no assurances that further impairment charges will not have to be recognized.

We operate in a highly regulated environment; changes in laws and regulations and accounting principles may adversely affect us.

We are subject to extensive state and federal regulation, supervision, and legislation which govern almost all aspects of our operations. These laws may change from time to time and are primarily intended for the protection of customers, depositors, and the deposit insurance funds. The impact of any changes to these laws may negatively impact our ability to expand our services and to increase the value of our business. Regulatory authorities have extensive discretion in the exercise of their supervisory and enforcement powers. They may, among other things, impose restrictions on the operation of a banking institution, the classification of assets by such institution and such institution's allowance for loan losses. Regulatory and law enforcement authorities also have wide discretion and extensive enforcement powers under various consumer protection, civil rights and other laws, including the Gramm-Leach-Blilely Act, the Bank Secrecy Act, the Truth-in-Lending Act, the Equal Credit Opportunity Act, the Fair Housing Act and the Real Estate Settlement Procedures Act. These laws also permit private individual and class action lawsuits and provide for the recovery of attorneys fees in certain instances. Any changes to these laws or any applicable accounting principles may negatively impact our results of operations and financial condition.

In May 2009, in connection with the Bank's examination by the Federal Deposit Insurance Corporation (the "FDIC") the Bank received a Joint Memorandum of Understanding (the "MOU") from the FDIC and the New York State Banking Department (the "NYSBD"), which the Bank executed. The MOU sets forth an informal understanding among the Bank, the FDIC and the NYSBD addressing asset quality, loan review, underwriting and administration and certain other concerns identified in the examination. The Bank's board has appointed a committee comprised of three directors to monitor the Bank's compliance. We do not believe that compliance with the MOU will have a material adverse effect on our results of operations or financial condition. As set forth in "Management's Discussion and Analysis of Financial Condition And Results of Operations - Capital Adequacy" and Note N to the Company's consolidated financial statements, the Bank meets the definition of well capitalized for regulatory purposes as of December 31, 2010.

The Dodd-Frank Act may adversely impact our results of operations, financial condition or liquidity.

On July 21, 2010 the Dodd-Frank Act was signed into law by President Obama. The Dodd-Frank Act represents a comprehensive overhaul of the financial services industry within the United States, establishes a new federal Bureau, and will require the Bureau and other federal agencies to implement many new and significant rules and regulations. At this time it is difficult to predict the extent to which the Dodd-Frank Act or the resulting rules and regulations will impact our business. Compliance with these new laws and regulations will likely result in additional costs, and may adversely impact our results of operations, financial condition or liquidity. See the Section of this Report entitled "Business - The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010."

We are required to maintain an allowance for loan losses. These reserves are based on management's judgment and may have to be adjusted in the future. Any adjustment to the allowance for loan losses, whether due to regulatory changes, economic conditions or other factors, may affect our financial condition and earnings.

We maintain an allowance for loan losses at a level believed adequate by management to absorb losses specifically identifiable and inherent in the loan portfolio. In conjunction with an internal loan review function that operates independently of the lending function, management monitors the loan portfolio to identify risks on a timely basis so that an appropriate allowance can be maintained. Based on an evaluation of the loan portfolio, management presents a periodic review of the loan loss reserve to the board of directors of the Bank, indicating any changes in the reserve since the last review and any recommendations as to adjustments in the reserve. In making its evaluation, in addition to the factors discussed below, management considers the results of recent regulatory examinations, which typically include a review of the allowance for loan losses as an integral part of the examination process.

In establishing the allowance, management evaluates individual large classified loans and nonaccrual loans, and determines an aggregate reserve for those loans based on that review. An allowance for the remainder of the loan portfolio is also determined based on historical loss experience within the components of the portfolio. These reserves may be modified if current conditions indicate that loan losses may differ from historical experience, based on economic factors and changes in portfolio mix and volume.

In addition, a portion of the allowance is established for losses inherent in the loan portfolio which have not been identified by the more quantitative processes described above. This determination inherently involves a higher degree of subjectivity, and considers risk factors that may not have yet manifested themselves in historical loss experience. Those factors include changes in levels and trends of charge-offs, delinquencies, and nonaccrual loans, trends in volume and terms of loans, changes in underwriting standards and practices, portfolio mix, tenure of loan officers and management, entrance into new geographic markets, changes in credit concentrations, and national and local economic trends and conditions. While the allowance for loan losses is maintained at a level believed to be adequate by management for estimated losses in the loan portfolio, determination of the allowance is inherently subjective, as it requires estimates, all of which may be susceptible to significant change. Changes in these estimates may impact the provisions charged to expense in future periods. Federal and state regulatory authorities, as an integral part of their examination process, review our loans and allowance for loan losses. We cannot assure you that we will not increase the allowance for loan losses or the regulators will not require us to increase this allowance. Either of these occurrences could negatively impact Berkshire Bancorp's results of operations.

We may be adversely affected by the soundness of other financial institutions.

Financial services institutions are interrelated as a result of trading, clearing, counterparty, or other relationships. We have exposure to many different industries and counterparties, and routinely execute transactions with counterparties in the financial service industry, including the Federal Home Loan Bank of New York (the "FHLBNY"), commercial banks, brokers and dealers, investment banks, and other institutional clients. Many of these transactions expose us to credit risk in the event of a default by a counterparty or client. In addition, our credit risk may be exacerbated when the collateral held by us cannot be realized or is liquidated at prices not sufficient to recover the full amount due to us. Any such losses could have a material adverse effect on our financial condition and results of operations.

It may be difficult for a third party to acquire us and this could depress our common stock price.

Under our amended and restated certificate of incorporation, we have authorized 2,000,000 shares of preferred stock, of which 60,000 shares have been designated as Series A Preferred Stock, and of which the remaining 1,940,000 shares may be issued by the board of directors with terms, rights, preferences and designations as the board of directors may determine and without any vote of the stockholders, unless otherwise required by law. Issuing the preferred stock, depending upon the rights, preferences and designations set by the board of directors, may delay, deter, or prevent a change in control of the Company.

In addition, federal and state banking laws may restrict the ability of the stockholders to approve a merger or business combination or obtain control of the Company. This may tend to make it more difficult for stockholders to replace existing management or may prevent stockholders from receiving a premium for their shares of our common stock.

Issuance of Common Stock Upon Conversion of Series A Preferred Stock and Other Factors Could Depress our Common Stock Price.

At December 31, 2010, there are 60,000 shares of preferred stock outstanding which have been issued to the Company's majority stockholder and two unaffiliated entities. The preferred stock was redeemable by the Company between April 30, 2009 and November 1, 2010 at $1,100 per share. No preferred shares were redeemed during the redemption period. Each preferred share is mandatorily convertible into 123.153 shares of common stock on October 31, 2011. The availability of additional shares for sale in the market could depress our common stock price.

In addition, we have authorized 25,000,000 shares of common stock of which approximately 7,000,000 shares are issued and outstanding. The price of our common stock may be volatile at times since our common stock is thinly traded and one individual owns or controls more than 50% of our outstanding shares. It may be difficult for a stockholder to sell a significant number of shares at a chosen time and/or price or for a third party to purchase sufficient shares on the open market to cause a change in control of the Company, all of which could depress the price of the Company's common stock.

Our stock is not insured by any governmental agency and, therefore, investment in them involves risk.

Our securities are not deposit accounts or other obligation of any bank, and are not insured by the FDIC, or any other governmental agency, and are subject to investment risk, including the possible loss of principal.

Our Series A Preferred Shares impact net income available to our common stockholders and our earnings per share.

As long as there are Series A Preferred Shares outstanding, no dividends may be paid on our Common Stock unless all dividends on the Series A Preferred Shares have been paid in full. The dividends declared on our fixed rate Series A Preferred Shares will reduce the net income available to holders of our Common Stock and our earnings per share of Common Stock. The Series A Preferred Shares will also receive preferential treatment in the event of liquidation, dissolution or winding up of the Company.

Moreover, holders of our Common Stock are entitled to receive dividends only when, as and if declared by our board of directors. We have temporarily ceased paying a dividend on our Common Stock. The absence of cash dividends on our Common Stock could adversely affect the market price.

The Financial Sector Is Experiencing An Economic Downturn. An Increase In The Number of Non-performing Loans Will Have An Adverse Effect On Our Operations.

Virtually all of our real estate loans are secured by real estate in New York. At December 31, 2010, loans secured by real estate, including home equity loans and lines of credit, represented 94% of our total loans. Both nationally and in the State of New York, we are experiencing an economic downturn that is having a significant impact on the prices of real estate and related assets. The residential and commercial real estate sectors have been adversely affected by weakening economic conditions and may negatively impact our loan portfolio. While we believe that our total non-performing loans as a percentage of total assets are relatively low by industry standards, if loans that are currently performing become non-performing, we may need to increase our allowance for loan losses, which would have an adverse impact on our financial condition and results of operations. We added approximately $5.8 million and $9.3 million to the allowance for loan losses during the fiscal years ended December 31, 2010 and 2009, respectively.

Our FDIC Premium Could Be Substantially Higher In The Future, Which Would Have An Adverse Effect On Our Future Earnings.

Our FDIC insurance assessment was $1.6 million for 2010 compared to $1.9 million for 2009. See "Insurance of Accounts."

ITEM 1B. Unresolved Staff Comments.

Not Applicable

ITEM 2. Properties.

The following are Berkshire's and the Bank's principal facilities as of March 18, 2011:

Location	Operations	Approximate Floor Area (Sq. Ft.)	Approximate Annual Lease Rent	Expiration	
New York, NY	Executive Offices	1,500	$ 18,000		(1)(3)
New York, NY	Main Bank Office and Bank Branch	9,729	Owned	March 2013	
Brooklyn, NY	Bank Branch	4,500	$ 263,700	March 2013	
Brooklyn, NY	Bank Branch	2,866	$ 97,900	March 2013	
Brooklyn, NY	Bank Branch	2,592	$ 125,400	December 2012	
Brooklyn, NY	Bank Branch	1,640	$ 85,400	June 2015	
New York, NY	Bank Branch	9,924	$ 417,800	June 2010	(2)(3)
New York, NY	Bank Branch	3,300	$ 69,500	November 2016	(2)(3)
Goshen, NY	Bank Branch	10,680	Owned		
Harriman, NY	Bank Branch	1,623	Owned		
Bloomingburg, NY	Bank Branch	1,530	$ 36,500	August 2015	
Teaneck, NJ	Bank Branch	2,200	$ 46,300	June 2014	

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(1) Rented on a month to month basis from a company affiliated with Mr. Moses Marx, a director of the Company.
(2) Leased from a company affiliated with Mr. Marx, a director of the Company. The lease expired in June 2010 and has not yet been renewed. Rental payments are being made under the terms of the expired lease.
(3) Management believes the annual rent paid is comparable to the annual rent that would be paid to non-affiliated parties in a similar commercial transaction for similar commercial space.

ITEM 3. Legal Proceedings.

In the ordinary course of operations, the Bank is a party to routine litigation involving claims incidental to its banking business. Management believes that no current litigation, threatened or pending, to which we or our assets are a party, poses a substantial likelihood of potential loss or exposure which would have a material adverse effect on the financial condition or results of our operations.

ITEM 4. [Reserved]

PART II

ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

The Company's Common Stock trades on the Nasdaq Global Market under the symbol BERK. The following table sets forth, for the periods indicated, the high and low sales prices for the Company's Common Stock as reported by NASDAQ.

Fiscal Year Ended December 31, 2010	High	Low
January 1, 2010 to March 31, 2010	$ 7.17	$ 5.03
April 1, 2010 to June 30, 2010	6.30	4.58
July 1, 2010 to September 30, 2010	5.47	3.86
October 1, 2010 to December 31, 2010	5.66	3.97

Fiscal Year Ended December 31, 2009	High	Low
January 1, 2009 to March 31, 2009	$ 5.00	$ 3.30
April 1, 2009 to June 30, 2009	6.00	4.00
July 1, 2009 to September 30, 2009	8.98	4.86
October 1, 2009 to December 31, 2009	7.78	5.23

As of the close of business on March 18, 2011, there were 818 holders of record of the Company's Common Stock.

Dividends

For the fiscal years ended December 31, 2010 and 2009, the Company has been deemed to be a PHC, as defined in the Internal Revenue Code. As a PHC, we may be required to pay an additional income tax or issue a dividend to our stockholders in an amount based upon applicable Internal Revenue Code formulas, which is primarily based upon net income. No such dividend was required to be paid in fiscal 2010 or 2009.

On March 31, 2009, the Company announced that it would temporarily suspend its Common Stock dividend policy and not declare or pay a semi-annual dividend in April 2009. Subsequently, the Board of Directors deemed it appropriate to continue the suspension and did not declare or pay cash dividends during the fiscal years ended December 31, 2009 and 2010.

The declaration, payment and amount of such dividends in the future are within the discretion of the Board of Directors and will depend upon our earnings, capital requirements, financial condition and other relevant factors. So long as any Series A Preferred Shares remain outstanding, unless the full dividends for the most recent dividend payment date have been paid or declared, no dividends may be paid or declared on the Company's Common Stock.

On May 15, 2003, The Company's Board of Directors authorized the purchase of up to 450,000 shares of its Common Stock in the open market, from time to time, depending upon prevailing market conditions, thereby increasing the maximum number of shares which may be purchased by the Company from 1,950,000 shares of Common Stock to 2,400,000 shares of Common Stock. From 1990 through December 31, 2008, the Company has purchased a total of 1,898,909 shares of its Common Stock. During fiscal years 2009 and 2010 we did not purchase any shares, and at December 31, 2010 there were 501,091 shares of Common Stock which may yet be purchased under our stock repurchase plan.

Equity Compensation Plans

See Part III, Item 12 for information concerning the Company's equity compensation plans.

ITEM 6. Selected Financial Data

Not Applicable

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis is intended to provide a better understanding of the consolidated financial condition and results of operations of Berkshire Bancorp Inc. and subsidiaries for the fiscal years ended December 31, 2010 and 2009. The discussion should be read in conjunction with the consolidated financial statements and related notes (Notes located in Item 8 herein). Reference is also made to Part I, Item 1 "Business" herein.

Segments

Management has determined that the Company through its wholly owned bank subsidiary, the Bank, operates in one business segment, community banking. The Bank's principal business activity consists of gathering deposits from the general public and investing those deposits in residential and commercial mortgage loans and commercial non-mortgage loans, both unsecured and secured by personal property. In addition, the Bank invests those deposits in debt obligations issued by the U.S. Government, its agencies, business corporations and mortgage-backed securities.

Series A Preferred Shares

On October 31, 2008, the Company sold an aggregate of 60,000 Series A Preferred Shares at $1,000 per share, or $60 million in the aggregate, to the Company's Chairman of the Board and majority stockholder, and two non-affiliated investors. Each Series A Preferred Share bears non-cumulative cash dividends at the rate of 8% per annum, payable quarterly, is mandatorily convertible into 123.153 shares of our Common Stock on October 31, 2011 and was redeemable at the option of the Company between April 30, 2009 and November 1, 2010 at a redemption price of $1,100. No Series A Preferred Shares were redeemed during the redemption period. So long as any share of Series A Preferred Shares remains outstanding, unless the full dividends for the most recent dividend payment date have been paid or declared, no dividends may be paid or declared on the Company's Common Stock. (See Note A of Notes to Consolidated Financial Statements for further discussion of Series A Preferred Shares).

Critical Accounting Policies, Judgments and Estimates

The accounting and reporting policies of the Company conform with accounting principles generally accepted in the United States of America ("U.S. GAAP") and general practices within the financial services industry. The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ from those estimates.

The Company considers that the determination of the allowance for loan losses involves a higher degree of judgment and complexity than any of its other significant accounting estimates. The allowance for loan losses is calculated with the objective of maintaining a reserve level believed by management to be sufficient to absorb estimated credit losses. Management's determination of the adequacy of the allowance is based on periodic evaluations of the loan portfolio and other relevant factors. However, this evaluation is inherently subjective as it requires material estimates, including, among others, expected default probabilities, loss given default, the amounts and timing of expected future cash flows on impaired loans, mortgages, and general amounts for historical loss experience. The process also considers economic conditions, uncertainties in estimating losses and inherent risks in the loan portfolio. All of these factors may be susceptible to significant change. To the extent actual outcomes differ from management estimates, additional provisions for loan losses may be required that would adversely impact earnings in future periods. See further discussion of the allowance for loan losses in "Provision for Loan Losses."

In accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 350, "Intangibles-Goodwill and Other", the Company discontinued the amortization of goodwill resulting from acquisitions. Goodwill is subject to impairment testing at least annually to determine whether charges to the recorded balances are necessary. The Company tests for impairment based on the goodwill maintained at the Bank, the reporting unit. A fair value is determined based on at least one of three various market valuation methodologies. If the fair value of the reporting units exceed the book value, no write-down of recorded goodwill is necessary. If the fair value of the reporting unit is less, an expense may be required on the Company's books to write down the related goodwill to the carrying value. As of December 31, 2010, the goodwill was evaluated for impairment and the Company determined that the recognition of impairment totalling $18.5 million was necessary.

The Company recognizes deferred tax assets and liabilities for the future tax effects of temporary differences, net operating loss carryforwards and tax credits. Deferred tax assets are subject to management's judgment based upon available evidence that future realization is more likely than not. If management determines that the Company may be unable to realize all or part of net deferred tax assets in the future, a direct charge to income tax expense may be required to reduce the recorded value of the net deferred tax asset to the expected realizable amount.

The Company evaluates unrealized losses on securities to determine if any reduction in the fair value is other than temporary. This amount will continue to be dependent on market conditions, the occurrence of certain events or changes in circumstances of the issuer of the security, and the Company's intent and ability to hold impaired investments at the time the valuation is made. If management determines that an impairment in the investment's value is other than temporary, earnings would be charged.

The Company is required to disclose the estimated fair value of its assets and liabilities considered to be financial instruments. For the Company, as for most financial institutions, the majority of its assets and liabilities are considered financial instruments. The Company values those financial assets and financial liabilities in accordance with ASC Topic 820 "Fair Value Measurements and Disclosures." ASC Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, establishes a framework for measuring fair value, and expands disclosures about fair value measurement.

Discussion of Financial Condition and Results of Operations

Overview

Fiscal Year Ended December 31, 2010 Compared to Fiscal Year Ended December 31, 2009. Net loss, before dividends on our Series A Preferred Stock and before benefit for income taxes, for the year ended December 31, 2010 was $15.0 million compared to $15.5 million for the year ended December 31, 2009. Net loss allocated to common stockholders for the fiscal year ended December 31, 2010 was $18.3 million, or $2.59 per common share, compared to $7.0 million, or $1.00 per common share for the fiscal year ended December 31, 2009. Net loans decreased by approximately 16%. Investment securities decreased by approximately 4% and total assets decreased by approximately 9%.

	As of and for the Fiscal Year Ended December 31,		
	2010	2009	% Inc/(Dec)
	(In millions, except per share data and percentages and bank branch information)		
Total Assets	$ 829.9	$ 909.3	(9)%
Loans, net	350.2	418.9	(16)%
Investment Securities	341.9	357.8	(4)%
Total Liabilities	758.3	824.0	(8)%
Deposits	670.1	713.4	(6)%
Borrowings	83.3	103.7	(20)%
Stockholders' Equity	71.6	85.2	(16)%
Total Income	42.1	46.1	(9)%
Interest Income	40.0	45.9	(13)%
Total Expense	57.1	61.6	(7)%
Interest Expense	11.1	17.1	(35)%
Net Interest Income	28.9	28.8	0%
Net (Loss)	(18.3)	(7.0)	161%
(Loss) Per Common Share	(2.59)	(1.00)	159%
Bank Branches	13	13	-

The Company's average balances, interest, and average yields are set forth on the following table (in thousands, except percentages):

	Twelve Months Ended December 31, 2010			Twelve Months Ended December 31, 2009		
	Average Balance	Interest and Dividends	Average Yield/Rate	Average Balance	Interest and Dividends	Average Yield/Rate
INTEREST-EARNING ASSETS:						
Loans (1)	$ 390,253	$ 25,559	6.55 %	$ 448,394	$ 29,777	6.63 %
Investment securities	360,022	14,174	3.94	312,966	15,506	4.95
Other (2)(5)	69,252	262	0.38	61,496	639	1.04
Total interest-earning assets	819,527	39,995	4.88	822,856	45,922	5.58
Noninterest-earning assets	58,617			58,828		
Total Assets	$ 878,144			$ 881,684		
INTEREST-BEARING LIABILITIES:						
Interest bearing deposits	222,872	1,490	0.67	204,629	2,316	1.13
Time deposits	400,586	6,089	1.52	426,892	9,921	2.32
Other borrowings	90,981	3,508	3.86	115,869	4,866	4.20
Total interest-bearing liabilities	714,439	11,087	1.55	747,390	17,103	2.29
Demand deposits	69,963			56,544		
Noninterest-bearing liabilities	7,508			8,701		
Stockholders' equity (5)	86,234			69,049		
Total liabilities and stockholders' equity	$ 878,144			$ 881,684		
Net interest income		$ 28,908			$ 28,819	
Interest-rate spread (3)			3.33 %			3.29 %
Net interest margin (4)			3.53 %			3.50 %
Ratio of average interest-earning assets to average interest bearing liabilities	1.15			1.10		

(1) Includes nonaccrual loans.
(2) Includes interest-bearing deposits, federal funds sold and securities purchased under agreements to resell.
(3) Interest-rate spread represents the difference between the average yield on interest-earning assets and the average cost of interest bearing liabilities.
(4) Net interest margin is net interest income as a percentage of average interest-earning assets.
(5) Average balances for Berkshire Bancorp Inc. (parent only) have been calculated on a monthly basis.

Changes in net interest income may be analyzed by segregating the volume and rate components of interest income and interest expense. The following tables set forth certain information regarding changes in interest income and interest expense of the Company for the years indicated. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (1) changes in rate (change in rate multiplied by prior volume), (2) changes in volume (changes in volume multiplied by prior rate) and (3) changes in rate-volume (change in rate multiplied by change in volume) (in thousands):

	Twelve Months Ended December 31, 2010 Versus Twelve Months Ended December 31, 2009 Increase (Decrease) Due To		
	Rate	Volume	Total
Interest-earning assets:			
Loans	$ (359)	$ (3,859)	$ (4,218)
Investment securities	(3,161)	1,829	(1,332)
Other	(406)	29	(377)
Total	(3,926)	(2,001)	(5,927)
Interest-bearing liabilities:			
Deposit accounts:			
Interest bearing deposits	(941)	115	(826)
Time deposits	(3,415)	(417)	(3,832)
Other borrowings	(394)	(964)	(1,358)
Total	(4,750)	(1,266)	(6,016)
Net interest income	$ 824	$ (735)	$ 89

Provision for Loan Losses.

The allowance for loan losses is the estimated amount considered necessary to cover credit losses inherent in the loan portfolio at the balance sheet date. The allowance is established through the provision for loan losses that is charged against income. In determining the allowance for loan losses, management makes significant estimates which involve a high degree of judgment, subjectivity of the assumptions utilized, and potential for changes in the economic environment that could result in changes to the amount of the recorded allowance for loan losses.

The allowance for loan losses has been determined in accordance with U.S. GAAP, principally FASB ASC 450, "Contingencies", ("ASC 450") and FASB ASC 310, "Receivables", ("ASC 310"). Under the above accounting principles, we are required to maintain an allowance for probable losses at the balance sheet date. We are responsible for the timely and periodic determination of the amount of the allowance required. Management believes that the allowance for loan losses is adequate to cover specifically identifiable losses, as well as estimated losses inherent in our portfolio for which certain losses are probable but not specifically identifiable.

Management performs a monthly evaluation of the adequacy of the allowance for loan losses. The analysis of the allowance for loan losses has two components: specific and general reserves. Specific reserves are made for loans determined to be impaired. Impairment is measured by determining the present value of expected future cash flows or, as a practical expedient for collateral-dependent loans, the fair value of the collateral adjusted for market conditions and selling expenses. The Bank considers its investment in one-to-four family real estate loans and consumer loans to be smaller balance homogeneous loans and therefore excluded from separate identification for evaluation of impairment. These homogeneous loan groups are evaluated for impairment on a collective basis under ASC 310.

The general reserve is determined by segregating the remaining loans by type of loan, risk weighting (if applicable) and payment history. Management also analyzes historical loss experience, delinquency trends, general economic conditions, geographic concentrations, and industry and peer comparisons. This analysis establishes factors that are applied to the loan segments to determine the amount of the general reserves. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revisions based upon changes in economic and real estate market conditions. Actual loan losses may be significantly more than the allowance for loan losses management has established which could have a material negative effect on the Company's financial results.

On a monthly basis, the Bank's management committee reviews the current status of various loan assets in order to evaluate the adequacy of the allowance for loan losses. In this evaluation process, specific loans are analyzed to determine their potential risk of loss. This process includes all loans, concentrating on non-accrual and classified loans. Each non-accrual or classified loan is evaluated for potential loss exposure. Any shortfall results in a recommendation of a specific allowance if the likelihood of loss is evaluated as probable. To determine the adequacy of collateral on a particular loan, an estimate of the fair market value of the collateral is based on the most current appraised value available. This appraised value is then reduced to reflect estimated liquidation expenses.

As a substantial amount of our loan portfolio is collateralized by real estate, appraisals of the underlying value of property securing loans are critical in determining the amount of the allowance required for specific loans. Assumptions for appraisal valuations are instrumental in determining the value of properties. Overly optimistic assumptions or negative changes to assumptions could significantly impact the valuation of a property securing a loan and the related allowance determined. The assumptions supporting such appraisals are carefully reviewed by management to determine that the resulting values reasonably reflect amounts realizable on the related loans. Based on the composition of our loan portfolio, management believes the primary risks are increases in interest rates, a decline in the economy, generally, and a decline in real estate market values in the New York metropolitan area. Any one or combination of these events may adversely affect our loan portfolio resulting in increased delinquencies, loan losses and future levels of loan loss provisions. Management believes the allowance for loan losses reflects the inherent credit risk in our portfolio, the level of our non-performing loans and our charge-off experience.

A loan is considered nonperforming when it becomes delinquent ninety days or when other adverse factors become known to us. We generally order updated appraisals from independent third party licensed appraisers at the time the loan is identified as nonperforming. Depending upon the property type, we receive appraisals within thirty to ninety days from the date the appraisals are ordered. Upon receipt of the appraisal, which is discounted by us to take account of estimated selling and other holding costs, we compare the adjusted appraisal amount to the carrying amount of the real estate dependent loan and record any impairment through the allowance for loan loss at that time.

The majority of our real estate dependent loans are concentrated in the New York City metropolitan area, we do not make adjustments to the appraisals for this concentration. We do not increase the appraised value of any property. Any adjustments we make to the appraisals are to decrease the appraised value due to selling and other holding costs.

Although management believes that we have established and maintained the allowance for loan losses at adequate levels, additions may be necessary if future economic and other conditions differ substantially from the current operating environment. Although management uses what it believes is the best information available, the level of the allowance for loan losses remains an estimate that is subject to significant judgment and short-term change. In addition, the Federal Deposit Insurance Corporation, New York State Banking Department, and other regulatory bodies, as an integral part of their examination process, will periodically review our allowance for loan losses. Such agencies may require us to recognize adjustments to the allowance based on its judgments about information available to them at the time of their examination.

Results of Operations Fiscal Year Ended December 31, 2010 Compared to Fiscal Year Ended December 31, 2009.

Net Loss Allocated to Common Stockholders. Net loss allocated to common stockholders for the fiscal year ended December 31, 2010 was $18.3 million, or $2.59 per common share, as compared to $7.0 million, or $1.00 per common share, for the fiscal year ended December 31, 2009. The net loss allocated to common stockholders was primarily due to the write-off of goodwill of $18.5 million, or $2.63 per common share, the other than temporary impairment ("OTTI") charges on securities of $1.2 million, or $0.17 per common share, the loss on the termination of our pension plan of $1.9 million, or $0.27 per common share and dividends on our Series A Preferred Stock of $4.8 million, or $0.68 per common share, partially offset by the benefit for income taxes of $1.5 million, or $0.21 per common share.

The net loss allocated to common stockholders in fiscal 2009 was primarily due to OTTI charges on securities of $17.4 million, or $2.47 per common share, and dividends on our Series A Preferred Stock of $4.8 million, or $0.68 per common share, partially offset by the benefit for income taxes of $13.2 million, or, $1.87 per common share. The OTTI charge was due to our investment, directly and indirectly through auction rate securities, in preferred shares of Fannie Mae and Freddie Mac. These government sponsored agencies were placed into conservatorship by the federal government in September 2008 resulting in, among other things, the suspension of dividend payments.

In January 2009, the Bank filed an arbitration proceeding with the Financial Industry Regulatory Authority against the issuing financial institution of the auction rate securities in our investment portfolio. The outcome of the arbitration process, scheduled for July of 2011, and the amount we may recover, if any, is uncertain at this time.

The Company's net income is largely dependent on interest rate levels, the demand for the Company's loan and deposit products and the strategies employed to manage the interest rate and other risks inherent in the banking business.

Interest Income. Total interest income for the fiscal year ended December 31, 2010 decreased by $5.9 million to $40.0 million from $45.9 million for the fiscal year ended December 31, 2009. The decrease in total interest income in fiscal 2010 was primarily due to the $3.3 million decrease in the average amount of interest-earning assets to $819.5 million in fiscal 2010 from $822.9 million in fiscal 2009 and the decrease in the average yield on interest-earning assets to 4.88% from 5.58% in fiscal 2010 and 2009, respectively.

The following table presents the composition of interest income for the indicated periods:

	Fiscal 2010		Fiscal 2009	
	Interest Income	% of Total	Interest Income	% of Total
	(In thousands, except percentages)			
Loans	$ 25,559	63.90 %	$ 29,777	64.84 %
Investment Securities	14,174	35.44	15,506	33.77
Other	262	0.66	639	1.39
Total Interest Income	$ 39,995	100.00 %	$ 45,922	100.00 %

Loans, which are inherently risky and therefore command a higher return than our portfolio of investment securities and other interest-earning assets, decreased to 47.6% of total average interest-earning assets during fiscal 2010 from 54.5% of total interest-earning assets during fiscal 2009. The average amounts of investment securities increased to 43.9% of total average interest-earning assets during fiscal 2010 from 38.0% of total interest-earning assets during fiscal 2009. While we actively seek to originate new loans with qualified borrowers who meet the Bank's underwriting standards, our strategy has been to maintain those standards, sacrificing some current income to avoid possible large future losses in the loan portfolio.

At December 31, 2010, our portfolio of investment securities included approximately $74.0 million at cost of auction rate securities and approximately $21.3 million at cost of corporate notes, including single issuer and pooled trust preferred securities. The fair value of these securities, presently $62.1 million and $14.9 million, respectively, could be negatively impacted in the future. Were this to occur, we may be required to reflect a write down of certain of our securities in future periods as a charge to earnings if any of these securities are deemed to be other than temporarily impaired. Such impairment charge could be material to our results of operations.

As required by FASB ASC 320, "Investments-Debt and Equity Securities", securities are classified into three categories: trading, held-to-maturity and available-for-sale. Securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and are reported at fair value with unrealized gains and losses included in trading account activities in the statement of income. Securities that the Bank has the positive intent and ability to hold to maturity are classified as held-to-maturity and reported at amortized cost. All other securities are classified as available-for-sale. Available-for-sale securities are reported at fair value with unrealized gains and losses included, on an after-tax basis, as a separate component of stockholders' equity. The Company does not have a trading securities portfolio and has no current plans to maintain such a portfolio in the future. The Company generally classifies all newly purchased debt securities as available for sale in order to maintain the flexibility to sell those securities if the need arises. The Bank has a limited portfolio of securities classified as held to maturity, represented principally by securities purchased a number of years ago.

Federal Home Loan Bank Stock. The Bank owns stock of the FHLBNY which is necessary for it to be a member of the FHLBNY. Membership requires the purchase of stock equal to 0.20% of the Bank's mortgage related assets (investments and loans) plus 4.5% of the outstanding borrowings. The stock is redeemable at par. Therefore, its cost is equivalent to its redemption value. The Bank's ability to redeem FHLBNY shares is dependent upon the redemption practices of the FHLBNY. At December 31, 2010, the FHLBNY neither placed restrictions on redemption of shares in excess of a member's required investment in stock, nor stated that it will cease paying dividends. The Bank did not consider this asset impaired at either December 31, 2010 or 2009.

The following table presents the composition of average interest-earning assets for the indicated periods:

	Fiscal 2010		Fiscal 2009	
	Average Amount	% of Total	Average Amount	% of Total
	(In thousands, except percentages)			
Loans	$ 390,253	47.62 %	$ 448,394	54.50 %
Investment Securities	360,022	43.93	312,966	38.03
Other	69,252	8.45	61,496	7.47
Total Interest-Earning Assets	$ 819,527	100.00 %	$ 822,856	100.00 %

Interest Expense. Total interest expense for the fiscal year ended December 31, 2010 decreased by $6.0 million to $11.1 million from $17.1 million for the fiscal year ended December 31, 2009. The decrease in total interest expense was due to the $33.0 million decrease in the average amounts of interest-bearing liabilities to $714.4 million during fiscal 2010 from $747.4 million during fiscal 2009 and the decrease in the average rates paid on such liabilities to 1.55% from 2.29% during fiscal years 2010 and 2009, respectively.

The following table presents the composition of interest expense for the indicated periods:

	Fiscal 2010		Fiscal 2009	
	Interest Expense	% of Total	Interest Expense	% of Total
	(In thousands, except percentages)			
Interest-Bearing Deposits	$ 1,490	13.44 %	$ 2,316	13.54 %
Time Deposits	6,089	54.92	9,921	58.01
Other Borrowings	3,508	31.64	4,866	28.45
Total Interest Expense	$ 11,087	100.00 %	$ 17,103	100.00 %

The following table presents the composition of average interest-bearing liabilities for the indicated periods:

	Fiscal 2010		Fiscal 2009	
	Average Amount	% of Total	Average Amount	% of Total
	(In thousands, except percentages)			
Interest-Bearing Deposits	$ 222,872	31.20 %	$ 204,629	27.38 %
Time Deposits	400,586	56.07	426,892	57.12
Other Borrowings	90,981	12.73	115,869	15.50
Total Interest-Bearing Liabilities	$ 714,439	100.00 %	$ 747,390	100.00 %

Net Interest Income. The Company's primary source of revenue is net interest income, or the difference between interest income earned on interest-earning assets, such as loans and investment securities, and interest expense on interest-bearing liabilities such as deposits and borrowings. The amount of interest income is dependent upon many factors including: (i) the amount of interest-earning assets that the Company can maintain based upon its funding sources; (ii) the relative amounts of interest-earning assets versus interest-bearing liabilities; and (iii) the difference between the yields earned on those assets and the rates paid on those liabilities. Non-performing loans adversely affect net interest income because they must still be funded by interest-bearing liabilities, but they do not provide interest income. Furthermore, when we designate an asset as non-performing, all interest which has been accrued but not actually received is deducted from current period income, further reducing net interest income.

For the fiscal year ended December 31, 2010, net interest income increased by approximately $89,000 to $28.9 million from $28.8 million for the fiscal year ended December 31, 2009. The increase in net interest income in fiscal 2010 was due to the decrease in the average amount of interest-bearing liabilities, the decrease in interest expense and the decrease in the average rates paid on interest-bearing liabilities as discussed above. The Company's interest-rate spread, the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities, increased by 4 basis points to 3.33% during fiscal 2010 from 3.29% during fiscal 2009.

Net Interest Margin. Net interest margin, or net interest income as a percentage of average interest-earning assets, increased by 3 basis points to 3.53% during fiscal 2010 from 3.50% during fiscal 2009. We seek to secure and retain customer deposits with competitive products and rates, while making strategic use of the prevailing interest rate environment to borrow funds at what we believe to be attractive rates. We invest such deposits and borrowed funds in what we believe to be a prudent mix of fixed and adjustable rate loans, investment securities and short-term interest-earning assets. The increase in net interest margin during fiscal 2010 was primarily due to the decrease in interest expense.

Non-Interest Income. Non-interest income consists primarily of realized gains on sales of marketable securities and service fee income. For the fiscal year ended December 31, 2010, total non-interest income increased by $1.9 million to $2.1 million from $197,000 for the fiscal year ended December 31, 2009. The increase was due to the $1.0 million gain on the sales of marketable securities in fiscal 2010 compared to a loss of $860,000 on such sales during fiscal 2009.

The following table presents the composition of non-interest income for the indicated periods:

	Fiscal 2010		Fiscal 2009	
	Non-Interest Income	% of Total	Non-Interest Income	% of Total
	(In thousands, except percentages)			
Service Charges on Deposits	$ 515	24.00 %	$ 490	248.73 %
Investment Securities Gains (Losses)	1,002	46.69	(860)	(436.55)
Other	629	29.31	567	287.82
Total Non-Interest Income	$ 2,146	100.00 %	$ 197	100.00 %

Non-Interest Expense. Non-interest expense includes salaries and employee benefits, occupancy and equipment expenses, legal and professional fees, other operating expenses associated with the day-to-day operations of the Company and OTTI charges on investment securities. Total non-interest expense for the fiscal years ended December 31, 2010 and 2009 was $40.3 million and $35.2 million, respectively, including OTTI charges on investment securities of $1.2 million and $17.4 million, respectively. Excluding the OTTI charges, the one time charge of $1.9 million resulting from the termination of our pension plan and the charge of $18.5 million for the write-off of goodwill in fiscal 2010, total non-interest expense during fiscal 2010 increased by $925,000 to $18.7 million from $17.7 million during fiscal 2009.

During the third quarter of fiscal 2010, the Company determined to close its bank branch in Ridgefield, NJ. Based upon an appraisal of the property, we recorded an impairment charge of $380,000 at December 31, 2010, included in other non-interest expense. The increase in other expense during fiscal 2010 was also due to a fraud perpetrated on the Company by unknown persons resulting in a loss to the Company of $250,000.

The following table presents the composition of non-interest expense for the indicated periods.

	Fiscal 2010 Non-Interest Expense	Fiscal 2010 % of Total		Fiscal 2009 Non-Interest Expense	Fiscal 2009 % of Total	
	(In thousands, except percentages)					
Salaries and Employee Benefits	$9,442	23.44	%	$9,517	27.06	%
Net Occupancy Expense	2,109	5.24		2,150	6.11	
Equipment Expense	360	0.89		378	1.07	
FDIC Assessment	1,646	4.09		1,928	5.48	
Data Processing Expense	489	1.21		452	1.29	
Other than temporary impairment charges on securities	1,202	2.98		17,435	49.58	
Loss on termination of pension plan	1,871	4.64		—		
Write-off goodwill	18,549	46.05		—		
Other	4,615	11.46		3,311	9.41	
Total Non-Interest Expense	$40,283	100.00	%	$35,171	100.00	%

Provision for Income Tax. For the fiscal year ended December 31, 2010, the Company recorded a benefit for income taxes of $1.5 million compared to a benefit for income taxes of $13.2 million for the fiscal year ended December 31, 2009.

The tax benefit in fiscal 2010 relates to the loss before provision for income taxes and the decrease in the valuation allowance, offset by significant permanent item add backs mainly related to the goodwill write-off.

The tax benefit in fiscal 2009 includes the benefit from the actual losses realized on sales of investment securities.

Investment Activities

General. The investment policy of the Bank is designed primarily to provide satisfactory yields while maintaining adequate liquidity, a balance of high quality, diversified investments, and minimal risk. The Bank does not, as a rule, invest in equity securities. However, the Company does invest in some equity securities. The largest component of the Bank's investments, representing more than 50% of total investment securities, are debt securities issued by U.S. Government agencies including Freddie Mac, Fannie Mae or the Government National Mortgage Association ("Ginnie Mae"). The remainder of the Bank's debt securities investments are primarily short term debt securities issued by the United States or its agencies. The Bank maintains a portfolio of high-yield corporate debt securities. Recognizing the higher credit risks of these securities, the Bank underwrites these securities in a manner similar to its loan underwriting procedures.

The following is a summary of held to maturity investment securities:

	December 31, 2010			
	Amortized Cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(In thousands)			
U.S. Government Agencies	$ 319	$ 1	$ (4)	$ 316

	December 31, 2009			
	Amortized Cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(In thousands)			
U.S. Government Agencies	$ 340	$ —	$ (3)	$ 337

The following is a summary of available-for-sale investment securities:

	December 31, 2010			
	Amortized Cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(In thousands)			
U.S. Treasury Notes	$ 50,015	$ 61	$ —	$ 50,076
U.S. Government Agencies	88,469	591	(1,533)	87,527
Mortgage-backed securities	117,724	4,099	(686)	121,137
Corporate notes	13,773	44	(639)	13,178
Single Issuer Trust Preferred CDO	1,023	271	—	1,294
Pooled Trust Preferred CDO	6,459	—	(6,000)	459
Municipal securities	2,632	102	(46)	2,688
Auction rate securities	73,993	397	(12,311)	62,079
Marketable equity securities and other	2,810	316	—	3,126
Totals	$ 356,898	$ 5,881	$ (21,215)	$ 341,564

	December 31, 2009			
	Amortized Cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(In thousands)			
U.S. Treasury Notes	$ 50,236	$ 35	$ (65)	$ 50,206
U.S. Government Agencies	76,259	59	(793)	75,525
Mortgage-backed securities	134,810	1,943	(710)	136,043
Corporate notes	19,029	1,011	(2,311)	17,729
Single Issuer Trust Preferred CDO	1,021	—	—	1,021
Pooled Trust Preferred CDO	6,463	—	(6,313)	150
Municipal securities	1,973	198	—	2,171
Auction rate securities	78,895	—	(11,953)	66,942
Marketable equity securities and other	7,648	69	(26)	7,691
Totals	$ 376,334	$ 3,315	$ (22,171)	$ 357,478

Management uses a multi-factor approach to determine whether each investment security in an unrealized loss position is other-than-temporarily impaired ("OTTI"). An unrealized loss position exists when the current fair value of an investment is less than its amortized cost basis. The valuation factors utilized by management incorporate the ideas and concepts outlined in relevant accounting guidance. These include such factors as:

*The length of time and the extent to which the market value has been less than cost;

*The financial condition of the issuer of the security as well as the near and long-term prospect for the issuer;

*The rating of the security by a national rating agency;

*Historical volatility and movement in the fair market value of the security; and

*Adverse conditions relative to the security, issuer or industry.

The following table shows the outstanding auction rate securities at December 31, 2010 and 2009:

	2010		2009	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
Federal Home Loan Mortgage Corporation Preferred Shares	$ 693	$ 1,089	$ 1,895	$ 1,895
Preferred Shares of Money Center Banks	71,300	58,990	75,000	63,047
Public Utility Debt and Equity Securities	2,000	2,000	2,000	2,000
Totals	$ 73,993	$ 62,079	$ 78,895	$ 66,942

The fair value of the auction rate securities is determined by Management using a discounted cash flow analysis and by valuing the underlying security. The auction rate securities allow for conversion to the underlying preferred security after two failed auctions. As of December 31, 2010, there have been more than two failed auctions for all outstanding auction rate securities. Because of the lack of liquidity in the market for the auction rate securities as compared to the market for the underlying preferred shares and as there is a possibility of an orderly transaction and market for the underlying preferred shares without significant adjustment to their carrying value, we considered the market value of the underlying preferred shares to be more objective and relevant. For the

public utility debt and equity securities, the security is collateralized by a mutual fund in which the majority of the investments are public utility debt and equity securities. As this fund, as well as other mutual funds for public utilities, has not been severely impacted by the market dislocation, these funds, and consequently our auction rate securities, have continued to perform. The final market sector, noted above as "other", is collateralized by long term debt of a seasoned issuer that deals in business machinery.

In determining whether there is an OTTI, Management considers the factors noted above. The financial performance indicators we review include, but are not limited to, net earnings, change in liquidity, and change in cash from operating activities, and, for money center banks, the regulatory capital ratios and the allowance for loan losses to the nonperforming loans. Through December 31, 2010, the auction rate securities have continued to pay interest at the highest rate as stipulated in the original prospectus, except for the Federal Home Loan Mortgage Corporation ("Freddie Mac").

In addition to valuing the auction rate securities (ARS) by valuing the collateral, we completed discounted cash flow analyses. In determining the appropriate cash flow analysis for our auction rate securities, the Company reviewed multiple factors and prepared multiple discounted cash flow analyses. The four main factors affecting our cash flow analysis for each ARS were: the expected future interest rate of the ARS, the expected holding period, the expected principal to be received at the end of the holding period, and an assumed discount rate.

In determining the expected future interest rate, we used the current ARS rate at December 31, 2010 and kept the rate constant for future cash flow estimates. The current rates being paid on the majority of these securities are the maximum penalty rate and we believe that these rates will not change significantly in the future. In addition, if the rates do increase or decrease in future periods, we believe that this would increase or decrease the risk profile of these securities which would cause a corresponding change in the discount rate assumption so the discounted cash flow analysis would not be significantly affected by interest rate changes.

In determining the expected holding period of each security using discounted cash flow analysis, we ran several scenarios. These scenarios included holding the security until the trust dissolution date (maturity date), and a five year scenario, inasmuch as we believe five years from December 31, 2010 would be the earliest that the ARS market may resume the normal auction process.

The expected principal that we would receive in the discounted cash flow analysis was based upon two scenarios. These scenarios included receiving par at the maturity date and at the five-year assumed recovery date and receiving the market value of the underlying preferred shares at the maturity date and at the five-year assumed recovery date. Under the terms of the ARS agreements, we would receive the assets of the Trust at the trust dissolution date which would constitute a conversion to the underlying preferred shares.

Finally, in determining the discount rate, we reviewed numerous industry rates and determined a separate discount rate for each ARS as follows: We obtained the 10 year credit default swap spread for each of the underlying issuers (we believed that this was the most readily available information that would most closely represent an equivalent yield). We then adjusted this rate by 50 - 100 basis points depending on how far out the actual maturity date was in excess of 10 years (maturity dates range from approximately 15 years to 25 years). We then added the 15-year swap rate at December 31, 2010, and finally added 50 or 100 basis points for the illiquidity and other market risks. The liquidity factor applied to these securities was based on the credit rating of the security (50 basis points for securities above investment grade and 100 basis points for securities slightly below investment grade). The final discount rates ranged from 3.5% - 6.8%.

For the Freddie Mac securities that we are holding as of December 31, 2010, we did not perform a discounted cash flow analysis. These securities are no longer paying interest so a discounted cash flow analysis would show a value far less than what would be an appropriate fair value. We believe that for these securities an analysis of the underlying value of the preferred shares is the best way to value these securities.

Based on these analyses, the discounted cash flows ranged from a total of approximately $58.4 million to $73.7 million. We believe that of these scenarios, the most likely scenario as of December 31, 2010 is that we will hold these securities to the maturity based on the high interest rates and will receive par. However, we also verified the reasonableness of the value by analyzing receipt of the fair value of the underlying preferred securities at maturity. The calculated fair values using the par value approach was $63.2 million as compared to $62.1 million using the underlying preferred securities. The current fair value that the Bank has recorded for the ARS portfolio based on the value of the underlying securities is approximately $62.1 million. As our current fair value falls within the range of the discounted cash flows analyses performed and higher than the most likely scenarios, we believe that our current fair value is an appropriate representation of what a willing market participant would pay for these securities and is an accurate estimate of our ARS fair value at December 31, 2010.

Based upon our methodology for determining the fair value of the auction rate securities, we recorded an OTTI charge of $1.2 million for the year ended December 31, 2010 and an OTTI charge totaling $2.0 million related to the Freddie Mac auction rate securities for the year ended December 31, 2009. We concluded that, as of December 31, 2010 and 2009, the unrealized loss for the remainder of the auction rate securities is due to the market interest volatility, the continued illiquidity of the auction rate markets, and uncertainty in the financial markets as there has not been a deterioration in the credit quality of the issuer of the auction rate securities or a downgrade of the auction rate security from investment grade. It is not more likely than not that the Company would be required to sell the auction rate securities prior to recovery of the unrealized loss, nor does the Company intend to sell the security at the present time.

At December 31, 2010, we had six auction rate securities totaling $21.0 million which were below investment grade. At December 31, 2009, we had six auction rate securities totaling $25.9 million which were below investment grade.

During the year ended December 31, 2010 no auction rate securities were redeemed. During the year ended December 31, 2009, approximately $18.0 million of auction rate securities were redeemed with no gain or loss recognized. During fiscal year 2010, $3.7 million of auction rate securities were sold at auction with no gain or loss recognized on the sale. During the year ended December 31, 2009, $2.2 million of Federal National Mortgage Association (Fannie Mae) auction rate securities were converted into the underlying preferred shares and simultaneously sold recognizing a loss totaling $1.4 million.

At both December 31, 2010 and 2009, we had a trust preferred security issued by a non-registrant regional bank with an amortized cost of $1.0 million (after OTTI charges) and $2.9 million, respectively, and a fair value of $1.3 million and $1.2 million, respectively. There are no tranches associated with this security. When this asset was acquired it was an investment grade security but has subsequently deteriorated to a non-rated security. The issuer of this security is experiencing deterioration of its loan portfolio and net losses, but appears to be prepared to rectify these adverse conditions as the controlling family contributed sufficient amounts to ensure this institution remains well capitalized. This security has not defaulted nor deferred any interest payments as all interest has been paid as contractually stipulated. Based on an evaluation of the OTTI factors (as fully described above) during the year ended December 31, 2009, the Company recorded a credit related OTTI charge of $1.9 million. The OTTI charge was determined using a price quote from an independent broker (Level 2) as compared to the amortized cost as of December 31, 2009.

At both December 31, 2010 and 2009, we had one pooled trust preferred CDO ("TPCDO") with an amortized cost of $6.5 million (after OTTI charges) and a fair value of $458,000 and $150,000, respectively. We own a Class B tranche of the TPCDO, which was considered below investment grade at both December 31, 2010 and 2009. During the year ended December 31, 2009, we recognized a credit related impairment charge totaling $3.5 million to reduce the amortized cost to $6.5 million. At December 31, 2010, we obtained discounted cash flow scenarios from independent third parties. We used the most conservative result in order to value our TPCDO, which we believe also reflects the most likely expected cash flow. The factors used to value the TPCDO were a discount rate of 1.9%, a prepayment speed of 0.00%, and default ratios based upon the Texas ratios as noted.

Historically, there have been no prepayments on this security but the issuers into the TPCDO can prepay at their discretion after January 2008. We used prepayment speed range of 0% to 1% in the cash flow analyses. The cash flow analysis that we utilized in valuing the TPCDO used a 0% prepayment speed for the next two years. As there have been no prepayments and we continue to expect the underlying issuers in the TPCDO to focus on improving capital and liquidity, we expect prepayments to be minimal on this security. We factored in a nominal prepayment assumption into our cash flow analysis as the underlying issuers have the right to prepay.

The discount rate used in our analysis was the effective interest rate implicit in the security at the date of acquisition.

For purposes of completing the cash flow analysis, defaults and deferrals are treated in the same manner. At December 31, 2010 and 2009, there were five institutions in deferral status which were excluded from the discounted cash flow analysis. In order to estimate potential defaults and deferrals we segregated the underlying issuers by their Texas ratio. This ratio is a key indicator of the health of an institution and the likelihood of failure or deferral of payments. We also reviewed other factors of each institution (ie: capital amounts and operating results) to determine the likelihood of failure or deferral. Based on each issuers Texas ratio and other mitigating factors, we applied an expected deferral/default rate to each underlying issuer. For the riskiest issuers (Texas ratios greater than 100, current deferrals) with no mitigating factors a 100% default assumption was applied. For the institutions with certain risk factors (Texas ratios of 50 to 100) with no mitigating factors a 25% default assumption was applied. For the least risky institutions (Texas ratios less than 50) no default assumption was applied. Based on industry analysis we determined that a Texas ratio of 100 or higher is a good indicator of a troubled institution and a Texas ratio of 50 to 100 indicated certain risks. The default assumptions were an estimate of the likelihood of deferral/default based on industry statistics and the actual deferral rates that have occurred in this pooled security.

Based upon the discounted cash flow analysis performed, there was no credit related OTTI for the year ended December 31, 2010 compared to $3.5 million for this security for the year ended December 31, 2009.

The table below reflects the number and amount of single issue debt securities below investment grade and the lowest rating by security type at December 31, 2010 and 2009 (in thousands):

	December 31, 2010			
	Amortized Cost	Fair Value	Unrealized Gain (Loss)	Lowest Credit Rating
Single Issuer Corporate Bonds:				
Student Lender	$ 5,000	$ 4,578	$ (422)	B
Trust Preferred Security	1,023	1,293	270	No rating
Auction Rate Securities:				
Federal Home Loan Mortgage Corporation	693	1,089	396	Ca
Money Center Banks	20,300	14,746	(5,554)	Ba3
Pooled Issuers:				
TPCDO	6,459	458	(6,001)	No rating

	December 31, 2009			
	Amortized Cost	Fair Value	Unrealized Gain (Loss)	Lowest Credit Rating
Single Issuer Corporate Bonds:				
Airline #1	$ 1,597	$ 1,594	$ (3)	Ba2
Airline #2	552	552	—	No rating
Automobile	800	1,506	706	D
Commercial	495	435	(60)	No rating
Student Lender	5,000	3,920	(1,080)	Ba1
Trust Preferred Security	1,021	1,021	—	No rating
Auction Rate Securities:				
Federal Home Loan Mortgage Corporation	1,895	1,895	—	Ca
Money Center Banks	24,000	17,537	(6,463)	Ba3
Pooled Issuers:				
TPCDO	6,463	150	(6,313)	No rating

The below investment grade Federal Home Loan Mortgage Corporation auction rate securities are comprised of two securities. The below investment grade auction rate securities collateralized by preferred shares of money center banks consists of four securities, from two original issuers. In the first quarter of 2009, one of the issuers was acquired by the other.

The below investment grade for the student lender was one factor evaluated in determining whether it was appropriate to recognize an OTTI. We also considered and evaluated analysis prepared by two independent third party analysts and the financial data of the issuer. The financial factors we evaluated included but are not limited to, net income, return on assets, increased cash and cash equivalents, increased originations, and the amount of debt included in current liabilities. We also considered the effects of the student loan overhaul included in the Health Care legislation signed by President Obama in March 2010 which will eliminate the student lender's ability to originate new student loans. Management believes this security has a fair value below cost due to the weak economic environment, high unemployment, slow salary growth, and high consumer debt which has adversely affected income generation of the borrowers. As a result, student loans have exhibited increased delinquency and defaults. The student lender bond the Company owns was purchased in 2004 prior to the current credit crisis and for which the underlying loans are guaranteed by the Federal Government at 98%. Based upon the entirety of the evidence of the student lender corporate bond outlined above, management concluded that OTTI was not appropriate and that the unrealized loss was due to market factors.

At December 31, 2010 and 2009, all other single issuer debt securities had a credit rating of investment grade.

During the year ended December 31, 2009, the Company recorded OTTI charges related to four single issuer corporate bonds totaling $9.1 million. The Company evaluated the length of time and extent the amortized cost exceeded fair value and the credit rating of the issuer. During 2009, two issuers filed for bankruptcy which resulted in a credit related OTTI charge of $7.2 million. The Company concluded that the financial deterioration of these two issuers resulted in a credit loss. The preponderance of the remainder of the loss was due to an airline company bond. The airline company issuer had not shown improved earnings and operations since a merger in the fourth quarter of 2008. Since there was no improvement, the Company concluded full receipt of the principal was unlikely and recorded a credit related OTTI. The amounts of the OTTI charges were determined based upon broker quotes (Level 2).

At December 31, 2010 and 2009, the Company owned preferred and common stock (collectively "equities"). The fair value of the equities was determined by quoted market prices; unrealized gain or loss was determined by comparing the cost of the equity to its fair value. In order to determine whether OTTI should be recognized, we evaluated the length of time and the extent to which the fair value was below cost, the financial condition and near term prospects of the issuer, and the Company's intent and ability to retain the equity security to allow for recovery. Based upon the length of time these securities were in an unrealized loss position, the amount by which the cost exceeded fair value, and the financial prospects of the issuer, we recorded a $0.8 million OTTI charge during the fiscal year ended December 31, 2009. There was no OTTI recognized on equities during the year ended December 31, 2010.

The table below details certain information related to the equity securities as of December 31, 2010 and 2009 (in thousands):

		December 31, 2010		
	Industry	Cost	Fair Value	Unrealized Gain (Loss)
Common	Telecommunications	$ 91	$ 113	$ 22
	Airline	862	1,049	187
Preferred	Airline	61	73	12
	Flooring and other	33	38	5
	Mining	27	118	91

		December 31, 2009		
	Industry	Cost	Fair Value	Unrealized Gain (Loss)
Common	Telecommunications	$ 91	$ 94	$ 3
	Airline	862	862	—
Preferred	Airline	61	61	—
	Flooring and other	35	34	(1)
	Mining	27	91	64
	Money Center Banks	2,008	1,984	(24)

The Company has investments in certain debt securities, as noted in the table below, that have unrealized losses or may be otherwise impaired, but OTTI has not been recognized in the financial statements as management believes the decline is due to the credit markets coupled with the interest rate environment. In addition, these securities are making payments in accordance with the terms of the instruments.

The following table indicates the length of time individual securities that we consider temporarily impaired have been in a continuous unrealized loss position at December 31, 2010 (in thousands):

	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Description of Securities						
U.S. Government Agencies	$37,071	$1,533	$31	$—	$37,102	$1,533
Mortgage-backed securities	24,860	381	9,745	305	34,605	686
Corporate notes	1,373	9	8,314	630	9,687	639
Pooled Trust Preferred CDO	—	—	458	6,000	458	6,000
Auction rate securities	4,504	497	54,486	11,814	58,990	12,311
Municipal securities	1,747	46	—	—	1,747	46
Total temporarily impaired securities	$69,555	$2,466	$73,034	$18,749	$142,589	$21,215

The Company had a total of 40 debt securities with a fair market value of $81.9 million which were temporarily impaired at December 31, 2010. The total unrealized loss on these securities was $8.9 million, which is attributable to the market interest volatility, the continued illiquidity of the debt markets, and uncertainty in the financial markets. The remaining unrealized loss of $12.3 million is on 11 auction rate securities which have declined in value due to auction failures beginning in February 2008. It is not more likely than not that we would sell these securities before maturity, and we have the intent to hold all of these securities to maturity and will not be required to sell these securities, due to our ratio of cash and cash equivalents of approximately 9.3% of total assets at December 31, 2010. Therefore, the unrealized losses associated with these securities are not considered to be other than temporary.

The following table indicates the length of time individual securities that we consider temporarily impaired have been in a continuous unrealized loss position at December 31, 2009 (in thousands):

	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Description of Securities						
U.S. Treasury Notes	$30,048	$65	$—	$—	$30,048	$65
U.S. Government Agencies	40,518	748	19,948	45	60,466	793
Mortgage-backed securities	7,932	43	15,661	667	23,593	710
Corporate notes	1,613	13	7,522	2,298	9,135	2,311
Pooled Trust Preferred CDO	—	—	150	6,313	150	6,313
Auction rate securities	—	—	58,047	11,953	58,047	11,953
Subtotal, debt securities	80,111	869	101,328	21,276	181,439	22,145
Marketable equity securities and other	—	—	1,044	26	1,044	26
Total temporarily impaired securities	$80,111	$869	$102,372	$21,302	$182,483	$22,171

The Company had a total of 52 debt securities with a fair market value of $123.4 million which were temporarily impaired at December 31, 2009. The total unrealized loss on these securities was $10.2 million, which is attributable to the market interest volatility, the continued illiquidity of the debt markets, and uncertainty in the financial markets. The remaining unrealized loss of $12.0 million is on 10 auction rate securities which have declined in value due to auction failures beginning in February 2008. It is not more likely than not that we would sell these securities before maturity, and we have the intent to hold all of these securities to maturity and will not be required to sell these securities, due to our ratio of cash and cash equivalents of approximately 6.2% of total assets at December 31, 2009. Therefore, the unrealized losses associated with these securities are not considered to be other than temporary.

The Company also had 2 equity securities with an aggregate fair market value of $1.0 million which were temporarily impaired at December 31, 2009. The total unrealized loss on these securities was $26,000. The preponderance of the unrealized loss for marketable equity securities and other is a $24,000 unrealized loss at December 31, 2009 on one money center bank preferred issue. As the stock market declined in the first and second quarter of 2009, especially related to the financial sector, the Company's investments decreased in value. At March 31, 2009, the unrealized loss totaled $348,000. Subsequent to March 31, 2009, the fair value of this security has rebounded to an unrealized position of $24,000 at December 31, 2009. The issuer of this preferred equity security has raised sufficient capital to repay the Troubled Asset Relief Program ("TARP") funds, continue to pay its dividend, maintain its credit rating and remain well-capitalized. Based upon these factors, coupled with the increasing stock market prices, especially in the financial sector, the Company does not believe an OTTI charge is warranted at December 31, 2009.

The amortized cost and fair value of investment securities available for sale and held to maturity, by contractual maturity, at December 31, 2010 and 2009 are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	December 31, 2010			
	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
Due in one year or less	$ 41,736	$ 41,805	$ —	$ —
Due after one through five years	37,074	36,812	—	—
Due after five through ten years	39,515	40,114	—	—
Due after ten years	161,770	157,628	319	316
Auction rate securities	73,993	62,079	—	—
Marketable equity securities and other	2,810	3,126	—	—
Totals	$ 356,898	$ 341,564	$ 319	$ 316

	December 31, 2009			
	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
Due in one year or less	$ 23,070	$ 23,153	$ —	$ —
Due after one through five years	56,766	56,101	—	—
Due after five through ten years	21,857	21,784	—	—
Due after ten years	188,098	181,807	340	337
Auction rate securities	78,895	66,942	—	—
Marketable equity securities and other	7,648	7,691	—	—
Totals	$ 376,334	$ 357,478	$ 340	$ 337

Gross gains realized on the sales of investment securities for the years ended December 31, 2010 and 2009 were approximately $1,224,000 and $553,000, respectively. Gross losses were approximately $242,000 and $1,413,000 for the years ended December 31, 2010 and 2009, respectively.

During the year ended December 31, 2010, we sold money center bank auction rate securities and certain corporate notes. During the year ended December 31, 2009, we sold the Fannie Mae auction rate securities and certain corporate notes.

At both December 31, 2010 and 2009, securities sold under agreements to repurchase with a book value of approximately $50.0 million were outstanding. The book value of the securities pledged for these repurchase agreements was $58.2 million and $55.6 million, respectively. As of December 31, 2010 and 2009, the Company did not own investment securities of any one issuer where the carrying value exceeded 10% of stockholders' equity.

The following table sets forth the cost and fair value of available-for-sale and held-to-maturity securities as of the dates indicated:

	December 31,			
	2010		2009	
	Cost	Fair Value	Cost	Fair Value
	(In thousands)			
Available-For-Sale				
U.S. Treasury Notes	$ 50,015	$ 50,076	$ 50,236	$ 50,206
U.S. Government Agencies	88,469	87,527	76,259	75,525
Mortgage-backed securities	117,724	121,137	134,810	136,043
Corporate notes	13,773	13,178	19,029	17,729
Single Issuer Trust Preferred CDO	1,023	1,294	1,021	1,021
Pooled Trust Preferred CDO	6,459	459	6,463	150
Municipal securities	2,632	2,688	1,973	2,171
Auction rate securities	73,993	62,079	78,895	66,942
Marketable equity securities and other	2,810	3,126	7,648	7,691
Total	$ 356,898	$ 341,564	$ 376,334	$ 357,478
Held-To-Maturity				
U.S. Government Agencies	$ 319	$ 316	$ 340	$ 337

The following tables summarize the Company's available-for-sale and held- to-maturity securities:

	December 31, 2010		
	Weighted Average Yield	Cost	Fair Value
	(Dollars in thousands)		
Available-For-Sale			
U.S. Treasury Notes			
Due within one year	0.87 %	$40,039	$40,097
Due after one through five years	0.38	9,976	9,979
		50,015	50,076
U.S. Government Agencies Obligations			
Due after one year through five years	2.55	15,012	15,030
Due after five years through ten years	3.41	37,012	37,463
Due after ten years	3.46	36,445	35,034
		88,469	87,527
Municipal Obligations			
Due after ten years	9.23	2,632	2,688
		2,632	2,688
Mortgage-backed securities			
Due within one year	4.50	595	605
Due after one year through five years	4.22	3,107	3,212
Due after five years through ten years	5.23	2,503	2,651
Due after ten years	5.20	111,519	114,669
		117,724	121,137
Corporate Notes (1)			
Due within one year	7.09	1,102	1,103
Due after one year through five years	4.24	8,979	8,591
Due after ten years	5.12	11,174	5,237
		21,255	14,931
Auction rate and other securities			
Common Stocks	0.46	1,033	1,242
Preferred Stocks	10.48	122	229
Auction Rate Securities	4.63	73,993	62,079
Money market funds	0.25	250	250
Federal Home Loan Bank Stock	1.09	1,405	1,405
		76,803	65,205
		$356,898	$341,564
Held-To-Maturity			
U.S. Government Agencies Obligations			
Due after ten years	6.55	319	316
		$319	$316

(1) Includes Single Issuer Trust Preferred CDO and Pooled Trust Preferred CDO

Federal Home Loan Bank Stock. The Bank owns stock of the FHLBNY which is necessary for it to be a member of the FHLBNY. Membership requires the purchase of stock equal to 0.20% of the Bank's mortgage related assets (investments and loans) plus 4.5% of the outstanding borrowings. The stock is redeemable at par. Therefore, its cost is equivalent to its redemption value. The Bank's ability to redeem FHLBNY shares is dependent upon the redemption practices of the FHLBNY. At December 31, 2010, the FHLBNY neither placed restrictions on redemption of shares in excess of a member's required investment in stock, nor stated that it will cease paying dividends. The Bank did not consider this asset impaired at either December 31, 2010 or 2009.

Loan Portfolio

Loan Portfolio Composition. The Company's loans consist primarily of mortgage loans secured by residential and non-residential properties as well as commercial loans which are either unsecured or secured by personal property collateral. Most of the Company's loans are either made to individuals or personally guaranteed by the principals of the business to which the loan is made. At December 31, 2010 and 2009, the Company had total loans, net of unearned income of $366.3 million and $430.3 million, respectively, and an allowance for loan losses of $16.1 million and $11.4 million, respectively. From time to time, the Bank may originate residential mortgage loans, sell them on the secondary market, normally recognizing fee income in connection with the sale.

Interest rates on loans are affected by the demand for loans, the supply of money available for lending, credit risks, the rates offered by competitors and other conditions. These factors are in turn affected by, among other things, economic conditions, monetary policies of the federal government, and legislative tax policies.

In order to manage interest rate risk, the Bank focuses its efforts on loans with interest rates that adjust based upon changes in the prime rate or changes in United States Treasury or similar indices. Generally, credit risks on adjustable-rate loans are somewhat greater than on fixed-rate loans primarily because, as interest rates rise, so do borrowers' payments, increasing the potential for default. The Bank seeks to impose appropriate loan underwriting standards in order to protect against these and other credit related risks associated with its lending operations.

In addition to analyzing the income and assets of its borrowers when underwriting a loan, the Bank obtains independent appraisals on all material real estate in which the Bank takes a mortgage. The Bank generally obtains title insurance in order to protect against title defects on mortgaged property.

Commercial Mortgage Loans. The Bank originates commercial mortgage loans secured by office buildings, retail establishments, multi-family residential real estate and other types of commercial property. Substantially all of the properties are located in the New York City metropolitan area.

The Bank generally makes commercial mortgage loans with loan to value ratios not to exceed 75% and with terms to maturity that do not exceed 15 years. Loans secured by commercial properties generally involve a greater degree of risk than one-to four-family residential mortgage loans. Because payments on such loans are often dependent on successful operation or management of the properties, repayment may be subject, to a greater extent, to adverse conditions in the real estate market or the economy. The Bank seeks to minimize these risks through its underwriting policies. The Bank evaluates the qualifications and financial condition of the borrower, including credit history, profitability and expertise, as well as the value and condition of the underlying property. The factors considered by the Bank include net operating income; the debt coverage ratio (the ratio of cash net income to debt service); and the loan to value ratio. When evaluating the borrower, the Bank considers the financial resources and income level of the borrower, the borrower's experience in owning or managing similar property and the Bank's lending experience with the borrower. The Bank's policy requires borrowers to present evidence of the ability to repay the loan without having to resort to the sale of the mortgaged property. The Bank also seeks to focus its commercial mortgage loans on loans to companies with operating businesses, rather than passive real estate investors.

Commercial Loans. The Bank makes commercial loans to businesses for inventory financing, working capital, machinery and equipment purchases, expansion, and other business purposes. These loans generally have higher yields than mortgage loans, with maturities of one year, after which the borrower's financial condition and the terms of the loan are re-evaluated. At December 31, 2010 and 2009, approximately $19.3 million and $50.7 million, respectively, or 5.3% and 11.7%, respectively, of the Company's total loan portfolio consisted of such loans.

Commercial loans tend to present greater risks than mortgage loans because the collateral, if any, tends to be rapidly depreciable, difficult to sell at full value and is often easier to conceal. In order to limit these risks, the Bank evaluates these loans based upon the borrower's ability to repay the loan from ongoing operations. The Bank considers the business history of the borrower and perceived stability of the business as important factors when considering applications for such loans. Occasionally, the borrower provides commercial or residential real estate collateral for such loans, in which case the value of the collateral may be a significant factor in the loan approval process.

Residential Mortgage Loans (1 to 4 family loans). The Bank makes residential mortgage loans secured by first liens on one-to-four family owner-occupied or rental residential real estate. At December 31, 2010 and 2009, approximately $114.6 million and $129.9 million, respectively, or 31.2% and 30.1%, respectively, of the Company's total loan portfolio consisted of such loans. The Bank offers both adjustable rate mortgages ("ARMS") and fixed-rate mortgage loans. The relative proportion of fixed-rate loans versus ARMs originated by the Bank depends principally upon current customer preference, which is generally driven by economic and interest rate conditions and the pricing offered by the Bank's competitors. At both December 31, 2010 and 2009, approximately 14% of the Bank's residential one-to-four family owner-occupied first mortgage portfolio were ARMs and approximately 86% were fixed-rate loans. The percentage represented by fixed-rate loans tends to increase during periods of low interest rates. The ARMs generally carry annual caps and life-of-loan ceilings, which limit interest rate adjustments.

The Bank's residential loan underwriting criteria are generally comparable to those required by Fannie Mae and other major secondary market loan purchasers. Generally, ARM credit risks are somewhat greater than fixed-rate loans primarily because, as interest rates rise, the borrowers' payments rise, increasing the potential for default. The Bank's teaser rate ARMs (ARMs with low initial interest rates that are not based upon the index plus the margin for determining future rate adjustments) were underwritten based on the payment due at the fully-indexed rate.

In addition to verifying income and assets of borrowers, the Bank obtains independent appraisals on all residential first mortgage loans and title insurance is required at closing. Private mortgage insurance is required on all loans with a loan-to-value ratio in excess of 80% and the Bank requires real estate tax escrows on such loans. Real estate tax escrows are voluntary on residential mortgage loans with loan-to-value ratios of 80% or less.

Fixed-rate residential mortgage loans are generally originated by the Bank for terms of 15 to 30 years. Although 30 year fixed-rate mortgage loans may adversely affect our net interest income in periods of rising interest rates, the Bank originates such loans to satisfy customer demand. Such loans are generally originated at initial interest rates which exceed the fully indexed rate on ARMs offered at the same time. Fixed-rate residential mortgage loans originated by the Bank generally include due-on-sale clauses, which permit the Bank to demand payment in full if the borrower sells the property without the Bank's consent.

Due-on-sale clauses are an important means of adjusting the rates on the Bank's fixed-rate mortgage loan portfolio, and the Bank will generally exercise its rights under these clauses if necessary to maintain market yields.

ARMs originated in recent years have interest rates that adjust annually based upon the movement of the one year treasury bill constant maturity index, plus a margin of 2.00% to 2.75%. These loans generally have a maximum interest rate adjustment of 2% per year, with a lifetime maximum interest rate adjustment, measured from the initial interest rate, of 5.5% or 6.0%.

The Bank offers a variety of other loan products including residential single family construction loans to persons who intend to occupy the property upon completion of construction, home equity loans secured by junior mortgages on one-to-four family owner-occupied residences, and short-term fixed-rate consumer loans either unsecured or secured by monetary assets such as bank deposits and marketable securities or personal property. At December 31, 2010 and 2009, approximately $233.3 million and $250.8 million, respectively, or 63.5% and 58.2%, respectively, of the Company's total loan portfolio consisted of such other loan products.

Origination of Loans. Loan originations can be attributed to depositors, retail customers, phone inquiries, advertising, the efforts of the Bank's loan officers, and referrals from other borrowers, real estate brokers and builders. The Bank originates loans primarily through its own efforts, occasionally obtaining loan opportunities as a result of referrals from loan brokers.

At December 31, 2010, the Bank was generally not permitted to make loans to one borrower in excess of approximately $14.4 million, with an additional amount of approximately $9.0 million being permitted if secured by readily marketable collateral. The Bank was also not permitted to make any single loan in an amount in excess of approximately $14.4 million. At December 31, 2010, the Bank was in compliance with these standards.

Delinquency Procedures. When a borrower fails to make a required payment on a loan, the Bank attempts to cause the deficiency to be cured by contacting the borrower. The Bank reviews past due loans on a case by case basis, taking the action it deems appropriate in order to collect the amount owed. Litigation may be necessary if other procedures are not successful. Judicial resolution of a past due loan can be delayed if the borrower files a bankruptcy petition because collection action cannot be continued unless the Bank first obtains relief from the automatic stay provided by the Bankruptcy Code.

If a non-mortgage loan becomes delinquent and satisfactory arrangements for payment cannot be made, the Bank seeks to realize upon any personal property collateral to the extent feasible and collect any remaining amount owed from the borrower through legal proceedings, if necessary.

It is the Bank's policy to discontinue accruing interest on a loan when it is 90 days past due or if management believes that continued interest accruals are unjustified. The Bank may continue interest accruals if a loan is more than 90 days past due if the Bank determines that the nature of the delinquency and the collateral are such that collection of the principal and interest on the loan in full is reasonably assured. When the accrual of interest is discontinued, all accrued but unpaid interest is charged against current period income. Once the accrual of interest is discontinued, the Bank records interest as and when received until the loan is restored to accruing status. If the Bank determines that collection of the loan in full is in reasonable doubt, then amounts received are recorded as a reduction of principal until the loan is returned to accruing status.

The following table sets forth information concerning the Company's loan portfolio by type of loan at the dates indicated. (dollars in thousands):

	December 31,									
	2010		2009		2008		2007		2006	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
Commercial and professional loans	$19,321	5.3 %	$50,672	11.7 %	$68,148	14.6 %	$76,132	17.4 %	$63,331	17.0 %
Secured by real estate										
1 - 4 family	114,594	31.2	129,925	30.1	140,150	30.0	142,140	32.6	139,611	37.5
Multi family	5,865	1.6	7,432	1.7	4,031	0.9	3,506	0.8	4,013	1.1
Non-residential (commercial)	226,667	61.7	242,927	56.4	254,831	54.4	212,850	48.8	160,417	43.1
Consumer	795	0.2	396	0.1	460	0.1	1,691	0.4	4,763	1.3
Total loans	367,242	100.0%	431,352	100.0%	467,890	100.0%	436,319	100.0%	372,135	100.0%
Less: Allowance for loan losses	(16,105)		(11,416)		(9,204)		(4,183)		(3,771)	
Unearned fees	(937)		(1,003)		(1,137)		(1,534)		(1,212)	
Loans, net	$350,200		$418,933		$457,549		$430,602		$367,152	

Impaired loan balance, nonaccrual loans and loans greater than 90 days still accruing
The following table sets forth certain information regarding nonaccrual loans, including the ratio of such loans to total assets as of the dates indicated, and certain other related information. The Bank had no foreclosed real estate during these periods and loans past due more than 90 days still accruing were $495,000 and $0 at December 31, 2010 and 2009, respectively.

	December 31,				
	2010	2009	2008	2007	2006
	(Dollars in Thousands)				
Nonaccrual loans:					
Commercial and professional loans	$ 137	$ 1,700	$ —	$ —	$ —
Consumer	18	—	—	—	—
Secured by real estate	1,362	12,210	130	153	201
Total nonaccrual loans	1,517	13,910	130	153	201
Accruing loans delinquent 90 days or more	495	—	99	314	—
Total nonperforming loans	$ 2,012	$ 13,910	$ 229	$ 467	$ 201
Total nonperforming loans to total assets	0.23 %	1.54 %	.02 %	.04 %	.02 %

Average impaired loans for the twelve months ended December 31, 2010 and 2009 were approximately $5.5 million and $9.1 million, respectively. Interest income that would have been recognized had these loans performed in accordance with their contractual terms was approximately $325,000 and $683,000, respectively.

The following tables present information regarding the Company's total allowance for loan losses as well as the allocation of such amounts to the various categories of loans at the dates indicated. (dollars in thousands):

	December 31, 2010		
	Allowance for Loan Losses	Percent of Allowance	Percent of Total Loans
Commercial and professional loans	$ 836	5.2 %	5.3 %
Secured by real estate			
1 - 4 family	2,066	12.8	31.2
Multi family	147	0.9	1.6
Non-residential	11,403	70.8	61.7
Consumer and other	25	0.2	0.2
General allowance (1)	1,627	10.1	
Total allowance for loan losses	$ 16,105	100.0 %	100.0 %

(1) The allowance for loan losses is allocated to specific loans as necessary.

	December 31, 2009		
	Allowance for Loan Losses	Percent of Allowance	Percent of Total Loans
Commercial and professional loans	$ 1,774	15.5 %	11.7 %
Secured by real estate			
1 - 4 family	651	5.7	30.1
Multi family	30	0.3	1.7
Non-residential	8,194	71.7	56.4
Consumer and other	7	0.1	0.1
General allowance (1)	760	6.7	
Total allowance for loan losses	$ 11,416	100.0 %	100.0 %

(1) The allowance for loan losses is allocated to specific loans as necessary.

The following table sets forth information regarding the aggregate maturities of the Company's loans in the specified categories and the amount of such loans which have fixed and variable rates.

	December 31, 2010			
	Within 1 Year	1 to 5 Years	After 5 Years	Total
	(In thousands)			
Fixed Rate				
Commercial and professional	$ 637	$ 11,846	$ 815	$ 13,298
Non-residential	12,000	31,970	44,268	88,238
Total fixed rate	$ 12,637	$ 43,816	$ 45,083	$ 101,536
Adjustable Rate				
Commercial and professional	4,981	1,041	—	6,022
Non-residential	35,653	35,176	68,397	139,226
Total adjustable rate	$ 40,634	$ 36,217	$ 68,397	$ 145,248
Total	$ 53,271	$ 80,033	$ 113,480	$ 246,784

Demand loans, loans with no stated maturity, are included in the table above in the Within One Year category.

The following table sets forth information with respect to activity in the Company's allowance for loan losses during the periods indicated (in thousands, except percentages):

	Years Ended December 31,				
	2010	2009	2008	2007	2006
Average loans outstanding	$ 390,253	$ 448,394	$ 461,678	$ 389,520	$ 327,210
Allowance at beginning of period	11,416	9,204	4,183	3,771	3,266
Charge-offs:					
Commercial and other loans	300	1,169	1	—	42
Real estate loans	767	6,025	—	—	—
Total loans charged-off	1,066	7,194	1	—	42
Recoveries:					
Commercial and other loans	6	106	118	57	137
Real estate loans	—	—	—	—	—
Total loans recovered	5	106	118	57	137
Net recoveries (charge-offs)	(1,061)	(7,088)	117	57	95
Provision for loan losses charged to operating expenses	5,750	9,300	4,904	355	410
Allowance at end of period	$ 16,105	$ 11,416	$ 9,204	$ 4,183	$ 3,771
Ratio of net recoveries (charge-offs) to average loans outstanding	(0.27)%	(1.58)%	.03%	.01%	.03%
Allowance as a percent of total loans	4.39%	2.65%	1.97%	0.96%	1.01%
Total loans at end of period	$ 367,242	$ 431,352	$ 467,890	$ 436,319	$ 372,135

Deposits

The Bank concentrates on obtaining deposits from a variety of businesses, professionals and retail customers. The Bank offers a number of different deposit programs, including statement savings accounts, NOW accounts, money market deposits accounts, checking accounts and certificates of deposits with terms from seven days to five years. Deposit account terms vary according to the minimum balance required, the time period the funds must remain on deposit and the interest rate, among other factors. The Bank prices its deposit offerings competitively within the market it serves. These products are designed to attract new customers, retain existing customers and create opportunities to offer other bank products or services. While the market and pricing for deposit funds are very competitive, the Bank believes that personalized, quality service is also an important element in retaining core deposit customers.

The following table summarizes the composition of the average balances of major deposit categories:

	December 31,			
	2010		2009	
	Average Amount	Average Yield	Average Amount	Average Yield
	(Dollars in thousands)			
Demand deposits	$ 69,963	—	$ 56,544	—
NOW and money market	26,274	0.30 %	23,900	0.31 %
Savings deposits	196,598	0.71	180,729	1.24
Time deposits	400,586	1.52	426,892	2.32
Total deposits	$ 693,421	1.09 %	$ 688,065	1.78 %

The aggregate amount of jumbo certificates of deposit, each with a minimum denomination of $100,000, was approximately $179.1 million and $191.3 million at December 31, 2010 and 2009, respectively.

The following table summarizes the maturity distribution of time deposits of $100,000 or more as of December 31, 2010 and 2009:

	December 31,	
	2010	2009
	(In thousands)	
3 months or less	$ 45,608	$ 51,133
Over 3 months but within 6 months	55,736	60,658
Over 6 months but within 12 months	32,382	35,452
Over 12 months	45,330	44,078
Total	$ 179,056	$ 191,321

It has been the Bank's experience that the majority of these certificates will renew.

Short-Term Borrowings

Securities sold under agreements to repurchase generally mature within 30 days from the date of the transactions. Short-term borrowings consist of securities sold under agreements to repurchase and various other borrowings which generally have maturities of less than one year. The details of these categories are presented below:

	Years Ended December 31, 2010	2009
	(Dollars in thousands)	
Securities sold under repurchase agreements and federal funds purchased		
Balance at year-end	$ 50,000	$ 50,000
Average during the year	$ 50,000	$ 56,436
Maximum month-end balance	$ 50,000	$ 57,000
Weighted average rate during the year	4.02 %	4.08 %
Rate at December 31	3.97 %	4.02 %

Capital Resources and Liquidity

Liquidity

The management of the Company's liquidity focuses on ensuring that sufficient funds are available to meet loan funding commitments, withdrawals from deposit accounts, the repayment of borrowed funds, and ensuring that the Bank and the Company comply with regulatory liquidity requirements. Liquidity needs of the Bank have historically been met by deposits, investments in federal funds sold, principal and interest payments on loans, and maturities of investment securities. Additional liquidity, up to approximately $103.7 million is available from the Federal Reserve Bank and the FHLBNY.

The current uncertainties in the credit markets have negatively impacted our ability to liquidate, if necessary, investments in auction rate securities. We are not certain as to when the liquidity issues relating to these investments will improve; however, we have the intent to hold these available for sale securities to maturity, and do not believe we will be required to sell these securities prior to maturity.

Approximately $18.0 million principal amount of auction rate securities that came due during the year ended December 31, 2009 were redeemed with no gain or loss recognized. No auction rate securities came due during the year ended December 31, 2010. During the year ended December 31, 2010, $3.7 million of auction rate securities were sold at auction with no gain or loss recognized.

At December 31, 2010, our portfolio of investment securities included approximately $21.3 million, at cost, of corporate notes, including single issuer and pooled trust preferred securities, for which an OTTI charge has not been recorded in our financial statements. Due primarily to market liquidity issues, the fair value of these securities, presently $14.9 million, may be negatively impacted in the future.

At December 31, 2010 and 2009, our portfolio of investment securities included approximately $74.0 million and $78.9 million at cost, respectively, of auction rate securities for which an OTTI charge has not been recorded in our financial statements.

OTTI is a non-cash charge and not necessarily an indicator of a permanent decline in value. Security valuations require significant estimates, judgments and assumptions by management and are considered a critical accounting policy of the Company.

Based on our expected operating cash flows, and our other sources of cash, we do not expect the potential lack of liquidity in these auction rate securities and corporate notes to affect our capital, liquidity or our ability to execute our current business plan. We have cash and cash equivalents totaling $79.1 million, or 9.5% of total assets at December 31, 2010. In addition, we have the capacity to borrow up to approximately $199 million from the Federal Reserve Bank and approximately $103.7 million from the FHLBNY if the need should arise.

For the parent company, Berkshire Bancorp Inc., liquidity means having cash available to fund its operating expenses and to pay stockholder dividends on its preferred and common stock, when and if declared by the Company's Board of Directors. On March 31, 2009, the Company announced that it would temporarily suspend its previously announced policy of paying a regular cash dividend on the Company's common stock. We are current as to dividend payments on our preferred stock.

The ability of the Company to meet these obligations, including the payment of dividends on its preferred and common stock when and if declared by the Board of Directors, is not currently dependent upon the receipt of dividends from the Bank. At December 31, 2010, the Company had cash of approximately $2.3 million and investment securities with a fair market value of $4.1 million.

Contingent Liabilities and Commitments

The Bank maintains financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and stand-by letters of credit. The following table presents the Company's commitments at December 31, 2010.

	Total	Expiration By Period Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
			(In thousands)		
Lines of Credit	$5,270	$1,422	$1,308	$1,577	$963
Standby Letters of Credit	139	139	—	—	—
Loan Commitments	1,207	1,207	—	—	—
Total	$6,616	$2,768	$1,308	$1,577	$963

Contractual Obligations

The following table presents the Company's contractual obligations at December 31, 2010.

	Total	Payments Due By Periods Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
			(In thousands)		
Borrowings	$10,657	$—	$10,657	$—	$—
Operating Leases	2,380	751	1,133	411	85
Time Deposits	384,301	301,816	82,483	2	—
Total Contractual Obligations	$397,338	$302,567	$94,273	$413	$85

Capital

The capital ratios of the Bank and the Company are presently in excess of the requirements necessary to meet the "well capitalized" capital category established by bank regulators. See Note N - "Regulatory Matters" to the Consolidated Financial Statements.

Interest Rate Risk

Fluctuations in market interest rates can have a material effect on the Bank's net interest income because the yields earned on loans and investments may not adjust to market rates of interest with the same frequency, speed and extent as the rates paid by the Bank on its deposits.

Most of the Bank's deposits are either interest-bearing demand deposits or short term certificates of deposit and other interest-bearing deposits with interest rates that fluctuate as market rates change. Management of the Bank seeks to reduce the risk of interest rate fluctuations by concentrating on loans and securities investments with either short terms to maturity or with adjustable rates or other features that cause yields to adjust based upon interest rate fluctuations. In addition, to cushion itself against the potential adverse effects of a substantial and sustained increase in market interest rates, the Bank has from time to time purchased off balance sheet interest rate cap contracts which generally provide that the Bank will be entitled to receive payments from the other party to the contract if interest rates exceed specified levels. These contracts, when written, are entered into with major financial institutions.

The Company seeks to maximize its net interest margin within an acceptable level of interest rate risk. Interest rate risk can be defined as the amount of the forecasted net interest income that may be gained or lost due to favorable or unfavorable movements in interest rates. Interest rate risk, or sensitivity, arises when the maturity or repricing characteristics of assets differ significantly from the maturity or repricing characteristics of liabilities.

In the banking industry, a traditional measure of interest rate sensitivity is known as "gap" analysis, which measures the cumulative differences between the amounts of assets and liabilities maturing or repricing at various time intervals. The following table sets forth the Company's interest rate repricing gaps for selected maturity periods:

Berkshire Bancorp Inc.
Interest Rate Sensitivity Gap at December 31, 2010
(in thousands, except for percentages)

	3 Months or Less	3 Through 12 Months	1 Through 3 Years	Over 3 Years	Total	Fair Value
Federal funds sold	—				—	
(Rate)						
Interest bearing deposits in banks	74,197	—	—	—	74,197	74,197
(Rate)	0.25 %				0.25 %	
Loans (1)(2)						
Adjustable rate loans	61,419	8,980	76,937	15,852	163,188	164,443
(Rate)	6.33 %	6.02 %	6.47 %	6.54 %	6.40 %	
Fixed rate loans	2,838	3,824	51,957	145,435	204,054	206,667
(Rate)	7.57 %	5.56 %	6.35 %	6.28 %	6.30 %	
Total loans	64,257	12,804	128,894	161,287	367,242	371,110
Investments (3)(4)	123,567	41,602	33,211	158,838	357,218	357,214
(Rate)	4.26 %	1.27 %	2.05 %	4.73 %	3.91 %	
Total rate-sensitive assets	262,021	54,406	162,105	320,125	798,657	
Deposit accounts (5)						
Savings and NOW	205,937	—	—	—	205,937	205,937
(Rate)	0.44 %				0.44 %	
Money market	6,286	—	—	—	6,286	6,286
(Rate)	0.31 %				0.31 %	
Time Deposits	99,031	202,785	82,341	144	384,301	386,446
(Rate)	1.15 %	1.22 %	2.10 %	1.91 %	1.39 %	
Total deposit accounts	311,254	202,785	82,341	144	596,524	
Repurchase Agreements	—	50,000	—	—	50,000	51,661
(Rate)		3.97 %			3.97 %	
Other borrowings	—	—	10,657	22,681	33,338	33,557
(Rate)			3.84 %	2.95 %	3.23 %	
Total rate-sensitive liabilities	311,254	252,785	92,998	22,825	679,862	
Interest rate caps	40,000			(40,000)		
Gap (repricing differences)	(89,233)	(198,379)	69,107	337,300	118,795	
Cumulative Gap	(89,233)	(287,612)	(218,505)	118,795		
Cumulative Gap to Total Rate Sensitive Assets	(11.17)%	(36.01)%	(27.36)%	14.87 %		

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(1) Adjustable-rate loans are included in the period in which the interest rates are next scheduled to adjust rather than in the period in which the loans mature. Fixed-rate loans are scheduled according to their maturity dates.
(2) Includes nonaccrual loans.
(3) Investments are scheduled according to their respective repricing (variable rate investments) and maturity (fixed rate securities) dates.
(4) Investments are stated at book value.
(5) NOW accounts and savings accounts are regarded as readily accessible withdrawal accounts. The balances in such accounts have been allocated among maturity/repricing periods based upon The Berkshire Bank's historical experience. All other time accounts are scheduled according to their respective maturity dates.

Impact of Inflation and Changing Prices

The Company's financial statements measure financial position and operating results in terms of historical dollars without considering the changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increasing cost of the Company's operations. The assets and liabilities of the Company are largely monetary. As a result, interest rates have a greater impact on the Company's performance than do the effects of general levels of inflation. In addition, interest rates do not necessarily move in the direction, or to the same extent as the price of goods and services. However, in general, high inflation rates are accompanied by higher interest rates, and vice versa.

New Accounting Pronouncements

In January 2010, the FASB issued Accounting Standards Update ("ASU") No. 2010-06, which amends the authoritative accounting guidance under ASC Topic 820. The update requires the following additional disclosures: (1) separately disclose the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers; and (2) separately disclose information about purchases, sales, issuances and settlements in the reconciliation for fair value measurements using Level 3. The update provides for amendments to existing disclosures as follows: (1) fair value measurement disclosures are to be made for each class of assets and liabilities; and (2) disclosures are to be made about valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. The update also includes conforming amendments to guidance on employers disclosures about postretirement benefit plan assets. The update is effective for interim and annual reporting periods beginning after December 15, 2009, or January 1, 2010 as to the Company, except for the disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Adoption of this update did not have a material effect on the Company's results of operations or financial condition.

In February 2010, the FASB issued ASU No. 2010-09, which amends the authoritative accounting guidance under ASC Topic 855, Subsequent Events. The update provides that an SEC filer is required to evaluate subsequent events through the date financial statements are issued. However, an SEC filer is not required to disclose the date through which subsequent events have been evaluated. The update was effective as of the date of issuance. Adoption of this update did not have a material effect on the Company's results of operations or financial condition.

In July 2010, the FASB issued ASU No. 2010-20 which amends the authoritative accounting guidance under topic 310, Receivables. The guidance amends existing disclosures to provide financial statement users with greater transparency about an entity's allowance for loan and lease losses and the credit quality of its loan and lease portfolio. Under the new guidelines, the allowance for loan and lease losses and fair value are to be disclosed by portfolio segment, while credit quality information, impaired loans and leases and non-accrual status are to be presented by class of loans and leases. Disclosure of the nature and extent, the financial impact and segment information of troubled debt restructurings will also be required. The disclosures are to be presented at the level of disaggregation that management uses when assessing and monitoring the loan and lease portfolio's risk and performance. This guidance is effective for interim and annual reporting periods ending on or after December 15, 2010. Adoption of this guidance is not expected to have a material effect on the Company's results of operations or financial condition.

In January 2011, the FASB issued ASU No. 2011-01 which temporarily delays the effective date of the required disclosures about troubled debt restructurings contained in ASU No. 2010-20. The delay is intended to allow the FASB additional time to deliberate what constitutes a troubled debt restructuring. All other amendments contained in ASU No. 2101-20 are effective as issued. Adoption of this update did not have a material effect on the Company's results of operations or financial condition.

Internal Control Over Financial Reporting

The objective of the Company's Internal Control Program is to allow the Bank and management to comply with Part 363 of the FDIC's regulations ("FDICIA") and to allow the Company to comply with Sections 302 and 404 of the Sarbanes-Oxley Act of 2002 ("SOX"). In November 2005, the FDIC amended Part 363 of its regulations by raising the asset-size threshold from $500 million to $1 billion for internal control assessments by management and external auditors. The final rule was effective December 28, 2005.

Section 302 of SOX requires the CEOs and CFOs of the Company to (i) certify that the annual and quarterly reports filed with the Securities and Exchange Commission are accurate and (ii) acknowledge that they are responsible for establishing, maintaining and periodically evaluating the effectiveness of the disclosure controls and procedures. Section 404 of SOX requires management to (i) report on internal control over financial reporting, (ii) assess the effectiveness of such internal controls, and (iii) obtain an external auditor's report on management's assessment of its internal control.

The Company is not an accelerated filer as defined in Rule 12b-2 of the Securities Exchange Act of 1934. On October 2, 2009, the SEC issued a final extension of SOX 404(b) for non-accelerated filers, which would have required them to first comply with the provisions of Section 404(b) of SOX with respect to fiscal years ending on or after June 15, 2010. Section 404(b) of SOX requires a registrant to provide an attestation report on management's assessment of internal controls over financial reporting by the registrant's external auditor. Therefore, the Company would have been required to obtain an external auditor's attestation report on internal control over financial reporting for the fiscal year ended December 31, 2010. However, on July 21, 2010, President Obama signed the Dodd-Frank Act into law. The Dodd-Frank Act includes a provision which permanently exempts non-accelerated filers, including the Company, from the requirement to obtain an external audit on the effectiveness of internal financial reporting controls provided in Section 404(b) of SOX. Disclosure of management's attestations on internal control over financial reporting under Section 404(a) of SOX is still required. See the Section of this Report entitled "Business - The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010."

The Committee of Sponsoring Organizations (COSO) methodology may be used to document and test the internal controls pertaining to the accuracy of Company issued financial statements and related disclosures. COSO requires a review of the control environment (including anti-fraud and audit committee effectiveness), risk assessment, control activities, information and communication, and ongoing monitoring.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk.

Not Applicable

ITEM 8. Financial Statements and Supplementary Data.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Berkshire Bancorp Inc.

We have audited the accompanying consolidated balance sheets of Berkshire Bancorp Inc. and Subsidiaries (the "Company") as of December 31, 2010 and 2009, and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss) and cash flows for each of the two years in the period ended December 31, 2010. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company was not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Berkshire Bancorp Inc. and Subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

/s/ GRANT THORNTON LLP

New York, New York
March 24, 2011

BERKSHIRE BANCORP INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands)

	December 31, 2010	December 31, 2009
ASSETS		
Cash and due from banks	$ 4,920	$ 5,427
Interest bearing deposits	74,197	55,376
Total cash and cash equivalents	79,117	60,803
Investment Securities:		
Available-for-sale	341,564	357,478
Held-to-maturity, fair value of $316 in 2010 and $337 in 2009	319	340
Total investment securities	341,883	357,818
Loans, net of unearned income	366,305	430,349
Less: allowance for loan losses	(16,105)	(11,416)
Net loans	350,200	418,933
Accrued interest receivable	3,578	4,253
Premises and equipment, net	7,815	8,532
Other receivable	10,047	—
Goodwill, net	—	18,549
Other assets	37,257	40,379
Total assets	$ 829,897	$ 909,267
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	$ 73,609	$ 62,870
Interest bearing	596,527	650,574
Total deposits	670,136	713,444
Securities sold under agreements to repurchase	50,000	50,000
Borrowings	10,657	31,004
Subordinated debt	22,681	22,681
Accrued interest payable	2,743	3,578
Other liabilities	2,047	3,324
Total liabilities	758,264	824,031
Stockholders' equity		
Preferred stock - $.01 Par value:		
Authorized — 2,000,000 shares		
Issued — 60,000 shares		
Outstanding —		
December 31, 2010, 60,000 shares		
December 31, 2009, 60,000 shares	1	1
Common stock - $.10 par value		
Authorized — 25,000,000 shares		
Issued — 7,698,285 shares		
Outstanding —		
December 31, 2010, 7,054,183 shares		
December 31, 2009, 7,054,183 shares	770	770

Additional paid-in capital	150,985	150,985
Accumulated Deficit	(65,123)	(46,833)
Accumulated other comprehensive loss, net	(8,589)	(13,276)
Treasury Stock at cost		
December 31, 2010 and 2009, 644,102 shares	(6,411)	(6,411)
Total stockholders' equity	71,633	85,236
Total liabilities and stockholders' equity	$ 829,897	$ 909,267

The accompanying notes are an integral part of these statements

BERKSHIRE BANCORP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(In Thousands, Except Per Share Data)

	For The Years Ended December 31, 2010	2009
INTEREST INCOME		
Federal funds sold and interest bearing deposits	$ 262	$ 639
Investment securities	14,174	15,506
Loans, including related fees	25,559	29,777
Total interest income	39,995	45,922
INTEREST EXPENSE		
Deposits	7,579	12,237
Securities sold under agreements to repurchase	2,012	2,305
Borrowings and subordinated debt	1,496	2,561
Total interest expense	11,087	17,103
Net interest income	28,908	28,819
PROVISION FOR LOAN LOSSES	5,750	9,300
Net interest income after provision for loan losses	23,158	19,519
NON-INTEREST INCOME		
Service charges on deposit accounts	515	490
Investment securities gains (losses)	1,002	(860)
Other income	629	567
Total non-interest income	2,146	197
NON-INTEREST EXPENSE		
Total other than temporary impairment ("OTTI") charges on securities	1,202	23,748
Less non-credit portion of OTTI recorded in Accumulated other comprehensive loss	—	6,313
Net OTTI recognized in earnings	1,202	17,435
Salaries and employee benefits	9,442	9,517
Net occupancy expense	2,109	2,150
Equipment expense	360	378
FDIC assessment	1,646	1,928
Data processing expense	489	452
Loss on termination of pension plan	1,871	—
Write-off goodwill	18,549	—
Other	4,615	3,311
Total non-interest expense	40,283	35,171
Loss before provision for income taxes	(14,979)	(15,455)
Benefit for income taxes	(1,489)	(13,217)
Net loss	$ (13,490)	$ (2,238)
Dividends on preferred stock	4,800	4,800
Loss allocated to common stockholders	$ (18,290)	$ (7,038)
Net loss per common share:		
Basic	$ (2.59)	$ (1.00)
Diluted	$ (2.59)	$ (1.00)
Number of shares used to compute net loss per common share:		
Basic	7,054	7,054
Diluted	7,054	7,054

Dividends per common share	$ —	$ —

The accompanying notes are an integral part of these statements

BERKSHIRE BANCORP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
and COMPREHENSIVE INCOME (LOSS)
For The Years Ended December 31, 2010 and 2009
(In Thousands)

	Common Shares	Preferred Shares	Common Stock Par value	Preferred Stock Par value	Additional paid-in capital	Accumulated other comprehensive (loss) net	Retained Earnings (Accumulated deficit)	Treasury stock	Comprehensive income (loss)	Total stockholders' equity
Balance at January 1, 2009	7,698	60	$ 770	$ 1	$ 150,985	$ (39,598)	$ (39,795)	$ (6,411)		$ 65,952
Net loss							(2,238)		(2,238)	(2,238)
Other comprehensive income net of taxes						26,322			26,322	26,322
Comprehensive income									$ 24,084	
Cash dividends - Preferred Stock							(4,800)			(4,800)
Balance at December 31, 2009	7,698	60	770	1	150,985	(13,276)	(46,833)	(6,411)		85,236
Net loss							(13,490)		(13,490)	(13,490)
Other comprehensive income net of taxes						4,687			4,687	4,687
Comprehensive loss									$ (8,803)	
Cash dividends - Preferred Stock							(4,800)			(4,800)
Balance at December 31, 2010	7,698	60	$ 770	$ 1	$ 150,985	$ (8,589)	$ (65,123)	$ (6,411)		$ 71,633

The accompanying notes are an integral part of these statements

BERKSHIRE BANCORP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	For The Years Ended December 31, 2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(13,490)	$(2,238)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Realized (gains) losses on investment securities	(1,002)	860
Gain on sale of foreclosed real estate	(229)	—
Other than temporary impairment charges on securities	1,202	17,435
Net amortization of premiums of investment securities	2,182	721
Depreciation and amortization	513	533
Provision for loan losses	5,750	9,300
Loss on termination of pension plan	1,871	—
Write-off of goodwill	18,549	—
CHANGES IN ASSETS AND LIABILITIES:		
Decrease in accrued interest receivable	675	1,613
(Increase) decrease in other assets	(6,925)	11,015
Decrease in accrued interest payable and other liabilities	(3,983)	(17,292)
Net cash provided by operating activities	5,113	21,947
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment securities available for sale Purchases	(234,561)	(295,440)
Sales, maturities and calls	252,780	244,051
Investment securities held to maturity Maturities	21	—
Net decrease in loans	50,664	29,316
Proceeds from sale of foreclosed real estate	12,548	—
Sale (acquisition) of premises and equipment	204	(221)
Net cash provided by (used in) investing activities	81,656	(22,294)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in non interest bearing deposits	10,739	11,558
Net (decrease) in interest bearing deposits	(54,047)	(24,223)
Decrease in securities sold under agreements to repurchase	—	(9,504)
Repayment of borrowings	(20,347)	(14,268)
Dividends paid on preferred stock	(4,800)	(4,800)
Net cash (used in) financing activities	(68,455)	(41,237)
Net increase (decrease) in cash and cash equivalents	18,314	(41,584)
Cash and cash equivalents at beginning of year	$60,803	$102,387
Cash and cash equivalents at end of year	$79,117	$60,803

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash used to pay interest	$11,922	$20,047
Cash used to pay income taxes, net of refunds	$(1,080)	$5,894
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING ACTIVITIES		
Trade date securities receivable	$10,047	$—
Transfer from loans to real estate owned	$12,318	$—

The accompanying notes are an integral part of these statements

BERKSHIRE BANCORP INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
December 31, 2010 and 2009

Note A - ORGANIZATION AND CAPITALIZATION

Organization

Berkshire Bancorp Inc., a Delaware corporation, is a bank holding company registered under the Bank Holding Company Act of 1956. References herein to "Berkshire", the "Company" or "we" and similar pronouns shall be deemed to refer to Berkshire Bancorp Inc. and its consolidated subsidiaries unless the context otherwise requires. Berkshire's principal activity is the ownership and management of its indirect wholly-owned subsidiary, The Berkshire Bank (the "Bank"), a New York State chartered commercial bank. The Bank is owned through Berkshire's wholly-owned subsidiary Greater American Finance Group, Inc. ("GAFG").

The Bank was established in 1989 to provide highly personalized services to high net worth individuals and to small and mid-sized commercial businesses primarily from the New York City metropolitan area. The Bank's main office and branch is in mid-town Manhattan. The Bank has two other branch in Manhattan, four branches in Brooklyn, New York, four branches in Orange and Sullivan Counties in New York State, a branch in Ridgefield, New Jersey and a branch in Teaneck, New Jersey which opened in November 2009.

The Bank competes with other banking and financial institutions in its markets. Commercial banks, savings banks, savings and loan associations, mortgage bankers and brokers, and credit unions actively compete for deposits and loans. Such institutions, as well as consumer finance, mutual funds, insurance companies, and brokerage and investment banking firms may be considered to be competitors of the Bank with respect to one or more of the services provided by the Bank.

The Company and the Bank are subject to the regulations of certain state and federal agencies and, accordingly, are periodically examined by those regulatory authorities. As a consequence of such regulation of banking activities, the Bank's business may be affected by state and federal legislation.

In May 2009, in connection with the Bank's examination by the Federal Deposit Insurance Corporation (the "FDIC") the Bank received a Joint Memorandum of Understanding (the "MOU") from the FDIC and the New York State Banking Department (the "NYSBD"), which the Bank executed. The MOU sets forth an informal understanding among the Bank, the FDIC and the NYSBD addressing asset quality, loan review, underwriting and administration and certain other concerns identified in the examination. The Bank's board appointed a committee comprised of three directors to monitor the Bank's compliance. We do not believe that compliance with the MOU will have a material adverse effect on our results of operations or financial condition. As set forth in "Management's Discussion and Analysis of Financial Condition And Results of Operations - Capital Adequacy" and Note N to the Company's consolidated financial statements, the Bank has been notified by the regulators that it is well capitalized for regulatory purposes as of December 31, 2010.

Trust Preferred Securities.

In 2004, the Company established Berkshire Capital Trust I, a Delaware statutory trust, ("BCTI"). The Company owns all the common capital securities of BCTI. BCTI issued $15.0 million of preferred capital securities to investors in a private transaction and invested the proceeds, combined with the proceeds from the sale of BCTI's common capital securities, in the Company through the purchase of $15.464 million aggregate principal amount of Floating

Rate Junior Subordinated Debentures (the 2004 "Debentures") issued by the Company. The 2004 Debentures, the sole assets of BCTI, mature on July 23, 2034 and bear interest at a floating rate, three month LIBOR plus 2.70%, or 3.00% at December 31, 2010.

BERKSHIRE BANCORP INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (continued)

Note A - (continued)

In 2005, the Company established Berkshire Capital Trust II, a Delaware statutory trust, ("BCTII"). The Company owns all the common capital securities of BCTII. BCTII issued $7.0 million of preferred capital securities to investors in a private transaction and invested the proceeds, combined with the proceeds from the sale of BCTII's common capital securities, in the Company through the purchase of $7.217 million aggregate principal amount of Floating Rate Junior Subordinated Debentures (the "2005 Debentures") issued by the Company. The 2005 Debentures, the sole assets of BCTII, mature on May 23, 2035 and bear interest at a floating rate, three month LIBOR plus 1.95%, or 2.25% at December 31, 2010.

Based on current interpretations of the banking regulators, the 2004 Debentures and 2005 Debentures (collectively, the "Debentures") qualify under the risk-based capital guidelines of the Federal Reserve as Tier 1 capital, subject to certain limitations. The Debentures are callable by the Company, subject to any required regulatory approvals, at par, in whole or in part, at any time after five years from the date of issuance. The Company's obligations under the Debentures and related documents, taken together, constitute a full, irrevocable and unconditional guarantee on a subordinated basis by the Company of the obligations of BCTI and BCTII under the preferred capital securities sold by BCTI and BCTII to investors. Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 810, "Consolidations", precludes consideration of the call option embedded in the preferred capital securities when determining if the Company has the right to a majority of BCTI and BCTII expected residual returns. Accordingly, BCTI and BCTII are not included in the consolidated balance sheet of the Company.

The Federal Reserve has issued guidance on the regulatory capital treatment for the trust-preferred securities issued by BCTI and BCTII. This rule would retain the current maximum percentage of total capital permitted for Trust Preferred Securities at 25%, but would enact other changes to the rules governing Trust Preferred Securities that affect their use as part of the collection of entities known as "restricted core capital elements." The rule was to become effective on March 31, 2009. However, on March 23, 2009 the Federal Reserve adopted a rule extending the compliance date for tighter limits to March 31, 2011 in light of the current stressful financial conditions. Management has evaluated the effects of this rule and does not anticipate a material impact on the Company's capital ratios when the proposed rule is finalized.

Series A Preferred Shares. In 2008, the Company sold an aggregate of 60,000 shares of its 8% Non-Cumulative Mandatorily Convertible Perpetual Series A Preferred Stock (the "Series A Preferred Shares") at $1,000 per share, or $60 million in the aggregate, to the Company's Chairman of the Board and majority stockholder, and two non-affiliated investors. Each Series A Preferred Share bears non-cumulative cash dividends at the rate of 8% per annum, payable quarterly, is mandatorily convertible into 123.153 shares of our Common Stock on October 31, 2011, unless previously redeemed, and was redeemable at the option of the Company between April 30, 2009 and November 1, 2010 at a redemption price of $1,100 per share. No shares have been redeemed as of December 31, 2010. So long as any share of Series A Preferred Shares remains outstanding, unless the full dividends for the most recent dividend payment date have been paid or declared, no dividends may be paid or declared on the Company's Common Stock. For the years ended December 31, 2010 and 2009, the Company declared and paid cash dividends of $4.8 million on the Series A Preferred Shares. The Company is current as to dividends on the Series A Preferred Shares.

BERKSHIRE BANCORP INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (continued)

Note B - SUMMARY OF ACCOUNTING POLICIES

1. Basis of Financial Statement Presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and predominant practice within the banking industry, and include the accounts of Berkshire Bancorp Inc. and its wholly owned subsidiaries, Greater American Finance Group, Inc. ("GAFG"), and GAFG's wholly owned subsidiary, the Bank, and East 39, LLC, (collectively, the "Company"). All significant intercompany accounts and transactions have been eliminated.

In preparing the financial statements in conformity with U.S. GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the balance sheets, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The principal estimates that are susceptible to significant change in the near term relate to the allowance for loan losses, goodwill, carrying value of investments designated as available for sale, and deferred tax assets and liabilities. The evaluation of the adequacy of the allowance for loan losses includes an analysis of the individual loans and overall risk characteristics and size of the different loan portfolios, and takes into consideration current economic and market conditions, the capability of specific borrowers to pay specific loan obligations, as well as current loan collateral values. However, actual losses on specific loans, which also are encompassed in the analysis, may vary from estimated losses.

The carrying value of investments designated as available for sale are based upon quoted market prices or prices for similar assets. If no quoted market prices or prices for similar assets exist, unobservable inputs are required. If the quoted market prices or unobservable inputs are not accurate, additional impairment charges may be required.

Substantially all outstanding goodwill resulted from the acquisition of The Berkshire Bank and Goshen Savings Bank, depository institutions concentrating in the New York City and Orange and Sullivan County communities, respectively. As the result of the market penetration in these New York areas, the Company had formulated its own strategy to create such a market role. Accordingly, implicit in the purchase of these franchises was the acquisition of that role. At December 31, 2010, the goodwill was fully written off.

The Company recognizes deferred tax assets and liabilities for the future tax effects of temporary differences, net operating loss carryforwards and tax credits. Deferred tax assets are subject to management's judgment based upon available evidence that future realization is more likely than not. If management determines that the Company may be unable to realize all or part of net deferred tax assets in the future, a direct charge to income tax expense may be required to reduce the recorded value of the net deferred tax asset to the expected realizable amount.

2. Investment Securities

The Company accounts for its investment securities in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 320, "Investments-Debt and Equity Securities" ("FASB ASC 320"). As required by FASB ASC 320, investment securities are classified into three categories: trading, held-to-maturity and available-for-sale. Securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and are reported at fair value with all unrealized gains and losses included in trading account activities in the statement of income. Securities that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity and carried at cost, adjusted for the amortization of premiums and accretion of discounts computed by the interest method. Investments which management believes may be sold prior to maturity due to changes in interest rates, prepayment risk and equity, liquidity requirements or other factors, are classified as available for sale. Available-for-sale securities are carried at fair value, with the unrealized gains and losses, net of tax, reported as a separate component of stockholders' equity and excluded from the determination of net income. Gains or losses on disposition are based on the net proceeds and cost of the securities sold, adjusted for amortization of premiums and accretion of discounts, using the specific identification method.

BERKSHIRE BANCORP INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (continued)

Note B - (continued)

The Company does not have a trading securities portfolio and has no current plans to maintain such a portfolio in the future. The Company generally classifies all newly purchased debt securities as available for sale in order to maintain the flexibility to sell those securities if the need arises. The Company has a limited portfolio of securities classified as held to maturity, represented principally by securities purchased a number of years ago.

3. Loans and Allowance for Loan Losses

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at the amount of unpaid principal and are net of unearned discount, unearned loan fees and an allowance for loan losses. The allowance for loan losses is established through a provision for loan losses charged to expense. Loan principal considered to be uncollectible by management is charged against the allowance for credit losses. The allowance is an amount that management believes will be adequate to absorb probable and estimateable losses and losses on existing loans that may become uncollectible based upon an evaluation of known and inherent risks in the loan portfolio. The evaluation takes into consideration such factors as changes in the nature and size of the loan portfolio, overall portfolio quality, specific problem or impaired loans, and current economic conditions which may affect the borrowers' ability to pay. The evaluation details historical losses by loan category, the resulting loss rates for which are projected at current loan total amounts.

Interest income is accrued as earned on a simple interest basis. Accrual of interest is discontinued on a loan when management believes, after considering economic and business conditions and collection efforts, that the borrower's financial condition is such that collection of contractual principal and interest is doubtful. When a loan is placed on such non-accrual status, all accumulated accrued interest receivable applicable to periods prior to the current year is charged off to the allowance for loan losses. Interest which had accrued in the current year is reversed out of current period income. The interest on these loans is accounted for on a cash basis, until qualifying for return to accrual. Loans 90 days or more past due and still accruing interest must have both principal and accruing interest adequately secured and must be in the process of collection.

The allowance for loan losses is the estimated amount considered necessary to cover credit losses inherent in the loan portfolio at the balance sheet date. The allowance is established through the provision for loan losses that is charged against income. In determining the allowance for loan losses, management makes significant estimates and therefore has identified the allowance as a critical accounting policy. The methodology for determining the allowance for loan losses is considered a critical accounting policy by management due to the high degree of judgment involved, the subjectivity of the assumptions utilized, and the potential for changes in the economic environment that could result in changes to the amount of the recorded allowance for loan losses.

BERKSHIRE BANCORP INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (continued)

Note B - (continued)

The allowance for loan losses has been determined in accordance with U.S. GAAP, principally FASB ASC 450, "Contingencies", ("ASC 450") and FASB ASC 310, "Receivables", ("ASC 310"). Under the above accounting principles, we are required to maintain an allowance for probable losses at the balance sheet date. We are responsible for the timely and periodic determination of the amount of the allowance required. Management believes that the allowance for loan losses is adequate to cover specifically identifiable losses, as well as estimated losses inherent in our portfolio for which certain losses are probable but not specifically identifiable.

Management performs a monthly evaluation of the adequacy of the allowance for loan losses. The analysis of the allowance for loan losses has two components: specific reserves and general reserves. Specific reserves are made for loans determined to be impaired. Impairment is measured by determining the present value of expected future cash flows or, as a practical expedient for collateral-dependent loans, the fair value of the collateral adjusted for market conditions and selling expenses. The Bank considers its investment in one-to-four family real estate loans and consumer loans to be smaller balance homogeneous loans and therefore excluded from separate identification for evaluation of impairment. These homogeneous loan groups are evaluated for impairment on a collective basis under FASB ASC 310.

The general reserve is determined by segregating the remaining loans by type of loan, risk weighting (if applicable) and payment history. Management also analyzes historical loss experience, delinquency trends, general economic conditions, geographic concentrations, and industry and peer comparisons. This analysis establishes factors that are applied to the loan segments to determine the amount of the general reserve. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revisions based upon changes in economic and real estate market conditions. Actual loan losses may be significantly more than the allowance for loan losses management has established which could have a material negative effect on the Company's financial results.

On a monthly basis, the Bank's management committee reviews the current status of various loans as part of our evaluation of the adequacy of the allowance for loan losses. In this evaluation process, specific loans are analyzed to determine their potential risk of loss. This process includes all loans, concentrating on non-accrual and classified loans. Each non-accrual or classified loan is evaluated for potential loss exposure. Any shortfall results in a recommendation of a specific allowance if the likelihood of loss is evaluated as probable. To determine the adequacy of collateral on a particular loan, an estimate of the fair market value of the collateral is based on the most current appraised value available. This appraised value is then reduced to reflect estimated liquidation expenses.

As a substantial amount of our loan portfolio is collateralized by real estate, appraisals of the underlying value of property securing loans are critical in determining the amount of the allowance required for specific loans. Assumptions for appraisal valuations are instrumental in determining the value of properties. Overly optimistic assumptions or negative changes to assumptions could significantly impact the valuation of a property securing a loan and the related allowance determined. The assumptions supporting such appraisals are carefully reviewed by management to determine that the resulting values reasonably reflect amounts realizable on the related loans. Based on the composition of our loan portfolio, management believes the primary risks are increases in interest rates, a decline in the economy, generally, and a decline in real estate market values in the New York metropolitan area. Any one or combination of these events may adversely affect our loan portfolio resulting in increased delinquencies, loan losses and future levels of loan loss provisions.

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BERKSHIRE BANCORP INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (continued)

Note B - (continued)

Management believes the allowance for loan losses reflects the inherent credit risk in our portfolio, the level of our non-performing loans and our charge-off experience.

Although management believes that we have established and maintained the allowance for loan losses at adequate levels, additions may be necessary if future economic and other conditions differ substantially from the current operating environment. Although management uses what it believes is the best information available, the level of the allowance for loan losses remains an estimate that is subject to significant judgment and short-term change. In addition, the Federal Deposit Insurance Corporation, New York State Banking Department, and other regulatory bodies, as an integral part of their examination process, will periodically review our allowance for loan losses. Such agencies may require us to recognize adjustments to the allowance based on its judgments about information available to them at the time of their examination.

The Company accounts for its impaired loans in accordance with FASB ASC 310. These standards require that a creditor measure impairment based on the present value of expected future cash flows discounted at the loan's effective interest rate, except that as a practical expedient, a creditor may measure impairment based on a loan's observable market price, or the fair value of the collateral if the loan is collateral-dependent. Regardless of the measurement method, a creditor must measure impairment based on the fair value of the collateral when the creditor determines that foreclosure is probable. Management considers its investment in one-to-four family real estate loans and consumer loans to be homogeneous groups of loans. As such, these loans are not individually evaluated for impairment but rather are collectively evaluated under ASC 450.

4. Interest Rate Swap

The Company, from time to time, has entered into interest rate cap agreements in order to hedge its exposure to interest rate fluctuations. The Company adopted the provisions of FASB ASC 815, "Derivatives and Hedging Activities", on January 1, 2009. The statement requires the Company to recognize all derivative instruments at fair value as either assets or liabilities. Financial derivatives are reported at fair value in other assets or other liabilities. For derivatives not designated as hedges, the gain or loss is recognized in current earnings. Amounts reclassed into earnings, when the hedged transaction culminates, are included in interest income. At both December 31, 2010 and 2009, the Company had notional amounts of $40.0 million outstanding.

5. Bank Premises and Equipment

Bank premises and equipment, including leasehold improvements, are stated at cost less accumulated depreciation. Depreciation expense is computed on the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the shorter of the estimated useful lives of the improvements or the terms of the related leases. An accelerated depreciation method is used for tax purposes.

6. Other Real Estate Owned

Other real estate owned, representing property acquired through foreclosure, is recorded at estimated fair market value, less costs of disposal. When property is acquired, the excess, if any, of the loan balance over fair market value is charged to the allowance for loan losses. Periodically thereafter, the asset is reviewed for subsequent declines in the estimated fair market value. Subsequent declines, if any, and holding costs, as well as gains and losses on subsequent sale, are included in the consolidated statements of operations.

BERKSHIRE BANCORP INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (continued)

Note B - (continued)

7. Goodwill

Goodwill resulting from acquisitions is accounted for under FASB ASC 350, "Intangibles-Goodwill and Other". Goodwill is subject to impairment testing at least annually or when triggering events occur to determine whether write-downs of the recorded balances are necessary. The Company tests for impairment based on the goodwill maintained at the Bank, the reporting unit. A fair value is determined for the reporting unit based on at least one of three various market valuation methodologies. If the fair value of the reporting unit exceeds the book value, no impairment of recorded goodwill is necessary. If the fair value of the reporting unit is less, a charge may be required on the Company's books to write down the related goodwill to the fair value, which would then become the new carrying value. The Company performed its annual test as of December 31, 2010 and determined that a write down of $18.5 million, all of the goodwill maintained at the reporting unit, was appropriate.

In analyzing the goodwill at December 31, 2010 the Company considered the three conventional approaches to valuing an entity, the market approach, the income approach, and the cost approach and focused the evaluation on an income approach.

The income approach is based on discounted cash flows which are derived from internal forecasts and economic expectations for the reporting unit. The key assumptions used to determine fair value under the income approach included the cash flow period, terminal values based on a terminal growth rate and the discount rate. The discount rate used in the income approach for the reporting unit evaluated at December 31, 2010 was 13%. As a result of applying the first step of goodwill impairment testing to determine if potential goodwill impairment existed at December 31, 2010, the reporting unit's carrying value exceeded the fair value which required a Step 2 analysis.

Based on the fair value being less than the carrying value a Step 2 analysis, which involves a valuation of the assets of the reporting unit as if it had just been acquired and comparing that with the carrying amount of goodwill, was performed. The results of the Step 2 analysis determined that a full write down of the goodwill was required.

8. Income Taxes

The Company accounts for income taxes under the liability method of accounting for income taxes. Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities as measured by the enacted tax rates that will be in effect when these differences reverse. Deferred tax expense is the result of changes in deferred tax assets and liabilities. The principal types of differences between assets and liabilities for financial statement and tax return purposes are allowance for loan losses, deferred loan fees, deferred compensation and securities available for sale.

9. Net Loss Per Share

Basic earnings and/or loss per common share excludes dilution and is computed by dividing income and/or loss available to common stockholders by the weighted-average common shares outstanding during the period. Diluted earnings per share takes into account the potential dilution that could occur if securities or other contracts to issue common stock were exercised and converted into common stock.

10. Stock Based Compensation

The Company had one stock-based employee compensation plan which expired in March 2009 in accordance with the terms of the plan. There was no activity in the stock-based employee compensation plan for any period presented.

BERKSHIRE BANCORP INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (continued)

Note B - (continued)

11. Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents are comprised of cash and due from banks, interest bearing deposits in other financial institutions with an original maturity of less than ninety days, and federal funds sold.

12. Restrictions on Cash and Due From Banks

The Bank is required to maintain reserves against customer demand deposits by keeping cash on hand or cash balances with the Federal Reserve Bank in a non-interest bearing account. The amounts of those reserve and cash balances was approximately $4,737,000 and $4,087,000 at December 31, 2010 and 2009, respectively.

13. Federal Home Loan Bank Stock

The Company is required as a condition of membership in the Federal Home Loan Bank of New York ("FHLBNY") to maintain an investment in FHLBNY common stock. The stock is redeemable at par, and therefore, its cost is equivalent to its redemption value. At December 31, 2010 and 2009, management does not believe this asset is impaired.

14. Comprehensive Income

The Company follows the provisions of FASB ASC 220, "Comprehensive Income", ("ASC 220") which includes net income as well as certain other items, which result in a change to equity during the period. The following tables present the components of comprehensive income (loss). (In thousands.)

	Year Ended December 31, 2010		
	Before tax amount	Tax (expense) benefit	Net of tax Amount
Unrealized gains (losses) on investment securities:			
Unrealized holding gains arising during period	$ 7,612	$ (3,045)	$ 4,567
Less reclassification adjustment for losses realized in net income	(200)	80	(120)
Unrealized gain on investment securities	7,812	(3,125)	4,687
Other comprehensive income, net	$ 7,812	$ (3,125)	$ 4,687

	Year Ended December 31, 2009		
	Before tax amount	Tax (expense) benefit	Net of tax Amount
Unrealized gains (losses) on investment securities:			
Unrealized holding gains (losses) arising during period	$ 24,565	$ (8,374)	$ 15,181
Less reclassification adjustment for gains (losses) realized in net income	(18,295)	7,318	(10,977)

Unrealized gain (loss) on investment securities	42,860	(16,702)	26,158
Change in minimum pension liability	164	—	164
Other comprehensive income, net	$ 43,761	$ (16,702)	$ 26,322

BERKSHIRE BANCORP INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (continued)

Note C - INVESTMENT SECURITIES

The following is a summary of held to maturity investment securities:

	December 31, 2010			
	Amortized Cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(In thousands)			
U.S. Government Agencies	$ 319	$ 1	$ (4)	$ 316

	December 31, 2009			
	Amortized Cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(In thousands)			
U.S. Government Agencies	$ 340	$ —	$ (3)	$ 337

The following is a summary of available-for-sale investment securities:

	December 31, 2010			
	Amortized Cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(In thousands)			
U.S. Treasury Notes	$50,015	$61	$—	$50,076
U.S. Government Agencies	88,469	591	(1,533)	87,527
Mortgage-backed securities	117,724	4,099	(686)	121,137
Corporate notes	13,773	44	(639)	13,178
Single Issuer Trust Preferred CDO	1,023	271	—	1,294
Pooled Trust Preferred CDO	6,459	—	(6,000)	459
Municipal securities	2,632	102	(46)	2,688
Auction rate securities	73,993	397	(12,311)	62,079
Marketable equity securities and other	2,810	316	—	3,126
Totals	$356,898	$5,881	$(21,215)	$341,564

BERKSHIRE BANCORP INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (continued)

Note C - (continued)

	December 31, 2009			
	Amortized Cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(In thousands)			
U.S. Treasury Notes	$ 50,236	$ 35	$ (65)	$ 50,206
U.S. Government Agencies	76,259	59	(793)	75,525
Mortgage-backed securities	134,810	1,943	(710)	136,043
Corporate notes	19,029	1,011	(2,311)	17,729
Single Issuer Trust Preferred CDO	1,021	—	—	1,021
Pooled Trust Preferred CDO	6,463	—	(6,313)	150
Municipal securities	1,973	198	—	2,171
Auction rate securities	78,895	—	(11,953)	66,942
Marketable equity securities and other	7,648	69	(26)	7,691
Totals	$ 376,334	$ 3,315	$ (22,171)	$ 357,478

The following table shows the outstanding auction rate securities at December 31, 2010 and 2009:

	2010		2009	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
Federal Home Loan Mortgage Corporation Preferred Shares	$ 693	$ 1,089	1,895	1,895
Preferred Shares of Money Center Banks	71,300	58,990	75,000	63,047
Public Utility Debt and Equity Securities	2,000	2,000	2,000	2,000
Totals	$ 73,993	$ 62,074	$ 78,895	$ 66,942

BERKSHIRE BANCORP INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (continued)

Note C - (continued)

The Company has investments in certain debt securities, as noted in the table below, that have unrealized losses or may be otherwise impaired, but OTTI has not been recognized in the financial statements as management believes the decline is due to the credit markets coupled with the interest rate environment. In addition, these securities are making payments in accordance with the terms of the instruments.

The following table indicates the length of time individual securities that we consider temporarily impaired have been in a continuous unrealized loss position at December 31, 2010 (in thousands):

	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Description of Securities						
U.S. Government Agencies	$37,071	$1,533	$31	$—	$37,102	$1,533
Mortgage-backed securities	24,860	381	9,745	305	34,605	686
Corporate notes	1,373	9	8,314	630	9,687	639
Pooled Trust Preferred CDO	—	—	458	6,000	458	6,000
Auction rate securities	4,504	497	54,486	11,814	58,990	12,311
Municipal securities	1,747	46	—	—	1,747	46
Total temporarily impaired securities	$69,555	$2,466	$73,034	$18,749	$142,589	$21,215

The Company had a total of 40 debt securities with a fair market value of $81.9 million which were temporarily impaired at December 31, 2010. The total unrealized loss on these securities was $8.9 million, which is attributable to the market interest volatility, the continued illiquidity of the debt markets, and uncertainty in the financial markets. The remaining unrealized loss of $12.3 million is on 11 auction rate securities which have declined in value due to auction failures beginning in February 2008. It is not more likely than not that we would sell these securities before maturity, and we have the intent to hold all of these securities to maturity and will not be required to sell these securities, due to our ratio of cash and cash equivalents of approximately 9.3% of total assets at December 31, 2010. Therefore, the unrealized losses associated with these securities are not considered to be other than temporary.

BERKSHIRE BANCORP INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (continued)

Note C - (continued)

The following table indicates the length of time individual securities that we consider temporarily impaired have been in a continuous unrealized loss position at December 31, 2009 (in thousands):

	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Description of Securities						
U.S. Treasury Notes	$30,048	$65	$—	$—	$30,048	$65
U.S. Government Agencies	40,518	748	19,948	45	60,466	793
Mortgage-backed securities	7,932	43	15,661	667	23,593	710
Corporate notes	1,613	13	7,522	2,298	9,135	2,311
Pooled Trust Preferred CDO	—	—	150	6,313	150	6,313
Auction rate securities	—	—	58,047	11,953	58,047	11,953
Subtotal, debt securities	80,111	869	101,328	21,276	181,439	22,145
Marketable equity securities and other	—	—	1,044	26	1,044	26
Total temporarily impaired securities	$80,111	$869	$102,372	$21,302	$182,483	$22,171

The Company had a total of 52 debt securities with a fair market value of $123.4 million which were temporarily impaired at December 31, 2009. The total unrealized loss on these securities was $10.2 million, which is attributable to the market interest volatility, the continued illiquidity of the debt markets, and uncertainty in the financial markets. The remaining unrealized loss of $12.0 million is on 10 auction rate securities which have declined in value due to auction failures beginning in February 2008. It is not more likely than not that we would sell these securities before maturity, and we have the intent to hold all of these securities to maturity and will not be required to sell these securities, due to our ratio of cash and cash equivalents of approximately 6.2% of total assets at December 31, 2009. Therefore, the unrealized losses associated with these securities are not considered to be other than temporary.

The Company also had 2 equity securities with an aggregate fair market value of $1.0 million which were temporarily impaired at December 31, 2009. The total unrealized loss on these securities was $26,000. The preponderance of the unrealized loss for marketable equity securities and other is a $24,000 unrealized loss at December 31, 2009 on one money center bank preferred issue. As the stock market declined in the first and second quarter of 2009, especially related to the financial sector, the Company's investments decreased in value. At March 31, 2009, the unrealized loss totaled $348,000. At December 31, 2009, the fair value of this security had rebounded to an unrealized loss position of $24,000. The issuer of this preferred equity security has raised sufficient capital to repay the Troubled Asset Relief Program ("TARP") funds, continue to pay its dividend, maintain its credit rating and remain well-capitalized. Based upon these factors, coupled with the increasing stock market prices, especially in the financial sector, the Company does not believe an OTTI charge is warranted at December 31, 2009.

BERKSHIRE BANCORP INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (continued)

Note C - (continued)

The amortized cost and fair value of investment securities available for sale and held to maturity, by contractual maturity, at December 31, 2010 are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	December 31, 2010			
	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
Due in one year or less	$ 41,736	$ 41,805	$ —	$ —
Due after one through five years	37,074	36,812	—	—
Due after five through ten years	39,515	40,114	—	—
Due after ten years	161,770	157,628	319	316
Auction rate securities	73,993	62,079	—	—
Marketable equity securities and other	2,810	3,126	—	—
Totals	$ 356,898	$ 341,564	$ 319	$ 316

Gross gains realized on the sales of investment securities for the years ended December 31, 2010 and 2009 were approximately $1,224,000 and $553,000, respectively. Gross losses were approximately $222,000 and $1,413,000 for the years ended December 31, 2010 and 2009, respectively. During the year ended December 31, 2010, we sold certain money center auction rate securities and certain corporate notes. During the year ended December 31, 2009, we sold the Fannie Mae auction rate securities and certain corporate notes.

At both December 31, 2010 and 2009, securities sold under agreements to repurchase with a book value of approximately $50.0 million were outstanding. The book value of the securities pledged for these repurchase agreements was $57.8 million and $55.6 million, respectively. As of December 31, 2010 and 2009, the Company did not own investment securities of any one issuer where the carrying value exceeded 10% of stockholders' equity.

BERKSHIRE BANCORP INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (continued)

Note D - LOANS

Major classifications of loans are as follows:

	December 31, 2010	December 31, 2009
	(In thousands)	
Commercial and Industrial and Finance Leases	$ 19,321	$ 50,672
Secured by Real Estate		
Residential	114,594	129,925
Multi family	5,865	7,432
Commercial Real Estate and Construction	226,667	242,927
Consumer	795	396
	367,242	431,352
Deferred loan fees	(937)	(1,003)
Allowance for loan losses	(16,105)	(11,416)
	$ 350,200	$ 418,933

Changes in the allowance for loan losses are as follows:

	For The Years Ended December 31, 2010	2009
	(In thousands)	
Balance at beginning of year	$ 11,416	$ 9,204
Provision charged to operations	5,750	9,300
Loans charged off	(1,067)	(7,194)
Recoveries	6	106
Balance at end of year	$ 16,105	$ 11,416

The Bank had $1.5 million and $13.9 million of non-accrual loans as of December 31, 2010 and 2009, respectively, and $495,000 and $0 of loans delinquent more than ninety days and still accruing interest at December 31, 2010 and 2009, respectively. The Bank classified the non-accrual loans as impaired loans at both December 31, 2010 and 2009. However, no specific reserves for impaired loans was made because the collateral underlying the non-accrual loans was deemed to be sufficient to cover any loss in the event of a default. Therefore, the allowance for loan loss is includable in the calculation of regulatory capital up to a maximum of 125% of risk-weighted assets or approximately $5.8 million and $6.9 million at December 31, 2010 and 2009, respectively.

Average impaired loans for the twelve months ended December 31, 2010 and 2009 were approximately $5.9 million and $9.1 million, respectively. Interest income that would have been recognized had these loans performed in accordance with their contractual terms was approximately $325,000 and $683,000, respectively.

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BERKSHIRE BANCORP INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (continued)

Note D - (continued)

Allowance for Credit Losses and Recorded Investment in Financing Receivables

The qualitative factors are determined based on the various risk characteristics of each loan class. Relevant risk characteristics are as follows:

Commercial and industrial loans - Loans in this class are made to businesses. Generally these loans are secured by assets of the business and repayment is expected from the cash flows of the business. A weakened economy, and resultant decreased consumer and/or business spending will have an effect on the credit quality in this loan class.

Commercial real estate - Loans in this class include income-producing investment properties and owner-occupied real estate used for business purposes. The underlying properties are generally located largely in our primary market area. The cash flows of the income producing investment properties are adversely impacted by a downturn in the economy as evidenced by increased vacancy rates, which in turn, will have an effect on credit quality. In the case of owner-occupied real estate used for business purposes a weakened economy and resultant decreased consumer and/or business spending will have an adverse effect on credit quality.

Construction loans - Loans in this class primarily include land loans to local individuals, contractors and developers for developing the land for sale or for the purpose of making improvements thereon. Repayment is derived from sale of the lots/units including any pre-sold units. Credit risk is affected by market conditions, time to sell at an adequate price and cost overruns. To a lesser extent this class includes commercial development projects we finance which in most cases have an interest-only phase during construction and then convert to permanent financing. Credit risk is affected by cost overruns, market conditions and the availability of permanent financing, to the extent such permanent financing is not being provided by us.

Residential real estate - Loans in this class are made to and secured by owner-occupied residential real estate and repayment is dependent on the credit quality of the individual borrower. The overall health of the economy, including unemployment rates and housing prices, will have an effect on the credit quality in this loan class. The Company generally does not originate loans with a loan-to-value ratio greater than 80 percent and does not grant subprime loans.

Multi-Family real estate - Loans in this class are made to and secured by owner-occupied residential real estate and repayment is dependent on the credit quality of the individual borrower. The overall health of the economy, including unemployment rates and housing prices, will have an effect on the credit quality in this loan class. The Company generally does not originate loans with a loan-to-value ratio greater than 80 percent and does not grant subprime loans.

Consumer loans - Loans in this class may be either secured or unsecured and repayment is dependent on the credit quality of the individual borrower and, if applicable, sale of the collateral securing the loan (such as automobile or other secured assets). Therefore the overall health of the economy, including unemployment rates and housing prices, will have an effect on the credit quality in this loan class.

Financing Leases - Loans in this class may be either secured or unsecured and repayment is dependent on the credit quality of the individual borrower and, if applicable, sale of the collateral securing the loan (such as equipment or other secured assets). Therefore the overall health of the economy, including unemployment rates and housing prices, will have an effect on the credit quality in this loan class.

BERKSHIRE BANCORP INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (continued)

Note D - (continued)

Allowance for Credit Losses and Recorded Investment in Loans
For the Year Ended December 31, 2010
(In thousands)

	Commercial & Industrial	Commercial Real Estate	Construction	Multi Family	Residential Real Estate	Consumer	Finance Leases	Unallocated	Total
Allowance for credit losses:									
Beginning balance	$ 1,349	$ 2,592	$ 3,211	$ 30	$ 763	$ 57	$ 115	$ 3,299	$ 11,416
Charge-offs	(300)	(766)				(1)			(1,067)
Recoveries	6								6
Provision	(638)	6,784	(427)	117	1,303	(31)	304	(1,662)	5,750
Ending balance	$ 417	$ 8,610	$ 2,784	$ 147	$ 2,066	$ 25	$ 419	$ 1,637	$ 16,105
Ending balance: individually evaluated for impairment	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Ending balance: collectively evaluated for impairment	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 16,105
Financing Receivables:									
Ending balance	$ 10,498	$ 193,500	$ 33,167	$ 5,865	$ 114,594	$ 795	$ 8,823	$ 0	$ 367,242
Ending balance: individually evaluated for impairment	$ 0	$ 816	$ 0	$ 0	$ 1,998	$ 0	$ 0	$ 0	$ 2,814
Ending balance: collectively evaluated for impairment	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 364,428

The $2.0 million of residential impaired loans were identified as troubled debt restructurings ("TDRs"). TDRs are the result of an economic concession being granted to borrowers experiencing financial difficulties. Certain TDRs are classified as nonperforming at the time of restructuring and may only return to performing status after considering the borrower's sustained repayment performance under the revised payment terms for a reasonable period, generally six months. We evaluated all of the impaired loans by analyzing the collateral value and by evaluating the discounted cash flow. Based on the nature of the modifications no impairment was required.

BERKSHIRE BANCORP INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (continued)

Note D - (continued)

Age Analysis of Past Due Loans
As of December 31, 2010
(In thousands)

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	Recorded Loans > 90 Days and Accruing
Commercial & industrial	$ 251	$ —	$ 166	$ 417	$ 10,081	$ 10,498	$ 29
Construction	900	—	—	900	32,267	33,167	—
Commercial real estate	1,356	2,000	—	3,356	190,144	193,500	—
Consumer	—	—	15	15	780	795	11
Residential - prime	404	387	695	1,486	113,108	114,594	451
Residential - multi family	—	—	—	—	5,865	5,865	—
Finance leases	—	—	—	—	8,823	8,823	—
Total	$ 2,911	$ 2,387	$ 876	$ 6,174	$ 361,068	$ 367,242	$ 495

BERKSHIRE BANCORP INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (continued)

Note D - (continued)

Impaired Loans
For the Year Ended December 31, 2010
(In thousands)

	Recorded Loan	Unpaid Principal Balance	Related Allowance	Average Recorded Loan	Interest Income Recognized	Interest Income Foregone
With no related allowance recorded:						
Commercial & industrial	$ —	$ —	$ —	$ 292	$ —	$ 22
Construction	—	—	—	4,211	—	303
Commercial real estate	816	816	—	400	99	—
Consumer	—	—	—	—	—	—
Residential - prime	1,998	1,998	—	963	125	—
Residential - multi family	—	—	—	—	—	—
Finance leases	—	—	—	—	—	—
Total	$ 2,814	$ 2,814	$ —	$ 5,866	$ 224	$ 325
Commercial	816	816	—	4,903	99	325
Consumer	—	—	—	—	—	—