ABLEAUCTIONS COM INC
Form S-3
February 05, 2004

As filed with the Securities and Exchange Commission on February 4, 2004

Registration No.

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM S-3

REGISTRATION STATEMENT

UNDER

THE SECURTIES ACT OF 1933

ABLEAUCTIONS.COM, INC.

(Exact name of Registrant as specified in its Charter)

1963 Lougheed Highway

Coquitlam, British Columbia V3K 3T8

Telephone: (604) 805-4580

(Address, including zip code and telephone number, including area code

of Registrant s principal executive office)

Abdul Ladha

Chief Executive Officer

Ableauctions.com, Inc.

1963 Lougheed Highway

Coquitlam, British Columbia V3K 3T8

Telephone: (604) 521-3369

(Name, address, including zip code and telephone number,

including area code of agent for service)

Copies of communications to:

Richardson & Patel LLP

10900 Wilshire Boulevard, Suite 500

Los Angeles, California 90024

Telephone: (310) 208-1182

Telecopier: (310) 208-1154

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box: [   ]

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. [X]

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [   ]

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [   ]

If delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box. [   ]

CALCULATION OF REGISTRATION FEE

Title of each class of Securities to be registered	Amount to be registered	Proposed maximum offering price per unit	Proposed maximum aggregate offering price (1)	Amount of registration fee
Common stock, $0.001 par value	4,615,385	$1.07(1)	$4,938,462	$625.70
Common stock, $0.001 par value to be issued upon conversion of warrants				
	1,584,615	$1.07(2)	$1,695,538	$214.82

(1)

Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(c) under the Securities Act of 1933, as amended using the average high and low prices reported by the American Stock Exchange on February 3, 2004.

(2)

Calculated in accordance with Rule 457(g) under the Securities Act of 1933, as amended.

The Registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

Information in this prospectus is not complete and may be changed. The selling stockholders may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to completion, dated February __, 2004

You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with information that is different. This prospectus may be used only where it is legal to sell these securities. Information may have changed since that date.

ABLEAUCTIONS.COM, INC.

6,200,000 SHARES OF COMMON STOCK

This prospectus relates to the proposed sale from time to time of up to 6,200,000 shares of common stock, par value $0.001, by the selling shareholders whose names are set forth in this prospectus. The selling shareholders are offering:

4,615,385 shares of common stock and

1,584,615 shares of common stock that may be issued upon the exercise of warrants held by them.

The selling shareholders will sell in accordance with the terms described in the section of this prospectus titled Selling Shareholders and Plan of Distribution. We will not receive any of the proceeds from the sale of the securities by the selling shareholders, although if any selling shareholder exercises a warrant, we will receive the proceeds from the exercise of such warrant.

Our common stock currently is quoted on the American Stock Exchange under the symbol AAC.

An investment in our securities involves a high degree of risk. You should purchase our securities only if you can afford a complete loss of your investment. See Risk Factors beginning at page 3.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is February __, 2004.

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PROSPECTUS SUMMARY

This summary highlights important information about our business and about this offering. Because it is a summary, it does not contain all the information you should consider before investing in our securities. Please read the entire prospectus.

ABLEAUCTIONS.COM, INC.

Our primary business activity is as a liquidator and auction technology company. We have a short history of operations. We have developed our business and technology through the acquisition of auction houses in the United States, Canada and England. Our primary goal is to conduct live auctions for our clients and simultaneously broadcast them over the Internet. Through our liquidation stores, we also acquire merchandise through bankruptcies, insolvencies and defaults to sell at auction.

We have developed a proprietary technology that allows us to broadcast auctions in real time over the Internet. Since the development of this technology, we have worked to secure long-term strategic partnerships with various auctioneers to either use our technology or to broadcast their auctions through our wholly-owned subsidiary, iCollector.com. Technologies Ltd., which will be referred to as iCollector throughout this prospectus.

Through iCollector, we conduct approximately 10 auctions per month on eBay Live Auctions. iCollector represents antique, fine art and premium collectible auction houses as well as industrial auction houses. iCollector broadcasts its auctions on eBay for its clients and also catalogues its clients inventory and hosts the catalogues on its site located at www.icollector.com.

In June 2002, we announced that we renewed our agreement with eBay to facilitate live auctions between our global auction house client base and eBay Live Auctions. Under our strategic alliance with eBay Live Auctions, iCollector facilitated over 250 live auctions in 2001 and 209 live auctions in 2002. Inventory included fine and decorative arts, modern and contemporary art, memorabilia, wine, fine furniture and collectibles that were obtained from countries worldwide, including Sweden, Italy, Spain, England, Canada and the United States.

In July 2003, we announced that Heritage Galleries & Auctioneers, a large dealer and auctioneer of collectibles including rare coins, currency, comics, movie posters and illustration art, and Kruse International Inc., an auctioneer specializing in collector automobiles, agreed to allow us to broadcast their auctions, either by implementing our live-auction technology or by having iCollector, through e-Bay Live Auctions, conduct the auctions. In 2003, Heritage and Kruse ran approximately 15 auctions.

On October 23, 2003 we acquired Rapidfusion Technologies Inc. (RTI). RTI creates and maintains websites, builds and supports custom hardware and network configurations and has developed a point of sale software that allows purchase orders, invoices and shipping notices to be sent by telephone overnight. We intend to continue the business of RTI, and to develop a Windows version of RTI s point of sale software, which we believe may be useful to our operations in the future.

HOW TO CONTACT US

We maintain our principal offices at 1963 Lougheed Highway, Coquitlam, British Columbia V3K 3T8. Our telephone number at that address is (604) 521-3369.

THE OFFERING

We are registering 6,200,000 shares of our common stock for sale by the shareholders identified in the section of this prospectus titled Selling Shareholders and Plan of Distribution. Of this amount, 4,615,385 shares are owned by the selling shareholders and 1,584,615 shares will be issued to the selling shareholders upon exercise of warrants issued to them. The selling shareholders are not obligated to exercise the warrants.

RISK FACTORS

Our business is subject to a number of risks as outlined below. An investment in our securities is speculative in nature and involves a high degree of risk. You should read this prospectus carefully and consider the following risk factors:

We have a limited operating history and a history of losses, therefore it will be difficult for you to determine if our business will be successful. If our business is not successful, you could lose your entire investment.

Before our acquisition of Able Auctions (1991) Ltd. in August 1999, we had no material business or results of operation. We incurred a net loss of $1,316,637 during 2002. We do not believe that we will generate sufficient revenues to support our planned activities in fiscal 2004 because of our projected development and marketing costs. In the foreseeable future, we believe that these expenses will increase our net losses, and we cannot assure you that we will ever be profitable or maintain profitability.

As of December 31, 2002, we had current assets of $822,107 and current liabilities of $884,221. Our working capital deficiency at December 31, 2002 was $62,114. Our auditors have expressed doubt about our ability to continue as a going concern because our operating expenses exceed our revenues.

Because of our losses, it is difficult to evaluate our business and our prospects. Our revenue and income potential is unproven and our business model is still emerging. We cannot assure you that we will attract consignors or bidders to use our live auction technology or generate significant revenues in the future. We cannot guarantee that we will ever establish a sizeable market share or achieve commercial success. If our business is unsuccessful, you could lose your entire investment.

Our operating results fluctuate significantly. This makes it difficult to accurately predict what the revenues from our operations will be. Therefore, it will be difficult for you to accurately assess the risk in investing in our securities.

Our operating results have varied on a quarterly basis during our short operating history and may fluctuate significantly as a result of a variety of factors, many of which are outside our control. Factors that may affect our quarterly operating results include:

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our ability to retain an active user base, attract new users who list items for sale and who complete transactions through our service and maintain customer satisfaction;

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our ability to attract new users to our live auction technology;

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the success of our brand building and marketing campaigns;

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price competition;

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the level of use of the Internet and online services;

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increasing confidence in and acceptance of the Internet and other online services for commerce and, in particular, the auctioning of products;

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consumer and business confidence in the security of transactions over the Internet;

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our ability to upgrade and develop our systems and infrastructure to accommodate growth;

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technical difficulties or service interruptions;

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the amount and timing of operating costs and capital expenditures relating to expansion of our business, operations and infrastructure;

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governmental regulation by Federal or local governments; and

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general economic conditions as well as economic conditions specific to the Internet and online commerce industries.

As a result of our limited operating history and the emerging nature of the markets in which we compete, it is difficult to forecast our revenues or earnings accurately. In addition, we have no backlog and a significant portion of our net revenues for a particular quarter are derived from auctions that are listed and completed during that quarter. Our current and future expense levels are based largely on our estimates of future revenues and are, to a large extent, fixed. We may be unable to adjust spending in a timely manner to compensate for any unexpected revenue shortfall. Accordingly, any significant shortfall in revenues relative to our planned expenditures would have an immediate adverse effect on our business, results of operations and financial condition. Further, as a strategic response to changes in the competitive environment, we may from time to time make certain pricing, service or marketing decisions that could have a material adverse effect on our business, results of operations and financial condition.

We believe that our results of operations are somewhat seasonal in nature, with fewer auctions listed around the Thanksgiving and Christmas holidays in the fourth quarter. Our limited operating history, however, makes it difficult to fully assess the impact of these seasonal factors or whether or not our business is susceptible to cyclical fluctuations in the U.S. and Canadian economy. There can be no assurance that seasonal or cyclical variations in our operations will not become more pronounced over time or that they will not materially adversely affect our results of operations in the future.

Due to the foregoing factors, our quarterly revenues and operating results are difficult to forecast. We believe that period-to-period comparisons of our operating results may not be meaningful and should not be relied upon as an indication of future performance. These factors will make it difficult for you to assess the risk involved in investing in our securities.

Our growth strategy success depends on our ability to acquire additional auction and liquidation businesses, to market and develop our new iCollector business model, and to integrate these acquisitions and models into our business. If we fail in these endeavors, your investment may significantly decline in value.

Our business strategy is to grow through acquisitions or strategic affiliations with auction companies in a number of North American markets. We may acquire additional auction houses, although we have not publicly announced any plans to do so. There can be no assurance that our current management, personnel, and corporate infrastructure will be adequate to manage future growth, if any. The success of our business strategy depends on making further acquisitions of or entering into strategic affiliations with auction companies.

We acquired iCollector PLC in September 2001. At that time, iCollector PLC was insolvent and needed working capital. We agreed to acquire iCollector PLC as long as its majority shareholder was willing to finance iCollector PLC until it met its projected cash flow targets. ICollector PLC did not attain the projections, and there were not adequate resources to continue funding its losses. In December 2001, iCollector PLC was restructured and it was placed in formal liquidation in January 2002. Thereafter, we restructured the operations of iCollector PLC. We cannot assure you that the new business model will be profitable. The success of the new iCollector business model is dependent upon the strengths and relationships of the current sales team, the skills of the technology team, and the continued support and generation of new customers. We cannot assure you that the formal liquidation of iCollector PLC will not result in legal action against us and may have a material adverse effect on our business, financial condition and results of operations.

We cannot guarantee that we will be able to integrate new acquisitions or affiliations successfully into our company without substantial costs, delays, or other operational or financial problems. Further, acquisitions and expansion into new markets involve a number of special risks, including possible adverse effects on our operating results, diversion of management s attention, failure to retain key personnel, risks associated with unanticipated events or liabilities, and amortization of acquired intangible assets. Some or all of these risks could have a material adverse effect on our business, financial condition and results of operations, and could cause the value of your investment in our securities to decline significantly.

Our growth strategy success depends on our ability to acquire additional businesses and to integrate these acquisitions and models into our business. If we fail in these endeavors, your investment may significantly decline in value.

On October 23, 2003 we acquired Rapidfusion Technologies Inc. (RTI). RTI creates and maintains websites, builds and supports custom hardware and network configurations and has developed a point of sale software that allows purchase orders, invoices and shipping notices to be sent by telephone overnight. We intend to continue the business of RTI, and to develop a Windows version of RTI s point of sale software, which we believe may be useful to our operations in the future.

We cannot guarantee that we will be able to integrate new acquisitions or affiliations successfully into our company without substantial costs, delays, or other operational or financial problems. Further, acquisitions and expansion into new markets involve a number of special risks, including possible adverse effects on our operating results, diversion of management s attention, failure to retain key personnel, risks associated with unanticipated events or liabilities, and amortization of acquired intangible assets. Some or all of these risks could have a material adverse effect on our business, financial condition and results of operations, and could cause the value of your investment in our securities to decline significantly.

If we are unable to achieve a significant number of visitors to our auction websites and successfully facilitate transactions, we may be unable to generate sufficient revenues to earn a profit. If we are unable to earn a profit, the value of your investment may decline significantly.

The success of our Ableauctions.com and iCollector.com web sites depends on whether or not there is significant market acceptance of these web sites by consumers and businesses. We anticipate that we will have very limited market acceptance until our brand name is established. Our business concept of offering an Internet solution for broadcasting live auctions is still being tested and we cannot assure you that our Internet strategy to broadcast live auctions will be successful, or that it will increase revenues of our live auctions.

Our competitors and potential competitors may offer more cost-effective merchandising solutions than us, which could damage our business and our ability to successfully commercialize our web site. Our failure to attract visitors, successfully complete transactions, and develop an adequate auction house base will seriously harm our business and our ability to earn a profit which, in turn, will make the value of your investment decline significantly.

We have capacity constraints and system development risks that could damage our customer relations or inhibit our possible growth, and we may need to expand our management systems and controls quickly. If we are unable to manage these situations, our business, results of operations and financial condition will be adversely affected, which will cause the value of your investment to decline significantly.

Our success and our ability to provide high quality customer service largely depends on the efficient and uninterrupted operation of our computer, Internet and communications systems and the computers and communication systems of third party vendors to accommodate any significant increases in the numbers of consumers and businesses using our services. Our success also depends on our abilities, and that of our vendors, to rapidly expand transaction-processing systems and network infrastructure without any systems interruptions in order to accommodate any significant increases in use of our service.

We cannot assure you that the vendors or partners we have selected and will select in the future to host our activities will be capable of accommodating any significant number or increases in the number of consumers and auction houses

using our services. Such failures will have a material adverse affect on our business and results of operations. We may experience periodic systems interruptions and down time caused by traffic to our web site and technical difficulties, which may cause customer dissatisfaction and may adversely affect our results of operations. Limitations of our technology infrastructure and that of our vendors may prevent us from maximizing our business opportunities.

We seek to generate a high volume of traffic and transactions. Accordingly, the satisfactory performance, reliability and availability of our web site, processing systems and network infrastructure are critical to our reputation and our ability to attract and retain large numbers of users. Our revenues depend on the number of items listed by users, the volume of user auctions that are successfully completed and the final prices paid for the items listed. Any system interruptions that result in the unavailability of our service or reduced customer activity would reduce the volume of items listed and auctions completed and could affect the average selling price of the items. Interruptions of service may also diminish our attractiveness to users of our live auction technology.

We cannot assure you that we will be able to accurately project the rate or timing of increases, if any, in the use of our services or timely expand and upgrade our systems and infrastructure to accommodate such increases in a timely manner. Any failure to expand or upgrade our systems could have a material adverse effect on our business, results of operations and financial condition.

We use internally developed systems for our service and transaction processing, including billing and collections processing. We must continually enhance and improve these systems in order to accommodate the level of use by our customers. Furthermore, in the future, we anticipate that we may need to add additional features and functionality to our services that would result in the need to develop or license additional technologies. Our inability to add additional software and hardware or to develop and further upgrade our existing technology, transaction processing systems or network infrastructure to accommodate increased traffic may cause unanticipated system disruptions, slower response times, degradation in levels of customer service, impaired quality of the user's experience, and delays in reporting accurate financial information. In addition, although we work to prevent unauthorized access to our data, it is impossible to completely eliminate this risk. We cannot assure you that we will be able, in a timely manner, to effectively upgrade and expand our systems or to integrate smoothly any newly developed or purchased technologies with our existing systems. Any inability to do so would have a material adverse effect on our business, results of operations and financial condition, which will cause the value of your investment to decline significantly.

Our business is at risk for system failures that disrupt our operations, which would adversely affect our business and cause the value of your investment to decline significantly.

Our ability to facilitate trades successfully and provide high quality customer service depends on the efficient and uninterrupted operation of our computer and communications hardware systems. Substantially all of our computer hardware for operating our service is currently located at the facilities of Telus in Vancouver, British Columbia. These systems and operations are vulnerable to damage or interruption from earthquakes, floods, fires, power loss, telecommunication failures, break-ins, computer viruses, sabotage, intentional acts of vandalism and similar events. We do not presently have fully redundant systems, a formal disaster recovery plan or alternative providers of hosting services and we do not carry sufficient business interruption insurance to compensate for losses that may occur. Any

damage to or failure of our systems could result in reductions in, or terminations of, our service, which would have a material adverse effect on our business, results of operations and financial condition, which would cause the value of your investment to decline significantly.

Changing technology may render our equipment, software, and programming obsolete or irrelevant. If this were to happen, it would have a material adverse effect on our business, results of operations and financial condition and the value of your investment would decline significantly.

The market for Internet-based products and services is characterized by rapid technological developments, frequent new product introductions, and evolving industry standards. The emerging character of these products and services and their rapid evolution will require that we continually improve the performance, features, and reliability of our Internet-based products and services, particularly in response to competitive offerings. We cannot guarantee that we will be successful in responding quickly, cost effectively, and sufficiently to these developments. In addition, the widespread adoption of new Internet technologies or standards could require substantial expenditures by us to modify or adapt our Internet sites and services and could fundamentally affect the character, viability, and frequency of Internet-based advertising, either of which could have a material adverse effect on our business, financial condition, and operating results. In addition, new Internet-based products, services, or enhancements offered by us may contain design flaws or other defects that could require costly modifications or result in a loss of customer confidence. Any of the foregoing would have a material adverse effect on our business, financial condition, and operating results and cause the value of your investment to decline significantly.

We depend on eBay for revenue and uninterrupted Internet access and may be harmed by the loss of any such service. If we were to lose the services provided by eBay, the value of your investment would decline significantly.

We rely heavily on eBay s servers for uninterrupted Internet access and the ability to offer our customers live auction technology. We also have an agreement with eBay governing the conduct of auctions on its site that may be terminated without any significant notice. Our business is dependent on our agreement with eBay and on eBay s servers and its continued operation of the Live Auction platform. The loss of any of these services or our agreement with eBay will have a material adverse effect on our business, financial condition, and operating results. We cannot assure you that we would be able to obtain these services from other third parties or that we can renew our eBay agreement. If we were to lose our relationship with eBay and were unable to replace the services eBay provides, the value of your investment would decline significantly.

If we cannot protect our Internet domain names, our ability to conduct our operations may be impeded.

We anticipate that the Internet domain names ableauctions.com and icollector.com will be an extremely important part of our business and the business of our subsidiaries. Governmental agencies and their designees generally regulate the acquisition and maintenance of domain names. The regulation of domain names in the United States and in foreign countries may be subject to change in the near future. Governing bodies may establish additional top-level domains,

appoint additional domain name registrars, or modify the requirements for holding domain names. As a result, we may be unable to acquire or maintain relevant domain names in all countries in which we conduct business. Furthermore, the relationship between regulations governing domain names and laws protecting trademarks and similar proprietary rights is unclear. Therefore, we may be unable to prevent third parties from acquiring domain names that are similar to, infringe on, or otherwise decrease the value of our trademarks and other proprietary rights. Third parties have acquired domain names that include auctions or other variations both in the United States and elsewhere.

Our success depends on the services rendered to us by our President. If we were to lose the services of our President, it may have an adverse impact on our business.

Our future success will depend on our President, Mr. Abdul Ladha. The loss of Mr. Ladha s services could have an adverse effect on our business. We do not maintain insurance to cover the losses that may result from the death of Mr. Ladha, or any of our key personnel.

The e-commerce industry is highly competitive, and we cannot assure you that we will be able to compete effectively. If we cannot compete effectively, the value of your investment may decline significantly.

The market for broadcasting auctions over the Internet is new, rapidly evolving, and intensely competitive and we expect competition to intensify further in the future. Our direct competitors include BidSpotter, Inc., DoveBid, AMS Auction Management Solutions, Manheim Online, Copart Auto Auctions, Live Global Bid, ProxiBid, ABC Auction Broadcasting Company, and Bidder Central, and other web sites that broadcast live auctions. We will also compete with various online auction services.

We face potential competition from a number of large online communities and services that have expertise in developing online commerce and in facilitating online person-to-person interaction. Some of these potential competitors, including eBay, Amazon.com, America Online, Inc., Microsoft Corporation, and Yahoo! Inc., currently offer a variety of business-to-consumer trading and classified advertisement services and may introduce live auctions to their large user populations. We believe that the principal competitive factors in the online auctions market are volume and selection of goods, population of buyers, customer service, reliability of delivery and payment by users, brand recognition, web site convenience and accessibility, price, quality of search tools, and system reliability. Many of our current and potential competitors have longer operating histories, larger customer bases, greater brand recognition, and significantly greater financial, marketing, technical, and other resources than we have.

Certain of our competitors with other revenue sources may be able to devote greater resources to marketing and promotional campaigns, adopt more aggressive pricing policies, and devote substantially more resources to web site and systems development than we can or may try to attract traffic by offering services for free. We cannot assure you that we will be able to compete successfully against current and future competitors. Further, as a strategic response to changes in the competitive environment, we may, from time to time, make certain pricing, service, or marketing

decisions that could have a material adverse effect on our business, results of operations, and financial condition. Our inability to compete successfully against our competitors would adversely impact the value of your investment in our securities.

Our business may be subject to government regulation and legal uncertainties that may increase the costs of operating our web site or limit our ability to generate revenues.

We are subject to the same federal, state, and local laws as other companies conducting business on the Internet. Today there are relatively few laws specifically directed towards online services. However, due to the increasing popularity and use of the Internet and online services, it is possible that laws and regulations will be adopted regarding the Internet or online services. These laws and regulations could cover issues such as online contracts, user privacy, freedom of expression, pricing, fraud, content and quality of products and services, taxation, advertising, intellectual property rights, and information security. Applicability to the Internet of existing laws governing issues such as property ownership, copyrights and other intellectual property issues, taxation, libel, obscenity, and personal privacy is uncertain. In addition, numerous states have regulations regarding the manner in which auctions may be conducted and the liability of auctioneers in conducting such auctions.

Due to the global nature of the Internet, it is possible that the governments of other states and foreign countries might attempt to regulate our transmissions or prosecute us for violations of their laws. We might unintentionally violate such laws. Such laws may be modified, or new laws may be enacted, in the future. Any such development could damage our business.

Our business may be subject to sales and other taxes, which may cause administrative difficulties and increase our cost of operations.

We will collect applicable sales and other similar taxes on goods sold on our web site. One or more states may seek to impose additional sales tax collection obligations on companies such as ours that engage in or facilitate online commerce. Several proposals have been made at the state and local level that would impose additional taxes on the sale of goods and services through the Internet. These proposals, if adopted, could substantially impair the growth of electronic commerce and could diminish our opportunity to derive financial benefit from our activities.

In the future laws making us liable for the activities of users of our services could be passed, which would adversely affect our business, operations and financial condition.

The law relating to the liability of providers of online services for activities of their users on the service is currently unsettled. While we do not pre-screen the types of goods offered on Ableauctions or iCollector, we are aware that certain goods may be subject to regulation by local, state or federal authorities will be auctioned on the Ableauctions

or iCollector service. There can be no assurance that we will be able to prevent the unlawful exchange of goods on our service or that we will successfully avoid civil or criminal liability for unlawful activities carried out by users of our service.

The imposition of potential liability for unlawful activities of users of the Ableauctions or iCollector service could require us to implement measures to reduce our exposure to such liability, which may require us to spend substantial resources and/or or to discontinue certain service offerings. Any costs incurred as a result of such liability or asserted liability could have a material adverse effect on our business, results of operations and financial condition.

Disputes relating to our intellectual property could adversely affect our operations.

We regard the protection of our copyrights and trade secrets as critical to our future success and we rely on a combination of copyright and trade secret laws and contractual restrictions to establish and protect our proprietary property. We attempt to enter into confidentiality and invention assignment agreements with our employees and contractors, and nondisclosure agreements with parties with which we conduct business in order to limit access to and disclosure of our proprietary information. We cannot assure you that these contractual arrangements or the other steps taken to protect our intellectual property will prove sufficient to prevent misappropriation of our technology or to deter independent third-party development of similar technologies.

To date, we have not been notified that our technologies infringe the proprietary rights of third parties, but there can be no assurance that third parties will not claim infringement with respect to past, current or future technologies.

Any intellectual property claim, whether meritorious or not, could be time-consuming, result in costly litigation, divert the attention of management from our business or require us to enter into royalty or licensing agreements. As a result, any such claim could have a material adverse effect on our operations.

We conduct much of our business online, however such activities may not be secure. If a breach of security occurred, our reputation could be damaged and we could be sued. This could adversely affect our operations.

A significant barrier to online commerce and communications is the secure transmission of confidential information over public networks. Currently, a significant number of Ableauctions or iCollector users authorize us to bill their credit card accounts directly for all transaction fees charged by us. We rely on encryption and authentication technology licensed from third parties to provide the security and authentication technology to effect secure transmission of confidential information, including customer credit card numbers. There can be no assurance that advances in computer capabilities, new discoveries in the field of cryptography, or other events or developments will not result in a compromise or breach of the technology used by us to protect customer transaction data. If any such compromise of our security were to occur, it could have a material adverse effect on our reputation and, therefore, on

our business. If we were sued, we may be required to spend a significant amount of money to defend the lawsuit and the lawsuit would divert the attention of management from our business. This could adversely affect our operations.

Our stock price is subject to extreme volatility. If our stock price is adversely affected, the value of your investment will decline significantly.

The trading price of our common stock is likely to be highly volatile and could be subject to wide fluctuations in response to factors such as actual or anticipated variations in our quarterly operating results, announcements of technological innovations, or new services offered by us or by our competitors, changes in financial estimates by securities analysts, conditions or trends in the Internet and online commerce industries, changes in the market valuations of other Internet or online service companies, announcements made by us or our competitors of significant acquisitions, strategic partnerships, joint ventures or capital commitments, additions or departures of key personnel, sales of our common stock or other securities in the open market and other events or factors, many of which are beyond our control. Further, the stock markets in general, and the market for Internet-related and technology companies in particular, have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of such companies. There can be no assurance that trading prices and valuations will be sustained. These broad market and industry factors may materially and adversely affect the market price of the common stock, regardless of our operating performance. Market fluctuations, as well as general political and economic conditions such as recession or interest rate or currency rate fluctuations, may also adversely affect the market price of our common stock. If the price of our stock is adversely affected, the value of your investment will decline significantly.

Our executive officers and directors control a large percentage of our common stock, which may allow them to control matters submitted to stockholders for approval.

Our executive officers and directors (and their affiliates), in the aggregate, own approximately 11% of our outstanding common stock. While this is not a majority, it is a significant percentage and may result in these individuals having the ability to influence the outcome of matters submitted to our stockholders for approval (including the election and removal of directors and any merger, consolidation or sale of all or substantially all of our assets) and to control our management and affairs. Accordingly, such concentration of ownership may have the effect of delaying, deferring or preventing a change in control, impede a merger, consolidation, takeover or other business combination or discourage a potential acquirer from making a tender offer or otherwise attempting to obtain control, which in turn could have an adverse effect on the market price of our common stock.

The market price of our common stock may be adversely affected if too much of it is sold at once.

Sales of substantial amounts of our common stock (including shares issued upon the exercise of outstanding options) in the public market could adversely affect the market price of the common stock. Such sales also might make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deem appropriate.

We may be sued for claims relating to our discontinued operations. Defending a lawsuit would be costly and divert management s attention from our business. Any recovery of damages by a plaintiff could adversely affect our financial position. Therefore, any protracted litigation could cause the value of your investment to decline significantly.

In 2002 it was determined that iCollector PLC could not sustain its operations based on its existing cash resources and infrastructure. iCollector PLC then ceased operations and a restructuring plan was adopted. In January 2002 iCollector PLC was placed into formal bankruptcy proceedings pursuant to the laws of the United Kingdom. In 2002, the Company also ceased operations in San Mateo and San Francisco, both operating under Ableauctions.com (Washington) Inc. We cannot assure you that no claims will rise from the discontinued operations.

Defending any legal action will be costly and will divert the attention of management from our business. Furthermore, if a plaintiff were awarded a significant recovery, our financial position would be adversely affected. Therefore, any protracted litigation in which we were involved may cause the value of your investment to decline.

We are subject to the Penny Stock Rules and these rules may adversely affect trading in our common stock.

Our common stock is a low-priced security under rules promulgated under the Securities Exchange Act of 1934. In accordance with these rules, broker-dealers participating in transactions in low-priced securities must first deliver a risk disclosure document which describes the risks associated with such stocks, the broker-dealer s duties in selling the stock, the customer s rights and remedies and certain market and other information. Furthermore, the broker-dealer must make a suitability determination approving the customer for low-priced stock transactions based on the customer s financial situation, investment experience and objectives. Broker-dealers must also disclose these restrictions in writing to the customer, obtain specific written consent from the customer, and provide monthly account statements to the customer. The effect of these restrictions probably decreases the willingness of broker-dealers to make a market in our common stock, decreases liquidity of our common stock and increases transaction costs for sales and purchases of our common stock as compared to other securities.

We may raise additional capital through a securities offering that could dilute your ownership interest.

We require substantial working capital to fund our business. If we raise additional funds through the issuance of equity, equity-related or convertible debt securities, these securities may have rights, preferences or privileges senior to those of the holders of our common stock. The issuance of additional common stock or securities convertible into common stock by our management will also have the effect of further diluting the proportionate equity interest and voting power of holders of our common stock, including investors in this offering.

We have not paid cash dividends and it is unlikely that we will pay cash dividends in the foreseeable future.

We plan to use all of our earnings, to the extent we have earnings, to fund our operations. We do not plan to pay any cash dividends in the foreseeable future. We cannot guarantee that we will, at any time, generate sufficient surplus cash that would be available for distribution as a dividend to the holders of our common stock. You should not expect to receive cash dividends on our common stock.

We have the ability to issue additional shares of our common stock without asking for shareholder approval, which could cause your investment to be diluted.

Our Articles of Incorporation currently authorize our Board of Directors to issue up to 62,500,000 shares of common stock. The power of the Board of Directors to issue shares of common stock or warrants or options to purchase shares of common stock is generally not subject to shareholder approval. Accordingly, any additional issuance of our common stock may have the effect of further diluting your investment.

USE OF PROCEEDS

We will not receive any of the proceeds from this offering. If any of the selling shareholders were to exercise a warrant to acquire the common stock sold pursuant to this resale prospectus, we would receive the warrant exercise price. Any such warrant exercise price proceeds received will be used for general corporate purposes.

DESCRIPTION OF SECURITIES TO BE REGISTERED

Common Stock and Rights of Common Shareholders

The securities being offered by the selling shareholders are shares of our common stock. We are authorized by our Articles of Incorporation to issue 62,500,000 shares of common stock, $0.001 par value. Our common stock is traded on the American Stock Exchange under the symbol AAC.

Holders of the common stock are entitled to one vote per share on all matters subject to shareholder vote. If the Board of Directors were to declare a dividend out of funds legally available therefore, all of the outstanding shares of common stock would be entitled to receive such dividend. We have never declared dividends and we do not intend to declare dividends in the foreseeable future. If we were liquidated or dissolved, holders of shares of our common stock would be entitled to share ratably in assets remaining after satisfaction of our liabilities. Holders of our common stock do not have cumulative voting rights.

On December 11, 2003 we undertook a private offering of our common stock to some of the selling shareholders described in this prospectus. We sold a total of 4,615,385 shares of our common stock at a price of $0.65 per share.

Warrants to Purchase Common Stock

In conjunction with the private offering of our common stock that we undertook on December 11, 2003, we also issued warrants to purchase a total of 1,384,615 shares of our common stock. The warrants were issued at the closing of the private offering and were immediately exercisable at a price of $0.8021 per share. The exercise price is adjusted to take into account of stock splits and similar transactions and for certain issuance of our securities for a consideration per share of less than the exercise price of $0.8021. The warrants will expire on the fourth anniversary of the date of issuance.

In addition, one of the selling shareholders, HPC Capital Management (HPC) served as placement agent for the private offering and received warrants to purchase an aggregate of 100,000 shares of common stock at an exercise price of $.80 per share. This exercise price is adjusted to take into account of stock splits and similar transactions. Further, pursuant to an amendment to the agreement we signed with HPC in September 2003, we agreed to issue a warrant to HPC to purchase 100,000 shares of our common stock at an exercise price of $0.44 per share in exchange for certain financial and stock promotion services. This exercise price is adjusted to take into account of stock splits and similar transactions. These two warrants will expire on the fifth anniversary of the date of issuance.

SELLING SHAREHOLDERS AND PLAN OF DISTRIBUTION

The following table sets forth the names of the selling shareholders who may sell their shares using this prospectus.

The following table also sets forth certain information as of the date of this prospectus regarding the ownership of our common stock by the selling shareholders. Because the selling shareholders can offer all, some or none of their shares

of our common stock, we have no way of determining the number they will hold after this offering. Therefore, we have prepared the table below on the assumption that the selling shareholders will sell all shares covered by this prospectus.

Selling Shareholder	Shares held before the Offering	Shares being Offered	Shares held after the Offering	Percentage Owned after the Offering
Palisades Master Fund, L.P.	1,419,999(1)	1,419,999	0	0
Gamma Opportunity Capital Partners, L.P.	700,001(2)	700,001	0	0
Crescent International Ltd.	2,080,000(3)	2,080,000	0	0
Alpha Capital AG	800,000(4)	800,000	0	0
Bristol Investment Fund, Ltd.	1,000,000(5)	1,000,000	0	0
HPC Capital Management	200,000(6)	200,000	0	0
TOTAL	6,200,000	6,200,000		

(1) Includes 327,692 shares of common stock to be issued pursuant to exercise of a warrant issued in conjunction with the purchase of the common stock. The warrant exercise price is $0.8021.

(2) Includes 161,539 shares of common stock to be issued pursuant to exercise of a warrant issued in conjunction with the purchase of the common stock. The warrant exercise price is $0.8021.

(3) Includes 480,000 shares of common stock to be issued pursuant to exercise of a warrant issued in conjunction with the purchase of the common stock. The warrant exercise price is $0.8021.

(4) Includes 184,615 shares of common stock to be issued pursuant to exercise of a warrant issued in conjunction with the purchase of the common stock. The warrant exercise price is $0.8021.

(5) Includes 230,769 shares of common stock to be issued pursuant to exercise of a warrant issued in conjunction with the purchase of the common stock. The warrant exercise price is $0.8021.

(6) Includes 100,000 and 100,000 shares of common stock to be issued pursuant to exercise of a warrant issued in conjunction with the private placement of common stock and for investment banking services. The warrant exercise price is $0.80 and $0.44, respectively.

We are registering a total of 6,200,000 shares of our common stock that are being offered by the selling shareholders. As used in this prospectus, selling shareholders includes the pledgees, donees, transferees or others who may later hold the selling shareholders interests in the common stock. We will pay the costs and fees of registering the common shares, but the selling shareholders will pay any brokerage commissions, discounts or other expenses relating to the sale of the common shares. We will not receive the proceeds from the sale of the shares by the selling shareholders. However, some of the shares we are registering will be issued upon the exercise of warrants held by the selling shareholders. Although the selling shareholders are not required to exercise the warrants, if they do so we will receive the proceeds from the exercise.

The selling shareholders and any of their pledgees, assignees and successors-in-interest may, from time to time, sell any or all of their shares of common stock on any stock exchange, market or trading facility on which the shares are traded or in private transactions. These sales may be at fixed or negotiated prices. The selling shareholders may use any one or id #000000">

Totals
$340,570 $(2,929) $ $ $340,570 $(2,929)

December 31, 2010:

U. S. Government mortgage - backed securities
$86,375 $(838) $ $ $86,375 $(838)

Totals
$86,375 $(838) $ $ $86,375 $(838)

At March 31, 2011, four securities had unrealized holding losses with aggregate depreciation of 0.86% from the amortized cost. There were no securities with unrealized losses greater than 5% of amortized cost. At December 31, 2010, two securities had unrealized losses with aggregate depreciation of 1.0% from the amortized cost. There were no securities with unrealized losses greater than 5% of amortized cost.

Bancorp performs a quarterly analysis of those securities that are in an unrealized loss position to determine if those losses qualify as other-than-temporary impairments. This analysis considers the following criteria in its determination: the ability of the issuer to meet its obligations, an impairment due to a deterioration in credit, management s plans and ability to maintain its investment in the security, the length of time and the amount by which the security has been in a loss position, the interest rate environment, the general economic environment and prospects or projections for improvement or deterioration.

Management believes that none of the unrealized losses on available-for-sale securities noted above are other than temporary due to the fact that they relate to interest rate changes on mortgage-backed securities issued by U.S. Government agencies. Management considers the issuers of the securities to be financially sound, and the Company expects to receive all contractual principal and interest related to these investments. Because the Company does not intend to sell the investments, and it is not more-likely-than-not that the Company will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at March 31, 2011.

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The amortized cost and fair value of available-for-sale debt securities at March 31, 2011 by contractual maturity are presented below. Actual maturities of mortgage-backed securities may differ from contractual maturities because the mortgages underlying the securities may be called or repaid without any penalties. Because mortgage-backed securities are not due at a single maturity date, they are not included in the maturity categories in the following maturity summary:

	Amortized Cost	Fair Value
Maturity:		
> 10 years	$	$
Mortgage-backed securities	34,541,671	35,277,176
	Amortized Cost	Fair Value
Total	$ 34,541,671	$ 35,277,176
	Amortized Cost	Fair Value

Note 3: Loans Receivable and Allowance for Loan Losses

A summary of the Company s loan portfolio at March 31, 2011 and December 31, 2010 is as follows:

	March 31, 2011	December 31, 2010
Real Estate		
Commercial	$ 212,785,433	$ 228,842,489
Residential	157,743,571	187,058,318
Construction	39,639,058	63,889,083
Construction to permanent	10,315,902	10,331,043
Commercial	18,873,362	14,573,790
Consumer home equity	37,432,068	42,884,962
Consumer installment	2,047,248	1,932,763
Total Loans	478,836,642	549,512,448
Premiums on purchased loans	239,912	242,426
Net deferred costs	1,196	150,440
Allowance for loan losses	(12,208,476)	(15,374,101)
Loans receivable, net	$ 466,869,274	$ 534,531,213

The changes in the allowance for loan losses for the periods shown are as follows:

	Three months ended March 31,	
	2011	2010
Balance, beginning of period	$ 15,374,101	$ 15,794,118
Provision for loan losses	6,981,629	727,000
Loans charged-off	(4,153,547)	(1,583,247)
Recoveries of loans previously charged-off	20,606	123,925
Transferred to loans held-for-sale	(6,014,313)	
Balance, end of period	$ 12,208,476	$ 15,061,796

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At March 31, 2011 and December 31, 2010, the unpaid balances of loans delinquent 90 days or more and still accruing interest were $223,289 and $3,374,242, respectively. All borrowers of said loans at March 31, 2011 continue to make interest payments, but these loans have matured and were in the process of being renewed.

The unpaid principal balances of loans on nonaccrual status and considered impaired were $32.5 million at March 31, 2011 and $89.1 million at December 31, 2010. On March 24, 2011, the Bank completed the sale of certain non-performing assets that included 21 non-accruing loans with an aggregate net book value of $52.4 million (net of related specific reserves) and 4 OREO properties with an aggregate carrying value of $14.4 million. The sale of $66.8 million of non-performing assets was consummated for a cash purchase price of $60,602,036 which represented 90.7% of the Bank s net book value for these assets.

If non-accrual loans had been performing in accordance with their original terms, Bancorp would have recorded approximately $1.0 million of additional income during the quarter ended March 31, 2011 and $2.3 million during the quarter ended March 31, 2010.

For the three months ended March 31, 2011 and 2010, the interest collected and recognized as income on impaired loans was approximately $431,000 and $733,000, respectively.

At March 31, 2011, there were 16 loans totaling $32.9 million that were considered troubled debt restructurings, all of which are included in impaired loans, as compared to December 31, 2010 when there were 19 loans totaling $38.0 million, all of which were included in impaired loans. At March 31, 2011, 7 of the 16 loans aggregating $18.0 million were accruing loans and 9 loans aggregating $14.9 million were non-accruing loans.

The Company s lending activities are conducted principally in Fairfield and New Haven Counties in Connecticut and Westchester County, New York City and Long Island, New York. The Company grants commercial real estate loans, commercial business loans and a variety of consumer loans. In addition, the Company had granted loans for the construction of residential homes, residential developments and for land development projects. A moratorium on all new construction loans was instituted by management in July 2008. All residential and commercial mortgage loans are collateralized by first or second mortgages on real estate. The ability and willingness of borrowers to satisfy their loan obligations is dependent in large part upon the status of the regional economy and regional real estate market. Accordingly, the ultimate collectability of a substantial portion of the loan portfolio and the recovery of a substantial portion of any resulting real estate acquired is susceptible to changes in market conditions.

The Company has established credit policies applicable to each type of lending activity in which it engages, evaluates the creditworthiness of each customer and, in most cases, extends credit of up to 75% of the market value of the collateral at the date of the credit extension depending on the Company s evaluation of the borrowers creditworthiness and type of collateral. In the case of construction loans, the maximum loan-to-value was 65% of the as completed market value. The market value of collateral is monitored on an ongoing basis and additional collateral is obtained when warranted. Real estate is the primary form of collateral. Other important forms of collateral are accounts receivable, inventory, other business assets, marketable securities and time deposits. While collateral provides assurance as a secondary source of repayment, the Company ordinarily requires the primary source of repayment to be based on the borrower s ability to generate continuing cash flows on all loans not related to construction.

The Company does not have any lending programs commonly referred to as subprime lending. Subprime lending generally targets borrowers with weakened credit histories typically characterized by payment delinquencies, previous charge-offs, judgments, bankruptcies, or borrowers with questionable repayment capacity as evidenced by low credit scores or high debt-burdened ratios.

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The following table sets forth activity in our allowance for loan losses, by loan type, for the period ended March 31, 2011. The following table also details the amount of loans receivable, net, that are evaluated individually, and collectively, for impairment, and the related portion of allowance for loan losses that is allocated to each loan portfolio segment.

		Commercial		Construction to				
hs ended March 31, 2011	**Commercial**	**Real Estate**	**Construction**	**Permanent**	**Residential**	**Consumer**	**Unallocated**	
or loan losses:								
alance	$ 441,319	$ 7,632,355	$ 3,478,058	$ 491,446	$ 2,363,838	$ 578,612	$ 388,473	$
		(934,588)	(1,760,760)		(1,458,199)			
	240		17,694			2,672		
to loans held-for sale		(963,461)	(1,369,354)		(3,681,498)			
	149,313	842,195	2,572,464	38,299	3,873,621	(128,576)	(365,687)	
nce	$ 590,872	$ 6,576,501	$ 2,938,102	$ 529,745	$ 1,097,762	$ 452,708	$ 22,786	$
nce: individually r impairment	$ 78,286	$ 1,887,042	$ 1,657,278	$ 187,094	$	$	$	$
nce: collectively evaluated ent	$ 512,586	$ 4,689,459	$ 1,280,824	$ 342,651	$ 1,097,762	$ 452,708	$ 22,786	$
ance for Loan Losses	$ 590,872	$ 6,576,501	$ 2,938,102	$ 529,745	$ 1,097,762	$ 452,708	$ 22,786	$
ending balance	$ 18,873,362	$ 212,785,433	$ 39,639,058	$ 10,315,902	$ 157,743,571	$ 39,479,316	$	$ 4
nce: evaluated for impairment	$ 1,362,000	$ 20,461,392	$ 13,907,356	$ 1,364,694	$ 11,927,547	$ 1,516,977	$	$
nce: evaluated for impairment	$ 17,511,362	$ 192,324,041	$ 25,731,702	$ 8,951,208	$ 145,816,024	$ 37,962,339	$	$ 4

The Company monitors the credit quality of its loans receivable in an ongoing manner. Credit quality is monitored by reviewing certain credit quality indicators. Management has determined that loan-to-value ratios (LTVs), (at period end) and internally assigned risk ratings are the key credit quality indicators that best help management monitor the credit quality of the Company s loans receivable. Loan-to-value ratios used by management in monitoring credit quality are based on current period loan balances and original values at time of origination (unless a current appraisal has been obtained as a result of the loan being deemed impaired or the loan is a maturing construction loan).

The Company has a risk rating system as part of the risk assessment of its loan portfolio. The Company s lending officers are required to assign a risk rating to each loan in their portfolio at origination. When the lender learns of important financial developments, the risk rating is reviewed accordingly, and adjusted if necessary. Similarly, the Loan Committee can adjust a risk rating. The Director s Loan Committee, meets on a regular basis and reviews all loans rated special mention or worse. In addition, the Company engages a third party independent loan reviewer that performs semi-annual reviews of a sample of loans, validating the Bank s risk ratings assigned to such loans. The risk ratings play an important role in the establishment of the loan loss provision and to confirm the adequacy of the allowance for loan losses.

When assigning a risk rating to a loan, management utilizes the Bank s internal nine-point risk rating system. Loans deemed to be acceptable quality are rated 1 through 5, with a rating of 1 established for loans with minimal risk and borrowers exhibiting the strongest financial condition. Loans rated 1 5 are considered Pass . Loans that are deemed to be of questionable quality are rated 6 (special mention). An asset is considered special mention when it has a potential weakness based on objective evidence, but does not currently expose the Company to sufficient risk to warrant classification in one of the following categories. Loans with adverse classifications (substandard, doubtful or loss) are rated 7, 8 or 9, respectively. An asset is considered substandard if it is not adequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard assets have well defined weaknesses based on objective evidence, and are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. Assets classified as doubtful have all of the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. Assets classified as loss are those considered uncollectible and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted.

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The following table details the credit risk exposure of loans receivable, by loan type and credit quality indicator at March 31, 2011:

CREDIT RISK PROFILE BY CREDITWORTHINESS CATEGORY

Commercial Real Estate		Construction		Construction to Permanent		Residential Real Estate		Co	
< 75%	>= 75%	< 75%	>= 75%	< 75%	>= 75%	< 75%	>= 75%	< 75%	>
$ 125,971,796	$ 9,408,746	$ 627,784	$	$	$	$ 96,850,024	$ 41,830,172	$ 32,292,893	$
27,115,428	4,661,064	11,897,872	4,485,209	1,709,333		521,451		274,340	3
15,266,412	30,361,987	5,693,859	16,934,334		8,606,569	3,659,013	14,882,911	99,235	1
$ 168,353,636	$ 44,431,797	$ 18,219,515	$ 21,419,543	$ 1,709,333	$ 8,606,569	$ 101,030,488	$ 56,713,083	$ 32,666,468	$ 5

CREDIT RISK PROFILE

	Commercial	Commercial Real Estate	Construction	Construction to Permanent	Residential Real Estate	Consumer	Totals
Performing	$ 17,511,362	$ 196,982,562	$ 29,231,702	$ 8,951,208	$ 155,243,570	$ 38,386,339	$ 446,306,743
Non Performing	1,362,000	15,802,871	10,407,356	1,364,694	2,500,001	1,092,977	32,529,899
Total	$ 18,873,362	$ 212,785,433	$ 39,639,058	$ 10,315,902	$ 157,743,571	$ 39,479,316	$ 478,836,642

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The following table details the credit risk exposure of loans receivable, by loan type and credit quality indicator at December 31, 2010:

CREDIT RISK PROFILE BY CREDITWORTHINESS CATEGORY

Commercial Real Estate		**Construction**		**Construction to Permanent**		**Residential Real Estate**		**Co**	
< 75%	**>= 75%**	**< 75%**	**>= 75%**	**< 75%**	**>= 75%**	**< 75%**	**>= 75%**	**< 75%**	
$ 124,645,152	$ 9,449,059	$ 1,272,028	$ 350,000	$	$	$ 91,534,348	$ 51,996,851	$ 35,192,214	$
35,253,018	4,645,738	15,059,704	4,485,209	1,709,333		2,088,700	2,907,285	3,146,244	
13,792,482	41,057,040	10,712,146	32,009,996		8,621,710	18,052,003	20,479,131	99,235	
$ 173,690,652	$ 55,151,837	$ 27,043,878	$ 36,845,205	$ 1,709,333	$ 8,621,710	$ 111,675,051	$ 75,383,267	$ 38,437,693	$

CREDIT RISK PROFILE

	Commercial	**Commercial Real Estate**	**Construction**	**Construction to Permanent**	**Residential Real Estate**	**Consumer**	**Totals**
Performing	$ 13,358,840	$ 202,054,317	$ 33,003,060	$ 8,951,208	$ 159,270,574	$ 43,724,749	$ 460,362,748
Non Performing	1,214,950	26,788,172	30,886,023	1,379,835	27,787,744	1,092,976	89,149,700
Total	$ 14,573,790	$ 228,842,489	$ 63,889,083	$ 10,331,043	$ 187,058,318	$ 44,817,725	$ 549,512,448

Included in loans receivable are loans for which the accrual of interest income has been discontinued due to deterioration in the financial condition of the borrowers. The recorded balance of these nonaccrual loans was $32.5 million and $89.1 million at March 31, 2011, and December 31, 2010 respectively. Generally, loans are placed on non-accruing status when they become 90 days or more delinquent, or earlier if deemed appropriate, and remain on non-accrual status until they are brought current, have six months of performance under the loan terms, and factors indicating reasonable doubt about the timely collection of payments no longer exist. Therefore, loans may be current in accordance with their loan terms, or may be less than 90 days delinquent and still be on a non-accruing status. Additionally, certain loans that cannot demonstrate sufficient global cash flow to continue loan payments in the future and certain trouble debt restructures (TDRs) are placed on non-accrual status.

The following table sets forth the detail, and delinquency status, of non-accrual loans and past due loans at March 31, 2011:

	Non-Accrual and Past Due Loans						
2011	**31-60 Days Past Due**	**61-90 Days Past Due**	**Greater Than 90 Days**	**Total Past Due**	**Current**	**>90 Days Past Due and Accruing**	**Total Non-Accrual and Past Due Loans**
Commercial							
Pass	$	$	$	$	$	$ 160,000	$ 160,000
Special Mention						63,289	63,289
Substandard			797,088	797,088	564,912		1,362,000
Total Commercial	$	$	$ 797,088	$ 797,088	$ 564,912	$ 223,289	$ 1,585,289
Commercial Real Estate							
Substandard	$ 215,947	$ 1,444,681	$ 11,040,965	$ 12,701,593	$ 3,101,278	$	$ 15,802,871
Total Commercial Real Estate	$ 215,947	$ 1,444,681	$ 11,040,965	$ 12,701,593	$ 3,101,278	$	$ 15,802,871
Construction							
Substandard	$	$ 2,562,975	$ 3,103,580	$ 5,666,555	$ 4,740,801	$	$ 10,407,356
Total Construction	$	$ 2,562,975	$ 3,103,580	$ 5,666,555	$ 4,740,801	$	$ 10,407,356
Construction to Permanent							
Substandard	$	$	$	$	$ 1,364,694	$	$ 1,364,694
Total Construction to Permanent	$	$	$	$	$ 1,364,694	$	$ 1,364,694
Residential Real Estate							
Substandard	$	$	$ 2,500,001	$ 2,500,001	$	$	$ 2,500,001

Total Residential Real Estate	$	$	$ 2,500,001	$ 2,500,001	$	$	$ 2,500,001
Consumer Substandard	$	$	$ 1,092,977	$ 1,092,977	$	$	$ 1,092,977
Total Consumer	$	$	$ 1,092,977	$ 1,092,977	$	$	$ 1,092,977
Total	$ 215,947	$ 4,007,656	$ 18,534,611	$ 22,758,214	$ 9,771,685	$ 223,289	$ 32,753,188

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The following table sets forth the detail, and delinquency status, of non-accrual loans and past due loans at December 31, 2010:

	Non-Accrual and Past Due Loans						
2010	**31-60 Days Past Due**	**61-90 Days Past Due**	**Greater Than 90 Days**	**Total Past Due**	**Current**	**>90 Days Past Due and Accruing**	**Total Non-Accrual and Past Due Loans**
Commercial Special Mention	$	$	$	$	$	$ 63,289	$ 63,289
Substandard	350,000	100,000	698,767	1,148,767	66,183	175,000	1,389,950
Total Commercial	$ 350,000	$ 100,000	$ 698,767	$ 1,148,767	$ 66,183	$ 238,289	$ 1,453,239
Commercial Real Estate Substandard	$ 269,672	$ 6,449,096	$ 13,521,123	$ 20,239,891	$ 6,548,281	$	$ 26,788,172
Total Commercial Real Estate	$ 269,672	$ 6,449,096	$ 13,521,123	$ 20,239,891	$ 6,548,281	$	$ 26,788,172
Construction Substandard	$ 1,517,943	$ 4,059,516	$ 13,736,985	$ 19,314,444	$ 11,571,579	$ 3,135,953	$ 34,021,976
Total Construction	$ 1,517,943	$ 4,059,516	$ 13,736,985	$ 19,314,444	$ 11,571,579	$ 3,135,953	$ 34,021,976
Construction to Permanent Substandard	$	$	$	$	$ 1,379,835	$	$ 1,379,835
Total Construction to Permanent	$	$	$	$	$ 1,379,835	$	$ 1,379,835
Residential Real Estate Substandard	$	$	$ 15,897,248	$ 15,897,248	$ 11,890,496	$	$ 27,787,744
Total Residential Real Estate	$	$	$ 15,897,248	$ 15,897,248	$ 11,890,496	$	$ 27,787,744
Consumer Substandard	$	$	$ 1,092,976	$ 1,092,976	$	$	$ 1,092,976
Total Consumer	$	$	$ 1,092,976	$ 1,092,976	$	$	$ 1,092,976

Total	$ 2,137,615	$ 10,608,612	$ 44,947,099	$ 57,693,326	$ 31,456,374	$ 3,374,242	$ 92,523,942

These non-accrual and past due amounts included loans deemed to be impaired of $32.5 million and $89.1 million at March 31, 2011, and December 31, 2010, respectively. Loans past due ninety days or more and still accruing interest were $223,000 and $3.4 million at March 31, 2011, and December 31, 2010 respectively, and consisted of loans that are current as to payment but past maturity where payoff is pending or in the process of renewal.

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The following table sets forth the detail and delinquency status of loans receivable, by performing and non-performing loans at March 31, 2011.

	Performing (Accruing) Loans						Total Non-Accrual and	
2011	**31-60 Days Past Due**	**61-90 Days Past Due**	**Greater Than 90 Days**	**Total Past Due**	**Current**	**Total Performing Loans**	**Past Due Loans**	**Total Loans**
Commercial								
Pass	$	$	$	$	$ 12,891,800	$ 12,891,800	$ 160,000	$ 13,051,800
Special Mention					815,498	815,498	63,289	878,787
Substandard					3,580,775	3,580,775	1,362,000	4,942,775
Total Commercial	$	$	$	$	$ 17,288,073	$ 17,288,073	$ 1,585,289	$ 18,873,362
Commercial Real Estate								
Pass	$	$	$	$	$ 135,380,542	$ 135,380,542	$	$ 135,380,542
Special Mention					31,776,492	31,776,492		31,776,492
Substandard	1,236,000	915,762		2,151,762	27,673,766	29,825,528	15,802,871	45,628,399
Total Commercial Real Estate	$ 1,236,000	$ 915,762	$	$ 2,151,762	$ 194,830,800	$ 196,982,562	$ 15,802,871	$ 212,785,433
Construction								
Pass	$	$	$	$	$ 627,784	$ 627,784	$	$ 627,784
Special Mention					16,383,081	16,383,081		16,383,081
Substandard					12,220,837	12,220,837	10,407,356	22,628,193
Total Construction	$	$	$	$	$ 29,231,702	$ 29,231,702	$ 10,407,356	$ 39,639,058
Construction to Permanent								
Pass	$	$	$	$	$	$	$	$
Special Mention					1,709,333	1,709,333		1,709,333
Substandard					7,241,875	7,241,875	1,364,694	8,606,569
Total Construction to Permanent	$	$	$	$	$ 8,951,208	$ 8,951,208	$ 1,364,694	$ 10,315,902
Residential Real Estate								
Pass	$	$	$	$	$ 138,680,196	$ 138,680,196	$	$ 138,680,196
Special Mention					521,451	521,451		521,451
Substandard	2,907,285			2,907,285	13,134,638	16,041,923	2,500,001	18,541,924
Total Residential Real Estate	$ 2,907,285	$	$	$ 2,907,285	$ 152,336,285	$ 155,243,570	$ 2,500,001	$ 157,743,571
Consumer								
Pass	$ 15,655	$	$	$ 15,655	$ 34,310,709	$ 34,326,364	$	$ 34,326,364
Special Mention					3,303,703	3,303,703		3,303,703
Substandard	168,589			168,589	587,683	756,272	1,092,977	1,849,249
Total Consumer	$ 184,244	$	$	$ 184,244	$ 38,202,095	$ 38,386,339	$ 1,092,977	$ 39,479,316
Total	$ 4,327,529	$ 915,762	$	$ 5,243,291	$ 440,840,163	$ 446,083,454	$ 32,753,188	$ 478,836,642

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The following table sets forth the detail and delinquency status of loans receivable, net, by performing and non-performing loans at December 31, 2010.

2010	Performing (Accruing) Loans 31-60 Days Past Due	Greater Than 60 Days	Total Past Due	Current	Total Perfoming Loans	Total Non-Accrual and Past Due Loans	Total Loans
Commercial							
Pass	$	$	$	$ 11,481,557	$ 11,481,557	$	$ 11,481,557
Special Mention				822,364	822,364	63,289	885,653
Substandard				816,630	816,630	1,389,950	2,206,580
Total Commercial	$	$	$	$ 13,120,551	$ 13,120,551	$ 1,453,239	$ 14,573,790
Commercial Real Estate							
Pass	$	$	$	$ 134,094,210	$ 134,094,210	$	$ 134,094,210
Special Mention				39,898,756	39,898,756		39,898,756
Substandard				28,061,351	28,061,351	26,788,172	54,849,523
Total Commercial Real Estate	$	$	$	$ 202,054,317	$ 202,054,317	$ 26,788,172	$ 228,842,489
Construction							
Pass	$	$	$	$ 1,622,029	$ 1,622,029	$	$ 1,622,029
Special Mention				19,544,913	19,544,913		19,544,913
Substandard				8,700,165	8,700,165	34,021,976	42,722,141
Total Construction	$	$	$	$ 29,867,107	$ 29,867,107	$ 34,021,976	$ 63,889,083
Construction to Permanent							
Pass	$	$	$	$	$	$	$
Special Mention				1,709,333	1,709,333		1,709,333
Substandard	1,127,875		1,127,875	6,114,000	7,241,875	1,379,835	8,621,710
Total Construction to Permanent	$ 1,127,875	$	$ 1,127,875	$ 7,823,333	$ 8,951,208	$ 1,379,835	$ 10,331,043
Residential Real Estate							
Pass	$ 198,357	$	$ 198,357	$ 143,332,842	$ 143,531,199	$	$ 143,531,199
Special Mention	2,907,285		2,907,285	2,088,700	4,995,985		4,995,985
Substandard				10,743,390	10,743,390	27,787,744	38,531,134
Total Residential Real Estate	$ 3,105,642	$	$ 3,105,642	$ 156,164,932	$ 159,270,574	$ 27,787,744	$ 187,058,318
Consumer							

Pass	$	$	$	$ 37,109,997	$ 37,109,997	$	$ 37,109,997
Special Mention	168,589		168,589	5,857,276	6,025,865		6,025,865
Substandard				588,887	588,887	1,092,976	1,681,863
Total Consumer	$ 168,589	$	$ 168,589	$ 43,556,160	$ 43,724,749	$ 1,092,976	$ 44,817,725
Total	$ 4,402,106	$	$ 4,402,106	$ 452,586,400	$ 456,988,506	$ 92,523,942	$ 549,512,448

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The following table summarizes impaired loans as of March 31, 2011:

2011	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:			
Commercial	$ 1,236,317	$ 1,627,637	$
Commercial Real Estate	8,616,291	9,119,235	
Construction	1,726,344	1,874,386	
Construction to Permanent			
Residential	11,927,547	12,047,680	
Consumer	1,516,977	1,939,800	
Total:	$ 25,023,476	$ 26,608,738	$
With an allowance recorded:			
Commercial	$ 125,683	$ 141,149	$ 78,286
Commercial Real Estate	11,845,101	15,272,361	1,887,042
Construction	12,181,012	14,535,354	1,657,278
Construction to Permanent	1,364,694	1,425,000	187,094
Residential			
Consumer			
Total:	$ 25,516,490	$ 31,373,864	$ 3,809,700
Commercial	$ 1,362,000	$ 1,768,786	$ 78,286
Commercial Real Estate	20,461,392	24,391,596	1,887,042
Construction	13,907,356	16,409,740	1,657,278
Construction to Permanent	1,364,694	1,425,000	187,094
Residential	11,927,547	12,047,680	
Consumer	1,516,977	1,939,800	
Total:	$ 50,539,966	$ 57,982,602	$ 3,809,700

At March 31, 2011, the recorded investment of impaired loans was $50.5 million, with related allowances of $3.8 million.

Included in the table above at March 31, 2011, are 23 loans with carrying balances of $25.0 million that required no specific reserves in our allowance for loan losses; 18 non-accruing loans aggregating $13.9 million and 5 accruing TDR loans aggregating $11.1 million. Loans that did not require specific reserves at March 31, 2011 have sufficient collateral values, less costs to sell, supporting the carrying balances of the loans. In some cases, there may be no specific reserves because the Company already charged-off the specific impairment. Once a borrower is in default, the Company is under no obligation to advance additional funds on unused commitments.

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Note 4: Deposits

The following table is a summary of Bancorp s deposits at:

	March 31, 2011	December 31, 2010
Non-interest bearing	$ 55,691,927	$ 51,058,373
Interest bearing		
NOW	25,161,243	19,297,225
Savings	57,979,524	57,041,943
Money market	73,803,322	92,683,478
Time certificates, less than $100,000	219,759,502	251,296,558
Time certificates, $100,000 or more	148,887,513	175,431,252
Total interest bearing	525,591,104	595,750,456
Total Deposits	$ 581,283,031	$ 646,808,829

Included in time certificates are certificates of deposit through the Certificate of Deposit Account Registry Service (CDARS) network of $1,463,252 and $2,879,838 at March 31, 2011 and December 31, 2010, respectively. These are considered brokered deposits. Pursuant to the Agreement discussed in Note 8, the Bank s participation in the CDARS program, as an issuer of deposits to customers of other banks in the CDARS program, may not exceed 10% of total deposits.

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Note 5: Loss per share

Bancorp is required to present basic income (loss) per share and diluted income (loss) per share in its consolidated statements of operations. Basic income (loss) per share amounts are computed by dividing net income (loss) by the weighted average number of common shares outstanding. Diluted income (loss) per share reflects additional common shares that would have been outstanding if potentially dilutive common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by Bancorp relate to outstanding stock options and are determined using the treasury stock method. Bancorp is also required to provide a reconciliation of the numerator and denominator used in the computation of both basic and diluted loss per share.

The following is information about the computation of loss per share for the three months ended March 31, 2011 and 2010:

Three months ended March 31, 2011

	Net Loss	**Weighted Average Common Shares O/S**	**Amount**
Basic and Diluted Loss Per Share			
Loss attributable to common shareholders	$ (8,982,598)	38,362,727	$ (0.23)

Three months ended March 31, 2010

	Net Loss	Weighted Average Common Shares O/S	Amount
Basic and Diluted Loss Per Share			
Loss attributable to common shareholders	$ (3,131,566)	4,762,727	$ (0.66)

Note 6: Other Comprehensive Income

Other comprehensive income, which is comprised solely of the change in unrealized gains and losses on available-for-sale securities, is as follows:

	Three Months Ended March 31, 2011			Three Months Ended March 31, 2010		
	Before Tax Amount	Tax Effect	Net of Tax Amount	Before Tax Amount	Tax Effect	Net of Tax Amount
Unrealized holding gains arising during the period	$ 5,202	$ (1,977)	$ 3,225	$ 555,443	$ (211,067)	$ 344,376
Reclassification adjustment for gains recognized in income						
Unrealized holding gains on available for sale securities, net of taxes	$ 5,202	$ (1,977)	$ 3,225	$ 555,443	$ (211,067)	$ 344,376

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Note 7: Financial Instruments with Off-Balance Sheet Risk

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

The contractual amounts of commitments to extend credit and standby letters of credit represent the amounts of potential accounting loss should: the contracts be fully drawn upon; the customers default; and the values of any existing collateral become worthless. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments and evaluates each customer s creditworthiness on a case-by-case basis. Management believes that the Company controls the credit risk of these financial instruments through credit approvals, credit limits, monitoring procedures and the receipt of collateral as deemed necessary.

Financial instruments whose contractual amounts represent credit risk at March 31, 2011 are as follows:

Commitments to extend credit:	
Future loan commitments	$ 12,232,022
Home equity lines of credit	18,771,768
Unused lines of credit	12,914,391
Undisbursed construction loans	1,536,329
Financial standby letters of credit	52,000
	$ 45,506,510

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

Standby letters of credit are written commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Newly issued or modified guarantees that are not derivative contracts are recorded on the Company s consolidated balance sheet at the fair value at inception. No liability related to guarantees was required to be recorded at March 31, 2011.

Note 8: Regulatory and Operational Matters

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate 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 Company and the Bank must meet specific capital guidelines that involve quantitative measures of the Company s and the Bank s assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company s and the Bank s capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). In addition, due to the Bank s asset profile and current economic conditions in its markets, the Bank s capital plan pursuant to the Agreement described below targets a minimum 9% Tier 1 leverage capital ratio.

In February 2009 the Bank entered into a formal written agreement (the Agreement) with the Office of the Comptroller of the Currency (the OCC). Under the terms of the Agreement, the Bank has appointed a Compliance Committee of outside directors and the Chief Executive Officer. The Committee must report quarterly to the Board of Directors and to the OCC on the Bank s progress in complying with the Agreement. The Agreement requires the Bank to review, adopt and implement a number of policies and programs related to credit and operational issues. The Agreement further provides for certain asset growth restrictions for a limited period of time together with limitations on the acceptance of certain brokered deposits and the extension of credit to borrowers whose loans are criticized. The Bank may pay dividends during the term of the Agreement only with prior written permission from the OCC. The Agreement also requires that the Bank develop and implement a three-year capital plan. The Bank has taken or put into process many of the steps required by the Agreement, and does not anticipate that the restrictions included within the Agreement will impair its current business plan.

In June 2010 the Company entered into a formal written agreement (the Reserve Bank Agreement) with the Federal Reserve Bank of New York (the Reserve Bank). Under the terms of the Reserve Bank Agreement, the Board of Directors of the Company are required to take appropriate steps to fully utilize the Company s financial and managerial resources to serve as a source of strength to the Bank including taking steps to insure that the Bank complies with the Agreement with the OCC. The Reserve Bank Agreement requires the Company to submit, adopt and implement a capital plan that is acceptable to the Reserve Bank. The Company must also report to the Reserve Bank quarterly on the Company s progress in complying with the Reserve Bank Agreement. The Agreement further provides for certain restrictions on the payment or receipt of dividends, distributions of interest or principal on subordinate debentures or trust preferred securities and the Company s ability to incur debt or to purchase or redeem its stock without the prior written approval of the Reserve Bank. The Company has taken or put into process many of the steps required by the Reserve Bank Agreement, and does not anticipate that the restrictions included within the Reserve Bank Agreement will impair its current business plan.

The Company s and the Bank s actual capital amounts and ratios at March 31, 2011 and December 31, 2010 were:

(dollars in thousands)	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
March 31, 2011						
The Company:						
Total Capital (to Risk Weighted Assets)	$ 70,398	18.14%	$ 31,047	8.00%	N/A	N/A
Tier 1 Capital (to Risk Weighted Assets)	64,843	16.71%	15,522	4.00%	N/A	N/A
Tier 1 Capital (to Average Assets)	64,843	8.71%	29,779	4.00%	N/A	N/A
The Bank:						
Total Capital (to Risk Weighted Assets)	$ 67,888	17.50%	$ 31,035	8.00%	$ 38,793	10.00%
Tier 1 Capital (to Risk Weighted Assets)	62,336	16.07%	15,516	4.00%	23,274	6.00%
Tier 1 Capital (to Average Assets)	62,336	8.38%	29,755	4.00%	37,193	5.00%
December 31, 2010						
The Company:						
Total Capital (to Risk Weighted Assets)	$ 80,358	17.08%	$ 37,643	8.00%	N/A	N/A
Tier 1 Capital (to Risk Weighted Assets)	73,822	15.69%	18,822	4.00%	N/A	N/A
Tier 1 Capital (to Average Assets)	73,822	9.16%	32,219	4.00%	N/A	N/A
The Bank:						
Total Capital (to Risk Weighted Assets)	$ 77,705	16.54%	$ 37,582	8.00%	$ 46,978	10.00%
Tier 1 Capital (to Risk Weighted Assets)	71,178	15.15%	18,791	4.00%	28,187	6.00%
Tier 1 Capital (to Average Assets)	71,178	8.84%	32,203	4.00%	40,253	5.00%

On October 15, 2010, the Company issued and sold to PNBK Holdings LLC, 33,600,000 shares of its common stock at a purchase price of $1.50 per share. The shares sold to PNBK Holdings LLC represent 87.6% of the Company s current issued and outstanding common stock. Another factor of this transaction is that the Company has a new Chairman of the Board of Directors, as well as a new President and CEO. These changes to management are key components to the recovery plan and will help the Bank reach its goal of restored profitability.

Restrictions on dividends, loans and advances

The Company s ability to pay dividends is dependent on the Bank s ability to pay dividends to the Company. Pursuant to the February 9, 2009 Agreement between the Bank and the OCC, the Bank can pay dividends to the Company only pursuant to a dividend policy requiring compliance with the Bank s OCC-approved capital program, in compliance with applicable law and with the prior written determination of no supervisory objection by the Assistant Deputy Comptroller. In addition to the Agreement, certain other restrictions exist regarding the ability of the Bank to transfer funds to the Company in the form of cash dividends, loans or advances. The approval of the OCC is required to pay dividends in excess of the Bank s earnings retained in the current year plus retained net earnings for the preceding two years. As of March 31, 2011, the Bank had an accumulated deficit; therefore, dividends may not be paid to the Company. The Bank is also prohibited from paying dividends that would reduce its capital ratios below minimum regulatory requirements.

The Company s ability to pay dividends and incur debt is also restricted by the Reserve Bank Agreement. Under the terms of the Reserve Bank Agreement, the Company has agreed that it shall not declare or pay any dividends or incur, increase or guarantee any debt without the prior written approval of the Reserve Bank and the Director of the Division of Banking Supervision and Regulation (the Director) of the Board of Governors.

Loans or advances to the Company from the Bank are limited to 10% of the Bank s capital stock and surplus on a secured basis.

Recent Legislative Developments

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the Act) was signed into law on July 21, 2010. The Act is a significant piece of legislation that will have a major impact on the financial services industry, including the organization, financial condition and operations of banks and bank holding companies. Management is currently evaluating the impact of the Act; however, uncertainty remains as to its operational impact, which could have a material adverse impact on the Company s business, results of operations and financial condition. Many of the provisions of the Act are aimed at financial institutions that are significantly larger than the Company and the Bank. Notwithstanding this, there are many other provisions that the Company and the Bank are subject to and will have to comply with, including any new rules applicable to the Company and the Bank promulgated by the Bureau of Consumer Financial Protection, a new regulatory body dedicated to consumer protection. As rules and regulations are promulgated by the agencies responsible for implementing and enforcing the Act, the Company and the Bank will have to address each to ensure compliance with applicable provisions of the Act and compliance costs are expected to increase.

Note 9: Income Taxes

The determination of the amount of deferred tax assets which are more likely than not to be realized is primarily dependent on projections of future earnings, which are subject to uncertainty and estimates that may change given economic conditions and other factors. A valuation allowance related to deferred tax assets is required when it is considered more likely than not that all or part of the benefit related to such assets will not be realized. Management has reviewed the deferred tax position of the Company at March 31, 2011. The deferred tax position has been affected by several significant transactions in the past three years. These transactions include increased provision for loan losses, the increasing levels of non-accrual loans and other-than-temporary impairment write-offs of certain investments. As a result, the Company is in a cumulative net loss position at March 31, 2011, and under the applicable accounting guidance, has concluded that it is not more-likely-than-not that the Company will be able to realize its deferred tax assets and, accordingly, has established a full valuation allowance totaling $16.9 million against its deferred tax asset at March 31, 2011. The valuation allowance is analyzed quarterly for changes affecting the deferred tax asset. If, in the future, the Company generates taxable income on a sustained basis, management s conclusion regarding the need for a deferred tax asset valuation allowance could change, resulting in the reversal of all or a portion of the deferred tax asset valuation allowance.

As measured under the rules of the Tax Reform Act of 1986, the Company has undergone a greater than 50% change of ownership in 2010. Consequently, use of the Company s net operating loss carryforward and certain built in deductions available against future taxable income in any one year may be limited. The maximum amount of carryforwards available in a given year is limited to the product of the Company s fair market value on the date of ownership change and the federal long-term tax-exempt rate, plus any limited carryforward not utilized in prior years. The Company is currently analyzing the impact of its recent ownership change. There is a full valuation allowance against the deferred tax assets as the Company does not believe that it is more likely than not that the Company will generate sufficient taxable income to realize the deferred tax assets. Accordingly, the Company does not believe the analysis will result in a material impact to the consolidated financial statements.

Note 10: Fair Value and Interest Rate Risk

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Fair value is 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. Fair value is best determined based upon quoted market prices. However, in certain instances, there are no quoted market prices for certain assets or liabilities. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the asset or liability.

Fair value measurements focus on exit prices in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment.

The Company s fair value measurements are classified into a fair value hierarchy based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. The three categories within the hierarchy are as follows:

- *Level 1 Inputs* - Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- *Level 2 Inputs* - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, prepayment speeds, credit risks, etc.) or inputs that are derived principally from or corroborated by market data by correlation or other means.
- *Level 3 Inputs* - Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity s own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

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The fair value measurement level of an asset or liability within the fair value hierarchy is based on the lower level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

A description of the valuation methodologies used for assets and liabilities recorded at fair value, and for estimating fair value for financial and non-financial instruments not recorded at fair value, is set forth below.

Cash and due from banks, federal funds sold, short-term investments and accrued interest receivable and payable: The carrying amount is a reasonable estimate of fair value. These financial instruments are not recorded at fair value on a recurring basis.

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

Loans: For variable rate loans, which reprice frequently and have no significant change in credit risk, carrying values are a reasonable estimate of fair values, adjusted for credit losses inherent in the portfolios. The fair value of fixed rate loans is estimated by discounting the future cash flows using the period end rates, estimated by using local market data, at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities, adjusted for credit losses inherent in the portfolios. The Company does not record loans at fair value on a recurring basis. However, from time to time, nonrecurring fair value adjustments to collateral-dependent impaired loans are recorded to reflect partial write-downs based on the observable market price or current appraised value of collateral. Fair values estimated in this manner do not fully incorporate an exit-price approach to fair value, but instead are based on a comparison to current market rates for comparable loans.

Other Real Estate Owned: The fair values of the Company s other real estate owned (OREO) properties are based on the estimated current property valuations less estimated selling costs. When the fair value is based on current observable appraised values, OREO is classified within Level 2. The Company classifies OREO within Level 3 when unobservable adjustments are made to appraised values. The Company does not record other real estate owned at fair value on a recurring basis.

Deposits: The fair value of demand deposits, regular savings and certain money market deposits is the amount payable on demand at the reporting date. The fair value of certificates of deposit and other time deposits is estimated using a discounted cash flow calculation that applies interest rates currently being offered for deposits of similar remaining maturities, estimated using local market data, to a schedule of aggregated expected maturities on such deposits. The Company does not record deposits at fair value on a recurring basis.

Short-term borrowings: The carrying amounts of borrowings under short-term repurchase agreements and other short-term borrowings maturing within 90 days approximate their fair values. The Company does not record short-term borrowings at fair value on a recurring basis.

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Junior Subordinated Debt: Junior subordinated debt reprices quarterly and as a result the carrying amount is considered a reasonable estimate of fair value. The Company does not record junior subordinated debt at fair value on a recurring basis.

Federal Home Loan Bank Borrowings: The fair value of the advances is estimated using a discounted cash flow calculation that applies current Federal Home Loan Bank interest rates for advances of similar maturity to a schedule of maturities of such advances. The Company does not record these borrowings at fair value on a recurring basis.

Other Borrowings: The fair values of longer term borrowings and fixed rate repurchase agreements are estimated using a discounted cash flow calculation that applies current interest rates for transactions of similar maturity to a schedule of maturities of such transactions. The Company does not record these borrowings at fair value on a recurring basis.

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

The following table details the financial assets measured at fair value on a recurring basis as of March 31, 2011 and December 31, 2010, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine fair value:

March 31, 2011	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Balance as of March 31, 2011**
Securities available for sale	$	$ 38,539,143	$	$ 38,539,143

December 31, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of December 31, 2010
Securities available for sale	$	$ 40,564,700	$	$ 40,564,700

Certain financial assets and financial liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment).

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The following tables reflect financial assets measured at fair value on a non-recurring basis as of March 31, 2011 and December 31, 2010, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

March 31, 2011	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Balance as of March 31, 2011**
Impaired Loans [(1)]	**$**	**$**	**$ 4,577,157**	**$ 4,577,157**
Other real estate owned [(2)]	**$**	**$**	**$ 950,000**	**$ 950,000**
December 31, 2010				
Impaired Loans [(1)]	$	$	$ 30,999,865	$ 30,999,865
Other real estate owned [(2)]	$	$	$ 10,103,199	$ 10,103,199

(1) Represents carrying value for which adjustments are based on the appraised value of the collateral.

(2) Represents carrying value for which adjustments are based on the appraised value of the property.

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

The estimated fair value amounts have been measured as of March 31, 2011 and December 31, 2010 and have not been reevaluated or updated for purposes of these financial statements subsequent to those respective dates. As such, the estimated fair value of these financial instruments subsequent to the respective reporting dates may be different than amounts reported on those dates.

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

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The following is a summary of the carrying amounts and estimated fair values of the Company s financial instruments at March 31, 2011 and December 31, 2010 (in thousands):

	March 31, 2011		December 31, 2010	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial Assets:				
Cash and noninterest bearing balances due from banks	$ 5,903	$ 5,903	$ 4,613	$ 4,613
Interest-bearing deposits due from banks	140,645	140,645	131,711	131,711
Federal funds sold	10,000	10,000	10,000	10,000
Short-term investments	501	501	453	453
Other investments	3,500	3,500	3,500	3,500
Available-for-sale securities	38,539	38,539	40,565	40,565
Federal Reserve Bank stock	2,176	2,176	1,192	1,192
Federal Home Loan Bank stock	4,508	4,508	4,508	4,508
Loans receivable, net	466,869	476,967	534,531	542,360
Accrued interest receivable	2,326	2,326	2,512	2,512
Financial Liabilities:				
Demand deposits	$ 55,692	$ 55,692	$ 51,058	$ 51,058
Savings deposits	57,980	57,980	57,042	57,042
Money market deposits	73,803	73,803	92,683	92,683
NOW accounts	25,161	25,161	19,297	19,297
Time deposits	368,647	374,116	426,728	432,466
FHLB Borrowings	50,000	51,014	50,000	51,195
Securities sold under repurchase agreements	7,000	7,784	7,000	7,796
Subordinated debentures	8,248	8,248	8,248	8,248
Accrued interest payable	804	804	729	729

The Company assumes interest rate risk (the risk that general interest rate levels will change) as a result of its normal operations. As a result, the fair values of the Company s financial instruments will change when interest rate levels change and that change may be either favorable or unfavorable to the Company. Management attempts to match maturities of assets and liabilities to the extent believed necessary to minimize interest rate risk. However, borrowers with fixed rate obligations are less likely to prepay in a rising rate environment and more likely to prepay in a falling rate environment. Conversely, depositors who are receiving fixed rates are more likely to withdraw funds before maturity in a rising rate environment and less likely to do so in a falling rate environment. Management monitors rates and maturities of assets and liabilities and attempts to minimize interest rate risk by adjusting terms of new loans and deposits and by investing in securities with terms that mitigate the Company s overall interest rate risk.

Off-balance sheet instruments

Loan commitments on which the committed interest rate is less than the current market rate were insignificant at March 31, 2011 and December 31, 2010. The estimated fair value of fee income on letters of credit at March 31, 2011 and December 31, 2010 was insignificant.

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Note 11: Recent Accounting Pronouncements

In February 2010, the FASB issued ASU No. 2010-06 Topic 820 Improving Disclosures about Fair Value Measurements which amended the existing guidance related to *Fair Value Measurements and Disclosures*. The amendments require the following new fair value disclosures:

- Separate disclosure of the significant transfers into and out of Level 1 and Level 2 fair value measurements, and a description of the reasons for the transfers.
- In the rollforward of activity for Level 3 fair value measurements (significant unobservable inputs), purchases, sales, issuances, and settlements should be presented separately (on a gross basis rather than as one net number).

In addition, the amendments clarify existing disclosure requirements, as follows:

- Fair value measurements and disclosures should be presented for each class of assets and liabilities within a line item in the statement of financial position.
- Reporting entities should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements that fall in either Level 2 or Level 3.

The new disclosures and clarifications of existing disclosures were effective for the Company beginning in the quarter ended March 31, 2010, except for the disclosures included in the roll forward of activity for Level 3 fair value measurements, for which the effective date is for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The Company adopted this guidance during the quarters ended March 31, 2010 and March 31, 2011 respectively, and has included these disclosures in these financial statements.

The FASB issued ASU No. 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses* in July 2010. The amendments in this ASU apply to all entities, both public and nonpublic, with financing receivables, excluding short-term trade accounts receivable or receivables measured at fair value or lower of cost or fair value. The amendments in this ASU enhance disclosures about the credit quality of financing receivables and the allowance for credit losses. This ASU amends existing disclosure guidance to require entities to provide a greater level of disaggregated information about the credit quality of its financing receivables and its allowance for credit losses. In addition, this ASU requires entities to disclose credit quality indicators, past due information, and modifications of its financing receivables. For public entities, the disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The adoption of this guidance did not have an impact on the Company s results of operations or financial position.

Item 2: Management s Discussion and Analysis of Financial Condition and Results of Operations

SAFE HARBOR STATEMENT UNDER PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

Certain statements contained in Bancorp s public reports, including this report, and in particular in Management s Discussion and Analysis of Financial Condition and Results of Operations, may be forward looking and subject to a variety of risks and uncertainties. These factors include, but are not limited to; (1) changes in prevailing interest rates which would affect the interest earned on Bancorp s interest earning assets and the interest paid on its interest bearing liabilities; (2) the timing of repricing of Bancorp s interest earning assets and interest bearing liabilities; (3) the effect of changes in governmental monetary policy; (4) the effect of changes in regulations applicable to Bancorp and the Bank and the conduct of its business; (5) changes in competition among financial service companies, including possible further encroachment of non-banks on services traditionally provided by banks; (6) the ability of competitors that are larger than Bancorp to provide products and services which it is impracticable for Bancorp to provide; (7) the state of the economy and real estate values in Bancorp s market areas, and the consequent effect on the quality of Bancorp s loans, customers, vendors and communities; (8) recent governmental initiatives that are expected to have a profound effect on the financial services industry and could dramatically change the competitive environment of Bancorp; (9) other legislative or regulatory changes, including those related to residential mortgages, changes in accounting standards, and Federal Deposit Insurance Corporation (FDIC) premiums that may adversely affect Bancorp.

Although Bancorp believes that it offers the loan and deposit products and has the resources needed for continued success, future revenues and interest spreads and yields cannot be reliably predicted. These trends may cause Bancorp to adjust its operations in the future. Because of the foregoing and other factors, recent trends should not be considered reliable indicators of future financial results or stock prices.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and to disclose contingent assets and liabilities. Actual results could differ from those estimates. Management has identified the accounting for the allowance for loan losses, the analysis of its investment securities and the valuation of deferred income tax assets, as Bancorp s most critical accounting policies and estimates in that they are important to the portrayal of Bancorp s financial condition and results. They require management s most subjective and complex judgment as a result of the need to make an estimate about the effect of matters that are inherently uncertain. These accounting policies, including the nature of the estimates and types of assumptions used, are described throughout this Management s Discussion and Analysis.

Summary

Bancorp incurred a net loss of $9.0 million ($0.23 basic and diluted loss per share) for the quarter ended March 31, 2011, compared to a net loss of $3.1 million ($0.66 basic and diluted loss per share) for the quarter ended March 31, 2010. The primary reason for the decrease in the quarterly comparison is the $6.2 million loss on the bulk sale of non-performing assets, as discussed in Note 3. Bancorp s net interest income for the quarter ended March 31, 2011 was $4.9 million compared to $6.0 million for the quarter ended March 31, 2010. Interest income and interest expense decreased by 23% and 34%, respectively, for the quarter ended March 31, 2011 compared to the quarter ended March 31, 2010. The decline in interest income is due primarily to lower average outstanding loan balances, high level of elevated liquidity and the income receipt of $605,000 of past due interest on one loan for the quarter ended March 31, 2010. The significant decline in interest expense is primarily due to the reduction of total deposits and substantially lower interest rates paid on existing deposits.

Total assets decreased $74.6 million from $784.3 million at December 31, 2010 to $709.7 million at March 31, 2011. Cash and cash equivalents increased $10.3 million from $146.8 million at December 31, 2010 to $157.0 million at March 31, 2011. Available-for-sale securities decreased $2.0 million from $40.6 million at December 31, 2010 to $38.5 million March 31, 2011. The net loan portfolio decreased $67.7 million from $534.5 million at December 31, 2010 to $466.9 million at March 31, 2011. This decrease is primarily a result of a $66.8 million bulk sale of non-performing assets, comprised of $52.4 million of non-performing loans and $14.4 million of other real estate owned. This was the result of management s strategic plan to dramatically lower the level of non-performing assets

and improve the overall credit quality, and significantly increase the level of earning assets. As a result of weak loan demand and currently high levels of balance sheet liquidity, the Bank continued to offer lower rates on deposit products. The overall cost of deposits decreased from 1.84% at March 31, 2010 to 1.34% at March 31, 2011. Deposits decreased $65.5 million from $646.8 million at December 31, 2010 to $581.3 million at March 31, 2011. Borrowings remained unchanged compared to December 31, 2010.

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Financial Condition

Cash and Cash Equivalents

Cash and cash equivalents increased $10.3 million, or 7%, to $157.0 million at March 31, 2011 compared to $146.8 million at December 31, 2010. This increase is primarily the result of the bulk sale and lower outstanding loan balances, partially offset by lower deposit balances.

Investments

The following table is a summary of Bancorp s available-for-sale securities portfolio, at fair value, at the dates shown:

	March 31, 2011	December 31 2010
U. S. Government agency mortgage-backed securities	$ 35,277,176	$ 37,471,878
Auction rate preferred equity securities	3,261,967	3,092,822
Total Available-for-Sale Securities	$ 38,539,143	$ 40,564,700

Available-for-sale securities decreased $2.0 million, or 5%, from $40.6 million at December 31, 2010 to $38.5 million at March 31, 2011. This decrease is primarily due to principal pay downs of $2.0 million on mortgage backed securities.

Loans

The following table is a summary of Bancorp s loan portfolio at the dates shown:

	March 31, 2011	December 31, 2010
Real Estate		
Commercial	$ 212,785,433	$ 228,842,489
Residential	157,743,571	187,058,318
Construction	39,639,058	63,889,083
Construction to permanent	10,315,902	10,331,043
Commercial	18,873,362	14,573,790
Consumer home equity	37,432,068	42,884,962
Consumer installment	2,047,248	1,932,763
Total Loans	478,836,642	549,512,448
Premiums on purchased loans	239,912	242,426
Net deferred costs	1,196	150,440
Allowance for loan losses	(12,208,476)	(15,374,101)
Loans receivable, net	$ 466,869,274	$ 534,531,213

Bancorp s net loan portfolio decreased $67.7 million, or 13%, from $534.5 million at December 31, 2010 to $466.9 million at March 31, 2011. The decrease is primarily a result of a bulk sale of non-performing assets and loan payoffs, including some that were impaired and on non-accrual status. Construction loans decreased by $24.3 million, commercial real estate loans decreased by $16.1 million, residential mortgages decreased by $29.3 million and consumer home equity decreased by $5.5 million, partially offset by increases to commercial loans of $4.3 million. The net decrease in the portfolio also reflects net charge-offs for the quarter ended March 31, 2011 of $4.1 million, of which specific reserves of $3.4 million were related to loans in the bulk sale. In an effort to reduce its concentration in construction loans, Bancorp has continued its moratorium on originating new speculative construction loans.

On March 24, 2011, the Bank completed the sale of certain non-performing assets that included 21 non-accruing loans with an aggregate net book value of $52.4 million (net of related specific reserves) and 4 OREO properties with an aggregate carrying value of $14.4 million. The sale of $66.8 million of non-performing assets was consummated for a cash purchase price of $60.6 million which represented 90.7% of the Bank s net book value for these assets.

At March 31, 2011, the net loan to deposit ratio was 80% and the net loan to total assets ratio was 66%. At December 31, 2010, these ratios were 83% and 68%, respectively.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

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The allowance for loan losses is evaluated on a regular basis by management and is based upon management s periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect a borrower s ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. The allowance for loan losses decreased by $3.2 million from December 31, 2010 to March 31, 2011 primarily due to net charge-offs of $4.1 million, of which $3.4 million were related to loans in the bulk sale. In addition, a provision of $7.0 million was recorded, of which $6.0 million related to loans transferred to held-for-sale in connection with the bulk loan sale.

The allowance consists of allocated and general components. The allocated component relates to loans that are considered impaired. For such impaired loans, an allowance is established when the discounted cash flows (or observable market price or collateral value if the loan is collateral dependent) of the impaired loan is lower than the carrying value of that loan. When a loan is placed on non-accrual status the loan is considered impaired. For collateral dependent loans, the appraised value is reduced by estimated selling costs and any senior liens and the result is compared to the principal loan balance to determine the impairment amount, if any. For loans that are not collateral dependent and for which a restructure is in place, the impairment is determined by using the discounted cash flow method which takes into account the difference between the original interest rate and the restructured rate.

The general component covers all other loans, segregated generally by loan type, and is based on historical loss experience with adjustments for qualitative factors which are made after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss data. In addition, a risk rating system is utilized to evaluate the general component of the allowance for loan losses. Management assigns risk ratings to all loans assigning ratings between one and nine, with a rating of one being the least risk, and a rating of nine reflecting the most risk or a complete loss. Risk ratings are assigned based upon the recommendations of the credit analyst and the originating loan officer and confirmed by the Loan Committee at the initiation of the transactions and are reviewed and changed, when necessary, during the life of the loan. Loans assigned a risk rating of six or above are monitored more closely by the credit administration officers and Loan Committee.

The allowance for loan losses reflects management s estimate of probable but unconfirmed losses inherent in the portfolio; such estimates are influenced by uncertainties in economic conditions, unfavorable information about a borrower s financial condition, delays in obtaining information, difficulty in identifying triggering events that correlate perfectly to subsequent loss rates, and risk factors that have not yet manifested themselves in loss allocation factors. Loan quality control is continually monitored by management, subject to oversight by the Board of Directors through its members who serve on the Loan Committee. Loan quality control is also reviewed by the full Board of Directors on a monthly basis and semi-annual loan reviews are performed by an independent external firm. The independent external loan review reports directly to the Audit Committee.

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The methodology for determining the adequacy of the allowance for loan losses has been consistently applied. Of the $12.2 million allowance for loan losses as of the quarter ended March 31, 2011, $3.8 million was attributed to collateral dependent impaired loans and $8.4 million was the general reserve attributed to performing loans. The appraised values on impaired loans that are anticipated to become OREO in the coming quarter are adjusted based upon Bancorp s recent sales experience. As of March 31, 2011, the Bank s OREO sales experience has indicated that the ultimate sales prices of the underlying collateral have been 13% less than the appraisal amounts. The appraisal adjustment percentage is reviewed quarterly for those loans anticipated to become OREO in the subsequent quarter, based on an analysis of actual variances between appraised values as of the date the loan is transferred into OREO and the actual sales prices of the OREO properties. Generally, the sales prices have usually been below the appraised values due to the fact that buyers become aware that the Bank owns those properties and, therefore, attempt to offer less than fair market value. In the future, additional revisions may be made to the methodology and assumptions based on historical information related to charge-off and recovery experience and management s evaluation of the current loan portfolio, and prevailing internal and external factors including but not limited to current economic conditions and local real estate markets. The $7.0 million provision for the quarter included $6.0 million related to loans transferred to held-for-sale in connection with the bulk loan sale and $967,000 was deemed necessary by management to maintain appropriate coverage after taking the net charge-offs of $4.1 million of which $3.4 million of specific reserves were related to loans in the bulk sale. The ratio of allowance for loan losses to total loans as of March 31, 2011 was 2.55% as compared to 2.80% as of December 31, 2010. Management believes that the decrease is warranted based upon the significant reduction on non-performing loans and charge-offs of specific reserves related to loans in the bulk sale.

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

In most cases, loan payments that are past due less than 90 days, based on contractual terms, are considered collection delays and the related loans are not considered to be impaired. The Bank considers consumer installment loans to be pools of smaller balance homogeneous loans, which are collectively evaluated for impairment.

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The changes in the allowance for loan losses for the periods shown are as follows:

	Three months ended	
(Thousands of dollars)	March 31, 2011	March 31, 2010
Balance at beginning of period	$ 15,374	$ 15,794
Charge-offs	(4,154)	(1,583)
Recoveries	21	124
Net Charge-offs	(4,133)	(1,459)
Transferred to loans held-for-sale	(6,014)	
Provision charged to operations	6,981	727
Balance at end of period	$ 12,208	$ 15,062
Ratio of net charge-offs during the period to average loans outstanding during the period	0.78%	0.22%
Ratio of ALLL / Gross Loans	2.55%	2.35%

Based upon the overall assessment and evaluation of the loan portfolio, management believes the allowance for loan losses of $12.2 million, at March 31, 2011, which represents 2.55% of gross loans outstanding, is adequate under prevailing economic conditions, to absorb existing losses in the loan portfolio. Bancorp has had six consecutive quarters of decreases in non-accrual loans.

Non-Accrual, Past Due and Restructured Loans

The following table presents non-accruing loans and loans past due 90 days or more and still accruing:

(Thousands of dollars)	March 31, 2011	December 31, 2010
Loans past due over 90 days still accruing	$ 223	$ 3,374
Non accruing loans	32,530	89,150
Total	$ 32,753	$ 92,524
% of Total Loans	6.84%	16.83%
% of Total Assets	4.61%	11.80%

Loans delinquent over 90 days and still accruing aggregating $223,000 are comprised of 2 loans, both of which have matured and the borrowers continue to make payments. These loans are currently in the process of being renewed. Impaired loans, which are comprised of non-accruing loans and troubled debt restructured loans, decreased by $50.1 million to $50.5 million for the quarter ended March 31, 2011. Impaired loans are attributable to the lingering effects of the downturn in the economy, which has severely impacted the real estate market and placed unprecedented stress on credit markets. Residents of Fairfield County, Connecticut, many of whom are associated with the financial services industry, have been affected by the impact of the poor economy on employment and real estate values.

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The $32.5 million of non-accrual loans at March 31, 2011 is comprised of exposure to 32 borrowers, for which a specific reserve of $3.4 million has been established. All of the non-accruing loans are collateral dependent and are secured by residential or commercial real estate located within the Bank s market area. In all cases, the Bank has obtained appraisal reports from independent licensed appraisal firms and discounted those values for estimated selling costs to determine estimated impairment. Of the $32.5 million of non-accrual loans at March 31, 2011, borrowers of 10 loans with aggregate balances of $9.4 million continue to make loan payments and these loans are current within one month as to payments.

Potential Problem Loans

In addition to the above, there are $69.7 million of substandard accruing loans comprised of 45 loans and $54.6 million of special mention loans comprised of 53 loans for which management has a concern as to the ability of the borrowers to comply with the present repayment terms. All but $3.1 million of the substandard accruing loans and all of the special mention loans continue to make timely payments and are within 30 days at March 31, 2011.

Bancorp has had five consecutive quarters of decreases in substandard-accrual loans.

Other Real Estate Owned

The following table is a summary of Bancorp s other real estate owned at the dates shown:

	March 31, 2011	December 31, 2010
Residential construction	$	$ 15,774,187
Land	950,000	634,600
Other real estate owned	$ 950,000	$ 16,408,787

The balance of other real estate owned at March 31, 2011 is comprised of one property with a carrying value of $950,000 that was obtained through loan foreclosure proceedings. Included in the bulk sale of non-performing assets were four OREO properties with an aggregate carrying value of $14.4 million.

Deferred Taxes

The determination of the amount of deferred tax assets which are more likely than not to be realized is primarily dependent on projections of future earnings, which are subject to uncertainty and estimates that may change given economic conditions and other factors. A valuation allowance related to deferred tax assets is required when it is considered more likely than not that all or part of the benefit related to such assets will not be realized. Management has reviewed the deferred tax position of Bancorp at March 31, 2011. The deferred tax position has been affected by several significant matters in the past three years. These matters include increased levels of provision for loan losses, the high levels of non-accrual loans and other-than-temporary impairment write-offs of certain investments. As a result, Bancorp is in a cumulative net loss position at March 31, 2011, and under the applicable accounting guidance, has concluded that it is not more-likely-than-not that the Company will be able to realize the deferred tax assets and accordingly has established a full valuation allowance totaling $16.9 million against its net deferred tax asset at March 31, 2011. The valuation allowance is analyzed quarterly for changes affecting the deferred tax asset. If, in the future, Bancorp generates taxable income on a sustained basis, management s conclusion regarding the need for a deferred tax asset valuation allowance could change, resulting in the reversal of all or a portion of the deferred tax asset valuation allowance.

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Deposits

The following table is a summary of Bancorp s deposits at the dates shown:

	March 31, 2011	December 31, 2010
Non-interest bearing	$ 55,691,927	$ 51,058,373
Interest bearing		
NOW	25,161,243	19,297,225
Savings	57,979,524	57,041,943
Money market	73,803,322	92,683,478
Time certificates, less than $100,000	219,759,502	251,296,558
Time certificates, $100,000 or more	148,887,513	175,431,252
Total interest bearing	525,591,104	595,750,456
Total Deposits	$ 581,283,031	$ 646,808,829

Total deposits decreased $65.5 million, or 10%, from $646.8 million at December 31, 2010 to $581.3 million at March 31, 2011. Demand deposits increased $4.6 million primarily as a result of increases in official checks and personal checking accounts of $2.7 million and $2.0 million respectively. Interest bearing accounts decreased $70.2 million. This is primarily due to decreases in certificates of deposit (CD s) of $58.1 million, which is a result of Bancorp intentionally allowing the higher rate CD s to runoff to help reduce the cost of funds and improve the interest spread; and, a decrease in money market accounts of $18.9 million due to improved economic conditions in the overall financial markets. A larger number of our CD account holders had temporarily placed funds in money market accounts during the economic recession. These were partially offset by increases in NOW accounts of $5.9 million and savings accounts of $938,000.

Borrowings

At March 31, 2011, total borrowings were $65.2 million and are unchanged compared to December 31, 2010. In addition to the outstanding borrowings disclosed in the consolidated balance sheet, the Bank has the ability to borrow approximately $63 million in additional advances from the Federal Home Loan Bank of Boston, including a $2.0 million overnight line of credit. The Bank has also established a line of credit at the Federal Reserve Bank.

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The subordinated debentures of $8,248,000 are unsecured obligations of the Company and are subordinate and junior in right of payment to all present and future senior indebtedness of the Company. The Company has entered into a guarantee, which together with its obligations under the subordinated debentures and the declaration of trust governing the Trust, provides a full and unconditional guarantee of amounts on the capital securities. The subordinated debentures, which bear interest at three-month LIBOR plus 3.15% (3.4585% at March 31, 2011), matures on March 26, 2033. Beginning in the second quarter of 2009, the Company began deferring interest payments on the subordinated debentures as permitted under the terms of the debentures. The deferral in the first quarter of 2011 represented the eighth consecutive quarter of deferral. The Company continues to accrue and charge interest to operations. The Company may defer the payment of interest until March 2014, and all accrued interest must be paid prior to or at completion of the deferral period.

Capital

Capital decreased $9.0 million compared to December 31, 2010 primarily as a result of the net loss of $6.2 million on the bulk sale of non-performing assets and loss on continuing operations for the three months ended March 31, 2011.

Off-Balance Sheet Arrangements

Bancorp s off-balance sheet arrangements, which primarily consist of commitments to lend, increased by $10.5 million from $35.0 million at December 31, 2010 to $45.5 million at March 31, 2011, due to increases of $7.5 million in future loan commitments and $5.2 million in unused lines of credit.

Results of Operations

Interest and dividend income and expense

The following tables present average balance sheets (daily averages), interest income, interest expense and the corresponding yields earned and rates paid for major balance sheet components:

	Three months ended March 31,					
	2011			2010		
	Average Balance	Interest Income/ Expense	Average Rate	Average Balance	Interest Income/ Expense	Average Rate
	(dollars in thousands)					
Interest earning assets:						
Loans	$ 532,985	$ 6,957	5.22%	$ 654,046	$ 9,097	5.56%
Investments	49,005	344	2.81%	66,391	559	3.37%
Interest bearing deposits in banks	99,270	62	0.25%	43,957	32	0.29%
Federal funds sold	10,000	4	0.16%	10,000	3	0.13%
Total interest earning assets	691,260	7,367	4.26%	774,394	9,691	5.01%
Cash and due from banks	20,101			20,268		
Premises and equipment, net	4,968			6,246		
Allowance for loan losses	(15,504)			(15,921)		
Other assets	45,888			49,605		
Total Assets	$ 746,713			$ 834,592		
Interest bearing liabilities:						
Deposits	$ 557,135	$ 1,865	1.34%	$ 679,451	$ 3,117	1.84%
FHLB advances	50,000	419	3.35%	50,000	419	3.36%
Subordinated debt	8,248	70	3.39%	8,248	69	3.35%
Other borrowings	7,000	77	4.42%	7,000	76	4.35%
Total interest bearing liabilities	622,383	2,431	1.56%	744,699	3,681	1.98%
Demand deposits	52,898			49,926		
Accrued expenses and other liabilities	5,995			4,681		
Shareholders equity	65,437			35,286		
Total liabilities and equity	$ 746,713			$ 834,592		
Net interest income		$ 4,936			$ 6,010	
Interest margin			2.86%			3.10%

Interest spread	2.70%	3.03%

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The following rate volume analysis reflects the impact that changes in interest rates and changes in the volume of interest-earning assets and interest-bearing liabilities had on net interest income during the periods indicated. Information is provided in each category with respect to changes attributable to changes in volume (changes in volume multiplied by prior rate), changes attributable to changes in rates (changes in rates multiplied by prior volume) and the total net change. The change resulting from the combined impact of volume and rate is allocated proportionately to the change due to volume and the change due to rate.

	Three months ended March 31, 2011 vs 2010 Increase (decrease) in Interest Income/Expense Due to change in:		
	Volume	Rate	Total
	(dollars in thousands)		
Interest earning assets:			
Loans	$ (1,609)	$ (531)	$ (2,140)
Investments	(131)	(84)	(215)
Interest bearing deposits in banks	35	(5)	30
Federal funds sold		1	1
Total interest earning assets	(1,705)	(619)	(2,324)
Interest bearing liabilities:			
Deposits	$ (499)	$ (753)	$ (1,252)
FHLB advances		(0)	(0)
Subordinated debt		1	1
Other borrowings		1	1
Total interest bearing liabilities	(499)	(751)	(1,250)
Net interest income	$ (1,206)	$ 132	$ (1,074)

For the quarter ended March 31, 2011, average interest earning assets decreased $83.1 million, or 11%, to $691.3 million from $774.4 million for the quarter ended March 31, 2010, resulting in interest income for Bancorp of $7.4 million compared to $9.7 million for the same period in 2010. Interest and fees on loans decreased $2.1 million, or 24%, from $9.1 million for the quarter ended March 31, 2010 to $7.0 million for the quarter ended March 31, 2011. This decrease is primarily the result of a $121.1 million decrease in the average balance of the loan portfolio plus high levels of liquidity. When compared to the same period last year, interest income on investments decreased by 38% due to a decrease of $17.4 million in the average balance of investments outstanding, and a decrease in the yield on the investment portfolio. Income on interest-bearing deposits in banks increased 94% for the quarter ended March 31, 2011 compared to the quarter ended March 31, 2010, which is reflective of an increase in the average balances due to excess funds being invested overnight in our Federal Reserve Bank account.

Total interest expense for the quarter ended March 31, 2011 of $2.4 million represents a decrease of $1.3 million, or 34%, compared to interest expense of $3.7 million for the same period last year. This decrease in interest expense is the result of a decrease in both interest rates paid and in the average balances of interest-bearing liabilities. Average balances of deposit accounts decreased $122.3 million, or 18%, which is comprised primarily of decreases in certificates of deposit, money market, and savings accounts of $82.0 million, $31.1 million and $7.0 million, respectively. In addition, significantly lower interest rates primarily contributed to the overall decrease of $1.3 million in interest expense on deposits. Average FHLB advances remained constant at $50 million and resulted in $419,000 in interest expense, which is consistent with the same period last year. Interest expense on the junior subordinated debt and borrowed funds remained relatively flat.

As a result of the above, Bancorp s net interest income decreased $1.1 million, or 18%, to $4.9 million for the three months ended March 31, 2011 compared to $6.0 million for the same period last year. The net interest margin for the three months ended March 31, 2011 was 2.86% as compared to 3.10% for the three months ended March 31, 2010 as a result of the various reasons mentioned above.

Provision for Loan Losses

Based on management s most recent evaluation of the adequacy of the allowance for loan losses, the provision for loan losses charged to operations for the three months ended March 31, 2011 was $7.0 million compared to $727,000 for the three months ended March 31, 2010 primarily due to $6.0 million related to loans transferred to held-for-sale in connection with the bulk loan sale. The allowance for loan losses decreased by $3.2 million from December 31, 2010 to March 31, 2011 due primarily to net charge-offs of $4.1 million of which $3.4 million were specific reserves related to loans in the bulk sale.

An analysis of the changes in the allowance for loan losses is presented under Allowance for Loan Losses.

Non-interest income

Non-interest income increased $44,000 from $538,000 for the quarter ended March 31, 2010 to $583,000 for the quarter ended March 31, 2011. This is primarily due to an increase in earnings on the cash surrender value of life insurance.

Non-interest expenses

Non-interest expenses decreased $1.2 million or 14% from $8.7 million to $7.5 million for the quarter ended March 31, 2011 as compared to the quarter ended March 31, 2010. Other real estate operations expenses decreased by $708,000, which includes an impairment write-down on one property of $166,000, and a net loss on sale of $58,000 for six properties during the quarter ended March 31, 2011. Bancorp owned one property as of March 31, 2011, compared to eight properties for the same quarter last year. Salaries and benefits expense decreased $147,000 for the quarter ended March 31, 2011 compared to the same period last year. Professional and other outside services, which are comprised primarily of audit and accounting fees, legal services and consulting fees, decreased $182,000 from $1.1 million for the quarter ended March 31, 2010, to $882,000 for the quarter ended March 31, 2011. The decrease is primarily due to lower legal fees of $196,000 due to the reduction of non-performing assets. Regulatory assessments decreased $84,000 due to decreased FDIC premiums based on the lower level of deposit balances. Loan administration and processing expenses decreased $59,000 to $37,000 for the quarter ended March 31, 2011 compared to $96,000 for the quarter ended March 31, 2010 due to a decrease in appraisal expenses. These were partially offset by increases in advertising and promotional expenses of $74,000.

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Liquidity

Bancorp s liquidity ratio was 28% at March 31, 2011 compared to 16% at March 31, 2010. The liquidity ratio is defined as the percentage of liquid assets to total assets. The following categories of assets, as described in the accompanying consolidated balance sheets, are considered liquid assets: cash and due from banks, federal funds sold, short-term investments and available-for-sale securities. Liquidity is a measure of Bancorp s ability to generate adequate cash to meet financial obligations. The principal cash requirements of a financial institution are to cover downward fluctuations in deposit accounts and increases in its loan portfolio. Management believes Bancorp s short-term assets provide sufficient liquidity to cover loan demand, potential fluctuations in deposit accounts and to meet other anticipated cash operating requirements.

Capital

The following table illustrates Bancorp s regulatory capital ratios at March 31, 2011 and December 31, 2010 respectively:

	March 31, 2011	December 31, 2010
Tier 1 Leverage Capital	8.71%	9.16%
Tier 1 Risk-based Capital	16.71%	15.69%
Total Risk-based Capital	18.14%	17.08%

The following table illustrates the Bank s regulatory capital ratios at March 31, 2011 and December 31, 2010 respectively:

	March 31, 2011	December 31, 2010
Tier 1 Leverage Capital	8.38%	8.84%
Tier 1 Risk-based Capital	16.07%	15.15%
Total Risk-based Capital	17.50%	16.54%

Pursuant to the Securities Purchase Agreement among Patriot National Bancorp, Inc., Patriot National Bank and PNBK Holdings LLC dated December 16, 2009 (the Securities Purchase Agreement), the Company may pay one or more special stock dividends (a Special Dividend) to stockholders in the form of Company common stock. The amount of that Special Dividend would be based upon the net recoveries received by the Bank during the period beginning after June 30, 2009 and ending on June 30, 2011 from the charged off portion of loans on the Bank s books on or prior to June 30, 2009, and would be determined by cash collections of those loans during that period, net of all fees and expenses.

As of March 31, 2011, the majority of loans related to the Special Dividend have been resolved with no net recoveries. Further, the amount of fees and expenses incurred to date materially exceed any potential recovery of the remaining loans. Accordingly, there will be no current or future dividend payments related to the Special Dividend.

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IMPACT OF INFLATION AND CHANGING PRICES

Bancorp s consolidated financial statements have been prepared in terms of historical dollars, without considering changes in the relative purchasing power of money over time due to inflation. Unlike most industrial companies, virtually all of the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates have a more significant impact on a financial institution s performance than the general levels of inflation. Interest rates do not necessarily move in the same direction or with the same magnitude as the prices of goods and services. Notwithstanding this, inflation can directly affect the value of loan collateral, in particular, real estate. Inflation, or disinflation, could significantly affect Bancorp s earnings in future periods.

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Item 3: Quantitative and Qualitative Disclosures about Market Risk

Market risk is defined as the sensitivity of income to fluctuations in interest rates, foreign exchange rates, equity prices, commodity prices and other market-driven rates or prices. Based upon the nature of Bancorp s business, the primary source of market risk is interest rate risk, which is the impact that changing interest rates have on current and future earnings. In addition, Bancorp s loan portfolio is primarily secured by real estate in the company s market area. As a result, the changes in valuation of real estate could also impact Bancorp s earnings.

Qualitative Aspects of Market Risk

Bancorp s goal is to maximize long term profitability while minimizing its exposure to interest rate fluctuations. The first priority is to structure and price Bancorp s assets and liabilities to maintain an acceptable interest rate spread while reducing the net effect of changes in interest rates. In order to accomplish this, the focus is on maintaining a proper balance between the timing and volume of assets and liabilities re-pricing within the balance sheet. One method of achieving this balance is to originate variable rate loans for the portfolio and purchase short-term investments to offset the increasing short term re-pricing of the liability side of the balance sheet. In fact, a number of the interest-bearing deposit products have no contractual maturity. Therefore, deposit balances may run off unexpectedly due to changing market conditions. Additionally, loans and investments with longer term rate adjustment frequencies are matched against longer term deposits and borrowings to lock in a desirable spread.

The exposure to interest rate risk is monitored by the Management Asset and Liability Committee consisting of senior management personnel. The Committee meets on a monthly basis, but may convene more frequently as conditions dictate. The Committee reviews the interrelationships within the balance sheet to maximize net interest income within acceptable levels of risk. This Committee reports to the Board of Directors on a monthly basis regarding its activities.

In addition to the Management Asset and Liability Committee, there is a Board Asset and Liability Committee (ALCO), which meets quarterly. ALCO monitors the interest rate risk analyses, reviews investment transactions during the period and determines compliance with Bank policies.

Quantitative Aspects of Market Risk

In order to manage the risk associated with interest rate movements, management analyzes Bancorp s interest rate sensitivity position through the use of interest income simulation and GAP analysis. The matching of assets and liabilities may be analyzed by examining the extent to which such assets and liabilities are interest sensitive. An asset or liability is said to be interest sensitive within a specific time period if it will mature or reprice within that time period.

Management s goal is to manage asset and liability positions to moderate the effects of interest rate fluctuations on net interest income. Interest income simulations are completed quarterly and presented to ALCO. The simulations provide an estimate of the impact of changes in interest rates on net interest income under a range of assumptions. Changes to these assumptions can significantly affect the results of the simulations. The simulation incorporates assumptions regarding the potential timing in the repricing of certain assets and liabilities when market rates change and the changes in spreads between different market rates.

Simulation analysis is only an estimate of Bancorp s interest rate risk exposure at a particular point in time. Management regularly reviews the potential effect changes in interest rates could have on the repayment of rate sensitive assets and funding requirements of rate sensitive liabilities.

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The table below sets forth examples of changes in estimated net interest income and the estimated net portfolio value based on projected scenarios of interest rate increases and decreases. The analyses indicate the rate risk embedded in Bancorp s portfolio at the dates indicated should all interest rates instantaneously rise or fall. The results of these changes are added to or subtracted from the base case; however, there are certain limitations to these types of analyses. Rate changes are rarely instantaneous and these analyses may also overstate the impact of short-term repricings. As a result of the historically low interest rate environment, the calculated effects of the 100 and 200 basis point downward shocks cannot absolutely reflect the risk to earnings and equity since the interest rates on certain balance sheet items have approached their minimums, and, therefore, it is not possible for the analyses to fully measure the entire impact of these downward shocks.

Net Interest Income and Economic Value
Summary Performance

March 31, 2011

	Net Interest Income			Net Portfolio Value		
Projected Interest Rate Scenario	Estimated Value	$ Change from Base	% Change from Base	Estimated Value	$ Change from Base	% Change from Base
+ 200	24,059	1,224	5.36%	56,635	(4,600)	-7.51%
+ 100	23,353	518	2.27%	59,042	(2,193)	-3.58%
BASE	22,835			61,235		
- 100	21,741	(1,094)	-4.79%	64,024	2,789	4.55%
- 200	20,724	(2,111)	-9.24%	69,514	8,279	13.52%

December 31, 2010

	Net Interest Income			Net Portfolio Value		
Projected Interest Rate Scenario	Estimated Value	$ Change from Base	% Change from Base	Estimated Value	$ Change from Base	% Change from Base
+ 200	26,290	110	0.42%	63,164	(4,420)	-6.54%
+ 100	26,209	29	0.11%	65,502	(2,082)	-3.08%
BASE	26,180			67,584		
- 100	25,869	(311)	-1.19%	70,228	2,644	3.91%
- 200	25,068	(1,112)	-4.25%	75,096	7,512	11.12%

Item 4: Controls and Procedures

Based on an evaluation of the effectiveness of Bancorp s disclosure controls and procedures performed by Bancorp s management, with the participation of Bancorp s Chief Executive Officer and its Chief Financial Officer as of the end of the period covered by this report, Bancorp s Chief Executive Officer and Chief Financial Officer concluded that Bancorp s disclosure controls and procedures have been effective.

As used herein, disclosure controls and procedures means controls and other procedures of Bancorp that are designed to ensure that information required to be disclosed by Bancorp in the reports that it files or submits under the Securities Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by Bancorp in the reports that it files or submits under the Securities Exchange Act is accumulated and communicated to Bancorp s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

There were no changes in Bancorp s internal controls over financial reporting identified in connection with the evaluation described in the preceding paragraph that occurred during Bancorp s fiscal quarter ended March 31, 2011 that has materially affected, or is reasonably likely to materially affect, Bancorp s internal controls over financial reporting.

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PART II OTHER INFORMATION.

Item 1: Legal Proceedings

Neither Bancorp nor the Bank has any pending legal proceedings, other than ordinary routine litigation incidental to its business, to which Bancorp or the Bank is a party or any of its property is subject.

Item 1A: Risk Factors

During the three months ended March 31, 2011, there were no material changes to the risk factors relevant to Bancorp s operations, which are described in the Annual Report on Form 10-K for the year ended December 31, 2010.

Item 6: Exhibits

No.	Description
2	Agreement and Plan of Reorganization dated as of June 28, 1999 between Bancorp and the Bank (incorporated by reference to Exhibit 2 to Bancorp s Current Report on Form 8-K dated December 1, 1999 (Commission File No. 000-29599)).
3(i)	Certificate of Incorporation of Bancorp, (incorporated by reference to Exhibit 3(i) to Bancorp s Current Report on Form 8-K dated December 1, 1999 (Commission File No. 000-29599)).
3(i)(A)	Certificate of Amendment of Certificate of Incorporation of Patriot National Bancorp, Inc. dated July 16, 2004 (incorporated by reference to Exhibit 3(i)(A) to Bancorp s Annual Report on Form 10-KSB for the year ended December 31, 2004 (Commission File No. 000-29599)).
3(i)(B)	Certificate of Amendment of Certificate of Incorporation of Patriot National Bancorp, Inc. dated June 15, 2006 (incorporated by reference to Exhibit 3(i)(B) to Bancorp s Quarterly Report of Form 10-Q for the quarter ended September 30, 2006 (commission File No. 000-29599)).

No.	Description
3(i)(C)	Certificate of Amendment to the Certificate of Incorporation of Patriot National Bancorp, Inc., filed with the Secretary of State of the State of Connecticut on October 6, 2010 (incorporated by reference to Exhibit 3.1 to Bancorp s Current Report on Form 8-K dated October 20, 2010 (Commission File No. 000- 29599)).
3(i)(D)	Registration Rights Agreement, dated as of October 15, 2010, by and between Patriot National Bancorp, Inc. and PNBK Holdings LLC (incorporated by reference to Exhibit 10.1 to Bancorp s Current Report on Form 8-K dated October 20, 2010 (Commission File No. 000-29599)).
3(ii)	Amended and Restated By-laws of Bancorp (incorporated by reference to Exhibit 3.2 to Bancorp s Current Report on Form 8-K dated December 26, 2007 (Commission File No. 1-32007))
10(a)(1)	2001 Stock Appreciation Rights Plan of Bancorp (incorporated by reference to Exhibit 10(a)(1) to Bancorp s Annual Report on Form 10-KSB for the year ended December 31, 2001 (Commission File No. 000-29599)).
10(a)(3)	Employment Agreement, dated as of October 23, 2000, as amended by a First Amendment, dated as of March 21, 2001, among the Bank, Bancorp and Charles F. Howell (incorporated by reference to Exhibit 10(a)(4) to Bancorp s Annual Report on Form 10-KSB for the year ended December 31, 2000 (Commission File No. 000-29599)).
10(a)(4)	Change of Control Agreement, dated as of January 1, 2007 among Angelo De Caro, and Patriot National Bank and Bancorp (incorporated by reference to Exhibit 10(a)(4) to Bancorp s Annual Report on Form 10-K for the year ended December 31, 2006 (Commission File No. 000-29599)).
10(a)(5)	Employment Agreement dated as of January 1, 2008 among Patriot National Bank, Bancorp and Robert F. O Connell (incorporated by reference to Exhibit 10(a)(5) to Bancorp s Annual Report on Form 10-K for the year ended December 31, 2007 (Commission File No. 000-29599)).

No.	Description
10(a)(6)	Change of Control Agreement, dated as of January 1, 2007 among Robert F. O Connell, Patriot National Bank and Bancorp (incorporated by reference to Exhibit 10(a)(6) to Bancorp s Annual Report on Form 10-K for the year ended December 31, 2006 (Commission File No. 000-29599)).
10(a)(9)	License agreement dated July 1, 2003 between Patriot National Bank and L. Morris Glucksman (incorporated by reference to Exhibit 10(a)(9) to Bancorp s Annual Report on Form 10-KSB for the year ended December 31, 2003 (Commission File No. 000-29599))
10(a)(10)	Employment Agreement dated as of January 1, 2007 among Patriot National Bank, Bancorp and Charles F. Howell (incorporated by reference to Exhibit 10(a)(10) to Bancorp s Annual Report on Form 10-K for the year ended December 31, 2006 (Commission File No. 000-29599)).
10(a)(11)	Change of Control Agreement, dated as of January 1, 2007 among Charles F. Howell, Patriot National Bank and Bancorp (incorporated by reference to Exhibit 10(a)(11) to Bancorp s Annual Report on Form 10-K for the year ended December 31, 2006 (Commission File No. 000-29599)).
10(a)(12)	2005 Director Stock Award Plan (incorporated by reference to Exhibit 10(a)(12) to Bancorp s Quarterly Report on Form 10-Q for the quarter ended June 30, 2006 (Commission File No. 000 295999)).
10(a)(13)	Change of Control Agreement, dated as of January 1, 2007 between Martin G. Noble and Patriot National Bank (incorporated by reference to Exhibit 10(a)(13) to Bancorp s Annual Report on Form 10-K for the year ended December 31, 2006 (Commission File No. 000-29599)).
10(a)(14)	Change of Control Agreement, dated as of January 1, 2007 among Philip W. Wolford, Patriot National Bank and Bancorp (incorporated by reference to Exhibit 10(a)(14) to Bancorp s Annual Report on Form 10-K for the year ended December 31, 2006 (Commission File No. 000-29599)).

No.	Description
10(a)(15)	Formal Written Agreement between Patriot National Bank and the Office of the Comptroller of the Currency (incorporated by reference to Exhibit 10(a)(15) to Bancorp s Current Report on Form 8-K dated February 9, 2009 (Commission File No. 000-29599)).
10(a)(16)	Securities Purchase Agreement by and among Patriot National Bancorp, Inc., Patriot National Bank and PNBK Holdings LLC dated as of December 16, 2009 (incorporated by reference to Exhibit 10.1 to Bancorp s Current Report on Form 8-K dated December 17, 2009).
10(a)(17)	First Amendment to Securities Purchase Agreement by and among Patriot National Bancorp, Inc., Patriot National Bank and PNBK Holdings LLC dated as of May 3, 2010 (incorporated by reference to Exhibit 10(a) to Bancorp s Current Report on Form 8-K dated May 4, 2010).
10(a)(18)	Purchase and Sale Agreement, dated February 25, 2011, by and among Patriot National Bank, Pinpat Acquisition Corporation and ES Ventures One LLC (incorporated by reference to Exhibit 2.1 to Bancorp s Current Report on Form 8-K dated March 29, 2011).
10(a)(19)	Formal Written Agreement between Patriot National Bank and the Federal Reserve Bank of New York (as incorporated by reference to Exhibit 10(a)(16) to Bancorp s Annual Report on Form 10-K for the year ended December 31, 2010).
10(c)	1999 Stock Option Plan of the Bank (incorporated by reference to Exhibit 10(c) to Bancorp s Current Report on Form 8-K dated December 1, 1999 (Commission File No. 000-29599)).
14	Code of Conduct for Senior Financial Officers (incorporated by reference to Exhibit 14 to Bancorp s Annual Report on Form 10 KSB for the year ended December 31, 2004 (Commission File No. 000-29599).
21	Subsidiaries of Bancorp (incorporated by reference to Exhibit 21 to Bancorp s Annual Report on Form 10-KSB for the year ended December 31, 1999 (Commission File No. 000-29599)).
31(1)	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
31(2)	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
32	Section 1350 Certifications

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SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the registrant has caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Patriot National Bancorp, inc.
(Registrant)

By: /s/ Robert F. O Connell
Robert F. O Connell,
Senior Executive Vice President
Chief Financial Officer

(On behalf of the registrant and as
chief financial officer)

May 13, 2011