

BERKSHIRE BANCORP INC /DE/

Form 10-Q

June 18, 2010

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2010

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 0-13649

BERKSHIRE BANCORP INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State or Other Jurisdiction of  
Incorporation or Organization)

94-2563513

(I.R.S. Employer  
Identification No.)

160 Broadway, New York, New York

(Address of Principal Executive Offices)

10038

(Zip Code)

Registrant's Telephone Number, Including Area Code: (212) 791-5362

N/A

\_\_\_\_\_  
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

As of June 17, 2010, there were 7,054,183 outstanding shares of the issuer's Common Stock, \$.10 par value.

---

BERKSHIRE BANCORP INC. AND SUBSIDIARIES

FORWARD-LOOKING STATEMENTS

Forward-Looking Statements. Statements in this Quarterly Report on Form 10-Q that are not based on historical fact may be "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as "believe", "may", "will", "expect", "estimate", "anticipate", "continue" or similar terms identify forward-looking statements. A wide variety of factors could cause the actual results and experiences of Berkshire Bancorp Inc. (the "Company") to differ materially from the results expressed or implied by the Company's forward-looking statements. Some of the risks and uncertainties that may affect operations, performance, results of the Company's business, the interest rate sensitivity of its assets and liabilities, and the adequacy of its loan loss allowance, include, but are not limited to: (i) deterioration in local, regional, national or global economic conditions which could result, among other things, in an increase in loan delinquencies, a decrease in property values, or a change in the housing turnover rate; (ii) changes in market interest rates or changes in the speed at which market interest rates change; (iii) changes in laws and regulations affecting the financial services industry; (iv) changes in competition; (v) changes in consumer preferences, (vi) changes in banking technology; (vii) ability to maintain key members of management, (viii) possible disruptions in the Company's operations at its banking facilities, (ix) cost of compliance with new corporate governance requirements, and other factors referred to in this Quarterly Report and in Item 1A, "Risk Factors", of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

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

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

---

BERKSHIRE BANCORP INC. AND SUBSIDIARIES  
 QUARTERLY REPORT ON FORM 10-Q

INDEX

		Page No.
<b>PART I. FINANCIAL INFORMATION</b>		
Item 1.	Financial Statements	
	Consolidated Balance Sheets as of March 31, 2010 and December 31, 2009 (unaudited)	4
	Consolidated Statements of Operations For The Three Months Ended March 31, 2010 and 2009 (unaudited)	5
	Consolidated Statements of Stockholders' Equity For The Three Months Ended March 31, 2010 and 2009 (unaudited)	6
	Consolidated Statements of Cash Flows For The Three Months Ended March 31, 2010 and 2009 (unaudited)	7
	Notes to Consolidated Financial Statements (unaudited)	8
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	24
Item 3.	Quantitative and Qualitative Disclosure About Market Risk	40
Item 4.	Controls and Procedures	41
<b>PART II OTHER INFORMATION</b>		
Item 6.	Exhibits	42
	Signature	43
	Index of Exhibits	44

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

	March 31, 2010	December 31, 2009
<b>ASSETS</b>		
Cash and due from banks	\$ 4,974	\$ 5,427
Interest bearing deposits	67,546	55,376
Total cash and cash equivalents	72,520	60,803
Investment Securities:		
Available-for-sale	369,088	357,478
Held-to-maturity, fair value of \$338 in 2010 and \$337 in 2009	334	340
Total investment securities	369,422	357,818
Loans, net of unearned income	403,811	430,349
Less: allowance for loan losses	(11,900)	(11,416)
Net loans	391,911	418,933
Accrued interest receivable	4,314	4,253
Real estate owned	12,318	—
Premises and equipment, net	8,421	8,532
Goodwill, net	18,549	18,549
Other assets	37,570	40,379
Total assets	\$ 915,025	\$ 909,267
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Deposits:		
Non-interest bearing	\$ 70,212	\$ 62,870
Interest bearing	646,283	650,574
Total deposits	716,495	713,444
Securities sold under agreements to repurchase	50,000	50,000
Borrowings	27,933	31,004
Subordinated debt	22,681	22,681
Accrued interest payable	4,015	3,578
Other liabilities	5,537	3,324
Total liabilities	826,661	824,031
Stockholders' equity		
Preferred stock - \$.01 Par value:		
Authorized — 2,000,000 shares		
Issued — 60,000 shares		
Outstanding —		
March 31, 2010, 60,000 shares	1	1
December 31, 2009, 60,000 shares		
Common stock - \$.10 par value		
Authorized — 25,000,000 shares		
Issued — 7,698,285 shares		
Outstanding —		
March 31, 2010, 7,054,183 shares		

December 31, 2009, 7,054,183 shares	770	770
Additional paid-in capital	150,985	150,985
Accumulated Deficit	(46,879)	(46,833)
Accumulated other comprehensive loss, net	(10,102)	(13,276)
Treasury Stock at cost		
March 31, 2010, 644,102	(6,411)	(6,411)
December 31, 2009, 644,102 shares		
Total stockholders' equity	88,364	85,236
Total liabilities and stockholders' equity	\$ 915,025	\$ 909,267

The accompanying notes are an integral part of these statements

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

	For The Three Months Ended March 31,	
	2010	2009
<b>INTEREST INCOME</b>		
Loans, including related fees	\$ 6,533	\$ 7,771
Investment securities	3,800	4,403
Federal funds sold and interest bearing deposits	51	271
Total interest income	10,384	12,445
<b>INTEREST EXPENSE</b>		
Deposits	2,260	4,017
Securities sold under agreements to repurchase	498	584
Borrowings and subordinated debt	517	767
Total interest expense	3,275	5,368
Net interest income	7,109	7,077
PROVISION FOR LOAN LOSSES	1,250	150
Net interest income after provision for loan losses	5,859	6,927
<b>NON-INTEREST INCOME</b>		
Service charges on deposit accounts	126	122
Investment securities gains	155	75
Other income	102	202
Total non-interest income	383	399
<b>NON-INTEREST EXPENSE</b>		
Total other than temporary impairment ("OTTI") charges on securities	—	1,025
Less non-credit portion of OTTI recorded in other comprehensive loss	—	—
Net OTTI recognized in earnings	—	1,025
Salaries and employee benefits	2,341	2,361
Net occupancy expense	566	506
Equipment expense	91	99
FDIC assessment	468	683
Data processing expense	126	94
Other	820	912
Total non-interest expense	4,412	5,680
Income before provision for taxes	1,830	1,646
Provision for income taxes	676	577
Net income	\$ 1,154	\$ 1,069
Dividends on preferred stock	1,200	1,200
(Loss) allocated to common stockholders	\$ (46)	\$ (131)
Net (loss) per common share:		
Basic	\$ (.01)	\$ (.02)
Diluted	\$ (.01)	\$ (.02)
Number of shares used to compute net (loss) per share:		
Basic	7,054	7,054

Diluted

7,054

7,054

The accompanying notes are an integral part of these statements.

5

---



BERKSHIRE BANCORP INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

For The Three Months Ended March 31, 2010 and 2009

(In Thousands)

(Unaudited)

	Common Shares	Preferred Shares	Par Value	Par Value	Additional paid-in capital	Accumulated other comprehensive (loss), net	Retained Earnings (Accumulated deficit)	Treasury stock	Comprehensive income (loss)	Total stockholders' equity
Balance at December 31, 2008	7,698	60	\$ 770	\$ 1	\$ 150,985	\$ (39,598)	\$ (39,795)	\$ (6,411)		\$ 65,952
Net income							1,069		\$ 1,069	1,069
Other comprehensive (loss) net of taxes						(6,980)			(6,980)	(6,980)
Comprehensive (loss)									\$ (5,911)	
Cash dividends - Preferred Stock							(1,200)			(1,200)
Balance at March 31, 2008	7,698	60	\$ 770	\$ 1	\$ 150,985	\$ (46,578)	\$ (39,926)	\$ (6,411)		\$ 58,841
Balance at December 31, 2009	7,698	60	\$ 770	\$ 1	\$ 150,985	\$ (13,276)	\$ (46,833)	\$ (6,411)		\$ 85,236
Net income							1,154		\$ 1,154	1,154
Other comprehensive income net of taxes						3,174			3,174	3,174
Comprehensive income									\$ 4,328	
Cash dividends - Preferred Stock							(1,200)			(1,200)
Balance at March 31, 2010	7,698	60	\$ 770	\$ 1	\$ 150,985	\$ (10,102)	\$ (46,879)	\$ (6,411)		\$ 88,364

The accompanying notes are an integral part of these statements.

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

	For The Three Months Ended March 31,	
	2010	2009
<b>Cash flows from operating activities:</b>		
Net income	\$ 1,154	\$ 1,069
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Realized gains on investment securities	(155)	(75)
Other than temporary impairment charges on securities	—	1,025
Net amortization (accretion) of premiums of investment securities	646	(222)
Depreciation and amortization	130	138
Provision for loan losses	1,250	150
(Increase) decrease in accrued interest receivable	(61)	444
Decrease in other assets	2,809	9,789
Increase (decrease) in accrued interest payable and other liabilities	2,650	(14,546)
Net cash provided by (used in) operating activities	8,423	(2,228)
<b>Cash flows from investing activities:</b>		
Investment securities available for sale Purchases	(59,706)	(81,958)
Sales, maturities and calls	50,779	67,139
Investment securities held to maturity Maturities	6	4
Net decrease in loans	13,454	12,817
Acquisition of premises and equipment	(19)	(17)
Net cash provided by (used in) investing activities	4,514	(2,015)
<b>Cash flows from financing activities:</b>		
Net increase in non interest bearing deposits	7,342	2,212
Net decrease in interest bearing deposits	(4,291)	(40,347)
Decrease in securities sold under agreements to repurchase	—	(2,504)
Repayment of borrowings	(3,071)	(6,881)
Dividends paid on preferred stock	(1,200)	(1,200)
Net cash used in financing activities	(1,220)	(48,720)
Net increase (decrease) in cash and cash equivalents	11,717	(52,963)
Cash and cash equivalents at beginning of period	60,803	102,387
Cash and cash equivalents at end of period	\$ 72,520	\$ 49,424
<b>Supplemental disclosures of cash flow information:</b>		
Cash used to pay interest	\$ 2,838	\$ 5,869
Cash used to pay income taxes, net of refunds	\$ —	\$ 110
<b>Schedule of non-cash investing activities:</b>		
Transfer from loans to real estate owned	\$ 12,318	\$ —

The accompanying notes are an integral part of these statements.



BERKSHIRE BANCORP INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2010 and 2009

(unaudited)

Note 1. General

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

The accompanying financial statements of Berkshire Bancorp Inc. and subsidiaries includes the accounts of the parent company, Berkshire Bancorp Inc., and its wholly-owned subsidiaries: The Berkshire Bank, GAFG and East 39, LLC.

We have prepared the accompanying financial statements pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC") for interim financial reporting. These consolidated financial statements, including the notes thereto, are unaudited and, in our opinion, include all adjustments, consisting of normal recurring adjustments and accruals necessary for a fair presentation of our consolidated balance sheets, operating results, and cash flows for the periods presented. Operating results for the periods presented are not necessarily indicative of the results that may be expected for the remaining quarters of fiscal 2010 due to a variety of factors. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States ("GAAP") have been omitted in accordance with the rules and regulations of the SEC. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes included in our 2009 Annual Report on Form 10-K.

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

Note 2. Earnings (Loss) Per Share

Basic earnings (loss) per common share is calculated by dividing income (loss) available to common stockholders by the weighted average common stock outstanding, excluding stock options from the calculation. In calculating diluted earnings per common share, the dilutive effect of stock options is calculated using the average market price for the Company's common stock during the period. There is no effect for dilutive shares for the three months ended March 31, 2010 and 2009 due to the net loss allocated to common stockholders recognized. The following table presents the Company's calculation of (loss) per common share for the periods indicated:

	For The Three Months Ended					
	March 31, 2010			March 31, 2009		
	Income	Shares	Per	Income	Shares	Per
	(numerator)	(denominator)	share	(numerator)	(denominator)	share
	amount					
	(In thousands, except per share data)					
<b>Basic earnings (loss) per common share</b>						
Net income	\$ 1,154			\$ 1,069		
Dividends paid to preferred shareholders	(1,200)			(1,200)		
Net income (loss) available to common stockholders	(46)	7,054	\$ (.01)	(131)	7,054	\$ (.02)
Effect of dilutive securities options	—	—	—	—	—	—
<b>Diluted earnings (loss) per common share</b>						
Net income (loss) available to common stockholders plus assumed conversions	\$ (46)	7,054	\$ (.01)	\$ (131)	7,054	\$ (.02)

No options to purchase common shares were outstanding at March 31, 2010. Options to purchase 2,076 common shares at a weighted average exercise price of \$8.29 were not included in the diluted earnings per common shares as of March 31, 2009 as these options were anti-dilutive.

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

Note 3. Loan Portfolio

The following table sets forth information concerning the Company's loan portfolio by type of loan at the dates indicated:

	March 31, 2010		December 31, 2009	
	Amount	% of Total	Amount	% of Total
	(Dollars in thousands)			
Commercial and professional loans	\$ 36,312	9.0%	\$ 50,672	11.7%
Secured by real estate				
1-4 family	127,261	31.4	129,925	30.1
Multi family	7,307	1.8	7,432	1.7
Non-residential (commercial)	233,664	57.7	242,927	56.4
Consumer	339	0.1	396	0.1
Total loans	404,883	100.0%	431,352	100.0%
Deferred loan fees	(1,072)		(1,003)	
Allowance for loan losses	(11,900)		(11,416)	
Loans, net	\$ 391,911		\$ 418,933	

The Bank had \$3.2 million and \$13.9 million of non accrual loans as of March 31, 2010 and December 31, 2009, respectively, and no loans delinquent more than ninety days and still accruing interest at March 31, 2010 and December 31, 2009. During the quarter ended March 31, 2010, the Bank foreclosed on a real estate loan in the amount of \$12.3 million.

The activity in the allowance for loan losses for the three months ended (in thousands)

	March 31, 2010	March 31, 2009
Balance at beginning of period	\$ 11,416	\$ 9,204
Provision for loan losses	1,250	150
Charge-offs	(766)	(120)
Recoveries	—	105
Balance at end of period	\$ 11,900	\$ 11,416

Note 4. Investment Securities

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

	March 31, 2010			Fair value
	Amortized Cost	Gross unrealized gains	Gross unrealized losses	

(In thousands)

U.S. Government Agencies	\$ 334	\$ 4	\$ —	\$ 338
--------------------------	--------	------	------	--------

December 31, 2009

Amortized  
CostGross  
unrealized  
gainsGross  
unrealized  
lossesFair  
value

(In thousands)

U.S. Government Agencies	\$ 340	\$ —	\$ (3)	\$ 337
--------------------------	--------	------	--------	--------

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

Note 4. - (continued)

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

	Amortized Cost	March 31, 2010		Fair value
		Gross unrealized gains	Gross unrealized losses	
(In thousands)				
U.S. Treasury Notes	\$ 60,224	\$ 80	\$ (15)	\$ 60,289
U.S. Government Agencies	81,863	145	(256)	81,752
Mortgage-backed securities	129,493	3,082	(586)	131,989
Corporate notes	18,380	1,643	(1,655)	18,368
Single Issuer Trust Preferred CDO	1,021	35	--	1,056
Pooled Trust Preferred CDO	6,459	--	(6,165)	294
Municipal securities	1,973	322	--	2,295
Auction rate securities	78,895	--	(10,690)	68,205
Marketable equity securities and other	4,509	332	(1)	4,840
Totals	\$ 382,817	\$ 5,639	\$ (19,368)	\$ 369,088

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



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

Note 4. - (continued)

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

- \*The length of time and the extent to which the market value has been less than cost;
- \*The financial condition of the issuer of the security as well as the near and long-term prospect for the issuer;
- \*The rating of the security by a national rating agency;
- \*Historical volatility and movement in the fair market value of the security; and
- \*Adverse conditions relative to the security, issuer or industry.

In accordance with ASC 320-10, Investment - Debt and Equity Securities, Management's impairment analysis for the corporate and auction rate securities that were in a loss position as of March 31, 2010 began with management's determination that it had the intent to hold these securities for sufficient time to recover the cost basis. Management also concluded that it was unlikely that it would be required to sell any of the securities before recovery of the cost basis.

For the three months ended March 31, 2010, there has been no change to the composition of our auction rate securities. The fair value of the auction rate securities increased by approximately \$1.3 million to \$68.2 million at March 31, 2010 from \$66.9 million at December 31, 2009.

The fair value of the auction rate securities is determined by management valuing the underlying security. The auction rate securities allow for conversion to the underlying preferred security after two failed auctions. As of March 31, 2010, there have been more than two failed auctions for all outstanding auction rate securities. It is our intention to continue to hold these securities. We also perform a discounted cash flow analysis, but we considered the market value of the preferred shares to be more objective and relevant in pricing auction rate securities.

In determining whether there is OTTI, management considers the factors noted above. The financial performance indicators we review include, but are not limited to, net earnings, change in liquidity, and change in cash from operating activities, and, for money center banks, the regulatory capital ratios and the allowance for loan losses to the nonperforming loans. Through March 31, 2010, the auction rate securities have continued to pay interest at the highest rate as stipulated in the original prospectus, except for Freddie Mac. Currently, the interest rate paid approximates the rate paid on money market deposit accounts.

At March 31, 2010 and December 31, 2009, we had six and six auction rate securities, respectively, with an aggregate fair market value of \$20.4 million and \$19.4 million, respectively, which were below investment grade.

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

Note 4. - (continued)

Based upon our methodology for determining the fair value of the auction rate securities, we concluded that, as of March 31, 2010, the unrealized loss for the auction rate securities is due to the market interest volatility, the continued illiquidity of the auction rate markets, and uncertainty in the financial markets as there has not been a deterioration in the credit quality of the issuer of the auction rate securities or a downgrade of additional auction rate securities from investment grade. It is not more likely than not that the Company would be required to sell the auction rate securities prior to recovery of the unrealized loss, nor does the Company intend to sell the security at the present time.

During the year ended December 31, 2009, approximately \$18.0 million of auction rate securities were redeemed with no gain or loss recognized. During the three months ended March 31, 2010, no auction rate securities were redeemed.

At March 31, 2010 and December 31, 2009, we had one pooled trust preferred CDO ("TPCDO") with an amortized cost of \$6.5 million (after OTTI charges of \$3.5 million in fiscal year 2009), and a fair value of \$294,000 and \$150,000, respectively. We own a Class B tranche of the TPCDO, which was considered below investment grade at both March 31, 2010 and December 31, 2009. We obtain discounted cash flow scenarios from independent third parties and use the most conservative result in order to value the TPCDO, which we believe also reflects the most likely expected cash flow. Based upon the discounted cash flow analysis, no additional credit related OTTI charges were recognized during the quarter ended March 31, 2010.

There have been no credit rating down grades on any of our credit securities subsequent to December 31, 2009.

At March 31, 2010 and December 31, 2009, the Company owned preferred and common stock (collectively "equity securities"). During the quarter ended March 31, 2010, we disposed of equity securities with a cost basis of approximately \$1.0 million, realizing a gain of approximately \$3,000. The fair value of the remaining equity securities at March 31, 2010 increased by approximately \$261,000 from the fair value at December 31, 2009.

The Company has investments in certain debt securities that have unrealized losses or may be otherwise impaired, but an OTTI has not been recognized in the financial statements as management believes the decline is due to the credit markets coupled with the interest rate environment.

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

Note 4. - (continued)

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

Description of Securities	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury Notes	\$ 10,056	\$ 15	\$ --	\$ --	\$ 10,056	\$ 15
U.S. Government Agencies	30,424	256	--	--	30,424	256
Mortgage-backed securities	13,990	70	12,262	517	26,252	586
Corporate notes	2,584	9	7,517	1,646	10,101	1,655
Pooled Trust Preferred CDO	—	—	294	6,165	294	6,165
Auction rate securities	—	—	59,765	10,690	59,765	10,690
Subtotal, debt securities	57,054	350	79,838	19,018	136,892	19,367
Marketable equity securities and other	11	1	—	—	11	1
Total temporarily impaired securities	\$ 57,065	\$ 351	\$ 79,838	\$ 19,018	\$ 136,903	\$ 19,368

The Company had a total of 64 debt securities with a fair market value of \$136.9 million which were temporarily impaired at March 31, 2010. The total unrealized loss on these securities was \$19.4 million, which is attributable to the market interest volatility, the continued illiquidity of the debt markets, and uncertainty in the financial markets. It is not more likely than not that we would sell these securities before maturity, and we have the intent to hold all of these securities to maturity and will not be required to sell these securities, due to our ratio of cash and cash equivalents of approximately 7.9% of total assets at March 31, 2010. Therefore, the unrealized losses associated with these securities are not considered to be other than temporary.

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

## Note 4. - (continued)

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

	March 31, 2010			
	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
Due in one year or less	\$ 26,034	\$ 26,409	\$ —	\$ —
Due after one through five years	63,691	63,431	—	—
Due after five through ten years	26,564	26,641	—	—
Due after ten years	183,124	179,562	334	338
Auction rate securities	78,895	68,205	—	—
Marketable equity securities and other	4,509	4,840	—	—
<b>Totals</b>	<b>\$ 382,817</b>	<b>\$ 369,088</b>	<b>\$ 334</b>	<b>\$ 338</b>

Gross gains realized on the sales of investment securities for the three months ended March 31, 2010, and 2009 were approximately \$155,000 and \$75,000, respectively. Gross losses realized were approximately \$0 and \$1.0 million for the three months ended March 31, 2010 and 2009, respectively.

As of March 31, 2010 and December 31, 2009, securities sold under agreements to repurchase with a book value of approximately \$50.0 million and \$50.0 million, respectively, were outstanding. The book value of the securities pledged for these repurchase agreements was \$57.0 million and \$55.6 million, respectively. As of March 31, 2010 and December 31, 2009, the Company did not own investment securities of any one issuer where the carrying value exceeded 10% of shareholders' equity.

## Note 5. Deposits

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

	Three Months Ended March 31, 2010		Twelve Months Ended December 31, 2009	
	Average Amount	Average Yield	Average Amount	Average Yield
	(Dollars in thousands)			
Demand deposits	\$ 66,323	—	\$ 56,544	—
NOW and money market	25,817	0.25%	23,900	0.31%
Savings deposits	198,555	0.99	180,729	1.24
Time deposits	419,678	1.67	426,892	2.32
<b>Total deposits</b>	<b>\$ 710,373</b>	<b>1.27%</b>	<b>\$ 688,065</b>	<b>1.78%</b>



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

## Note 6. Other Comprehensive Income (Loss)

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

	For The Three Months Ended					
	March 31, 2010			March 31, 2009		
	Before tax amount	Tax (expense) benefit	Net of tax Amount	Before tax amount	Tax (expense) benefit	Net of tax amount
	(In thousands)					
Unrealized gains (losses) on investment securities:						
Unrealized holding gains (losses) arising during period	\$ 5,445	\$ (2,178)	\$ 3,267	\$ (10,708)	\$ 4,283	\$ (6,425)
Less reclassification adjustment for gains (losses) realized in net income	155	(62)	93	(950)	380	(570)
Unrealized gain (loss) on investment securities	5,290	(2,116)	3,174	(11,658)	4,663	(6,995)
Change in minimum pension liability	—	—	—	15	—	15
Other comprehensive income (loss), net	\$ 5,290	\$ (2,116)	\$ 3,174	\$ (11,643)	\$ 4,663	\$ (6,980)

## Note 7. Employee Benefit Plans

Until it was frozen and terminated on December 31, 2009, the Company had a Retirement Income Plan (the "Plan"), a noncontributory defined benefit plan covering substantially all full-time, non-union United States employees of the Company. The following interim-period information is being provided in accordance with FASB ASC 715, Compensation-Retirement Benefits, based upon the most recent actuarial valuation dated December 31, 2009.

	For The Three Months Ended March 31,	
	2010	2009
Service cost	\$ —	\$ 103,250
Interest cost	—	64,250
Expected return on plan assets	—	(70,500)
Amortization and Deferral:		
Prior service cost	—	4,500

Loss		—		36,500
Net periodic pension cost	\$	—	\$	138,000

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

Note 7. - (continued)

During the fiscal year ending December 31, 2010 we intend to contribute the amount necessary to fund all Plan benefits prior to their distribution under the termination of the Plan. Our actuary estimates the necessary contribution to be \$935,000.

The Pension Protection Act of 2006 (the "PPA") changed the funding rules for defined benefit pension plans, beginning in 2008. A key element of the PPA was the introduction of benefit restrictions on plans that are funded below 80% of the plan's target liabilities. In order to avoid these restrictions, during the three months ended March 31, 2009 we contributed approximately \$1.1 million to the Plan.

Note 8. Fair Value of Financial Instruments

The Company is required to disclose the estimated fair value of its assets and liabilities considered to be financial instruments. For the Company, as for most financial institutions, the majority of its assets and liabilities are considered financial instruments. However, many such instruments lack an available trading market, as characterized by a willing buyer and seller engaging in an exchange transaction. Also, it is the Company's general practice and intent to hold its financial instruments to maturity and not to engage in trading or sales activities, except for certain loans. Therefore, the Company had to use significant estimations and present value calculations to prepare this disclosure.

Changes in the assumptions or methodologies used to estimate fair values may materially affect the estimated amounts. Also, management is concerned that there may not be reasonable comparability between institutions due to the wide range of permitted assumptions and methodologies in the absence of active markets. This lack of uniformity gives rise to a high degree of subjectivity in estimating financial instrument fair values.

Estimated fair values have been determined by the Company using the best available data and an estimation methodology suitable for each category of financial instruments. The estimation methodologies used, the estimated fair values, and recorded book balances at March 31, 2010 and December 31, 2009 are outlined below.

	March 31, 2010		December 31, 2009	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
	(In thousands)			
Investment securities	\$ 369,422	\$ 369,426	\$ 357,818	\$ 357,815
Loans, net of unearned income	403,811	407,783	430,349	428,990
Time Deposits	414,690	429,449	427,777	429,449
Repurchase Agreements	50,000	49,841	50,000	49,842
Borrowings	27,933	28,447	31,004	31,756
Subordinated debt	22,681	22,681	22,681	22,681



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

Note 8. - (continued)

For cash and cash equivalents, the recorded book value of \$72.5 million and \$60.8 million at March 31, 2010 and December 31, 2009, respectively, approximates fair value.

The estimated fair values of investment securities are based on quoted market prices, if available. Estimated fair values are based on quoted market prices of comparable instruments if quoted market prices are not available. Estimated fair values are also determined using unobservable inputs that are supported by little or no market values and significant assumptions and estimates.

The net loan portfolio has been valued using a present value discounted cash flow where market prices were not available. The discount rate used in these calculations is the estimated current market rate adjusted for credit risk. The carrying value of accrued interest approximates fair value. The fair value of time deposits have been valued using net present value discounted cash flow.

The estimated fair values of demand deposits (i.e. interest (checking) and non-interest bearing demand accounts, savings and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e. their carrying amounts). The carrying amount of accrued interest payable approximates its fair value.

The fair value of commitments to extend credit is estimated based upon the amount of unamortized deferred loan commitment fees. The fair value of letters of credit is based upon the amount of unearned fees plus the estimated cost to terminate letters of credit. Fair values of unrecognized financial instruments, including commitments to extend credit, and the fair value of letters of credit are considered immaterial.

The fair value of interest rate caps, included in borrowings, are based upon the estimated amount the Company would receive or pay to terminate the contracts or agreements, taking into account current interest rates and, when appropriate, the current creditworthiness of the counterparties. The aggregate fair value for the interest rate caps was approximately \$32,000 and \$117,000 at March 31, 2010 and December 31, 2009, respectively.

The fair value of the borrowings and subordinated debt approximates the carrying value due to the re-pricing of the debt.

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

Note 8. - (continued)

The Company determines fair value under the guidance of FASB ASC 820, "Fair Value Measurements and Disclosure", ("ASC 820") which defines fair value, establishes a framework for measuring fair value, and expands disclosure about fair value. ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value. A financial instrument's level within the fair value hierarchy is based on the lowest level of input significant to the fair value measurement. There have been no material changes in valuation techniques as a result of the adoption of ASC 820.

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

Level 2 - Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities in active markets; quoted prices in markets that are not active for identical or similar assets or liabilities; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and significant to the fair value of the assets or liabilities that are developed using the reporting entities' estimates and assumptions, which reflect those that market participants would use.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

A description of the valuation methodologies used for financial instruments measured at fair value on a recurring basis, as well as the classification of the instruments pursuant to the valuation hierarchy, are as follows:

Securities Available for Sale

When quoted market prices are available in an active market, securities are classified within Level 1 of the fair value hierarchy. If quoted market prices are not available or accessible, then fair values are estimated using pricing models, matrix pricing, or discounted cash flow models. The fair values of securities estimated using pricing models or matrix pricing are generally classified within Level 2 of the fair value hierarchy. When discounted cash flow models are used there is omitted activity or less transparency around inputs to the valuation and securities are classified within Level 3 of the fair value hierarchy.

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

## Note 8. - (continued)

Level 1 securities generally include equity securities valued based on quoted market prices in active markets. Level 2 instruments include U.S. government agency obligations, state and municipal bonds, mortgage-backed securities, collateralized mortgage obligations and corporate bonds. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things. Level 3 securities available for sale consist of auction rate securities and instruments that are not readily marketable and may only be redeemed with the issuer at par, which is the stated value, such as Federal Home Loan Bank and Federal Reserve Bank stock. The auction rate securities are valued as described in Note 4. Investment Securities.

Assets measured at fair value on a recurring basis during fiscal year 2010 and fiscal year 2009 are summarized below.

	At March 31, 2010				
	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Fair Value Measurement Using Significant Other Observable Inputs (Level 2)		Significant Unobservable Inputs (Level 3)	Balance March 31, 2010
(Dollars in thousands)					
<b>Assets</b>					
Impaired loans	\$ —	\$ —	\$ 3,150	\$ 3,150	\$ 3,150
Investment securities available for sale	67,321	233,562	68,205	369,088	369,088
Total	\$ 67,321	\$ 233,562	\$ 71,355	\$ 372,238	\$ 372,238

The above table includes \$13.7 million in net unrealized losses on the Company's available for sale securities. The Company has reviewed its investment portfolio at March 31, 2010 and has determined that the unrealized losses are temporary.

The fair value of the derivative is approximately \$32,000 and valued as a Level 3 input. Further disclosures are not included because they were not deemed material.

	At December 31, 2009				
	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Fair Value Measurement Using Significant Other Observable Inputs (Level 2)		Significant Unobservable Inputs (Level 3)	Balance December 31, 2009
(Dollars in thousands)					
<b>Assets</b>					

Edgar Filing: BERKSHIRE BANCORP INC /DE/ - Form 10-Q

Impaired loans	\$	—	\$	—	\$	15,468	\$	15,468
Investment securities available for sale		56,006		235,793		66,942		358,741
Total	\$	56,006	\$	235,793	\$	82,410	\$	374,209

20

---

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

Note 8. - (continued)

The above table includes \$20.8 million in net unrealized losses on the Company's available-for-sale securities. The Company reviewed its investment portfolio at December 31, 2009, and determined that the unrealized losses, except as discussed in Note. 4 - Investment Securities, were temporary.

The fair value of real estate owned is determined by appraisals, which is then adjusted for the costs associated with liquidating the property. We measure real estate owned on a nonrecurring basis with Level 3 inputs.

The fair value of the derivative was approximately \$117,000 and valued as a Level 3 input. Further disclosures are not included because they were not deemed material.

Assets and Liabilities Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs (Level 3)

The following table presents a reconciliation for assets measured at fair value on a recurring basis for which the Company has utilized significant unobservable inputs (Level 3).

(Dollars in thousands)	Investment Securities Available for Sale	Impaired Loans
Balance, January 1, 2010	\$ 66,942	\$ 15,468
Total gains/losses (realized/unrealized)		
Included in earnings	—	
Included in other comprehensive income	1,263	
Purchases, Sales, Issuances and Settlements	—	
Redemptions (Transfer to Other Real Estate Owned)	—	(12,318)
Interest	—	
Other than temporary impairment expense	—	
Capital deductions for operating expenses	—	
Balance, March 31, 2010	\$ 68,205	\$ 3,150
The amount of total gains (losses) for the period included in earnings attributable to the change in unrealized gains or losses relating to assets still held at March 31, 2010	\$	—\$

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

Note 9. New Accounting Pronouncements

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

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

Note 10. Subsequent Events

We evaluated subsequent events under ASC Topic 855, Subsequent Events. We did not identify any items which would require disclosure in or adjustment to the interim financial statements, except as disclosed in Form 10-K as and for the year ended December 31, 2009.

## Internal Control Over Financial Reporting

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

Section 302 of the Act requires the CEOs and CFOs of the Company to (i) certify that the annual and quarterly reports filed with the Securities and Exchange Commission are accurate and (ii) acknowledge that they are responsible for establishing, maintaining and periodically evaluating the effectiveness of the disclosure controls and procedures. Section 404 of the Act requires management to (i) report on internal control over financial reporting, (ii) assess the effectiveness of such internal controls, and (iii) obtain an external auditor's report on management's assessment of its internal control. The Company is not an accelerated filer as defined in Rule 12b-2 of the Securities Exchange Act of 1934.

On October 2, 2009, the SEC issued a final extension of SOX 404(b) for non-accelerated filers to fiscal years ending on or after June 15, 2010. Therefore, the Company, which would have been required to comply with Section 404 for the fiscal year ended December 31, 2007, will be required to obtain an external auditor's report on internal control over financial reporting for the fiscal year ending December 31, 2010.

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

ITEM 2 -MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Executive Summary

We are a Delaware corporation organized in March 1979, and a bank holding company registered under the Bank Holding Company Act of 1956. We acquired The Berkshire Bank (the "Bank"), our indirect wholly-owned subsidiary in March 1999. The Bank was organized in 1987 as a New York State chartered commercial bank. Our principal activity is the ownership and management of the Bank. Our activities are primarily funded by cash on hand, rental income, income from our portfolio of investment securities and dividends, if any, received from the Bank. Our common stock is traded on the NASDAQ Stock Market under the symbol "BERK."

The Bank's principal business consists of gathering deposits from the general public and investing those deposits together with funds generated from ongoing operations and borrowings, primarily in residential and commercial loans, debt obligations issued by the U.S. Government and its agencies, debt obligations of business corporations, and mortgage-backed securities. The Bank operates from seven deposit-taking offices in New York City, four deposit-taking offices in Orange and Sullivan Counties, New York, and two deposit-taking offices in Ridgefield and Teaneck, New Jersey. The Bank's revenues are derived principally from interest on loans, and interest and dividends on investments in the securities portfolio. The Bank's primary regulator is the New York State Banking Department. Deposits are insured to the maximum allowable amount by the Federal Deposit Insurance Corporation. The Bank is a member of the Federal Home Loan Bank system.

Our results of operations depend primarily on net interest income, which is the difference between the income earned on our interest-earning assets and the cost of our interest-bearing liabilities. Net interest income is the result of our interest rate margin, which is the difference between the average yield earned on interest-earning assets and the average cost of interest-bearing liabilities, adjusted for the difference in the average balance of interest-earning assets as compared to the average balance of interest-bearing liabilities. We also generate non-interest income from loan fees, service charges on deposit accounts, mortgage servicing fees, and other fees, dividends on Federal Home Loan Bank of New York ("FHLB-NY") stock and net gains and losses on sales of securities and loans. Our operating expenses consist principally of employee compensation and benefits, occupancy and equipment costs, other general and administrative expenses and income tax expense. Our results of operations also can be significantly affected by our periodic provision for loan losses and specific provision for losses on loans.

Our investment policy, which is approved by the Board of Directors, is designed primarily to manage the interest rate sensitivity of our overall assets and liabilities, to generate a favorable return without incurring undue interest rate and credit risk, to complement our lending activities and to provide and maintain liquidity. In establishing our investment strategies, we consider our business and growth strategies, the economic environment, our interest rate risk exposure, our interest rate sensitivity "gap" position, the types of securities to be held, and other factors. We classify our investment securities as available for sale.



We recorded a provision for loan losses of \$1.25 million during the three months ended March 31, 2010, which was a \$1.1 million increase from the \$150,000 provision recorded during the three months ended March 31, 2009. The provision was deemed necessary as a result of the regular quarterly analysis of the allowance for loan losses. The regular quarterly analysis is based on management's evaluation of the risk inherent in the various components of the loan portfolio and other factors, including historical loan loss experience (which is updated at least annually), changes in the composition and volume of the portfolio, collection policies and experience, trends in the volume of non-accrual loans and regional and national economic conditions. See "Provision for Loan Losses" in Item 2 for further discussion of the allowance for loan losses.

Net income, before dividends on our Series A Preferred Stock, for the three months ended March 31, 2010 was \$1.15 million, compared to net income of \$1.07 million for the three months ended March 31, 2009. Net loss allocated to common stockholders, including dividends on our Series A Preferred Stock, was \$46,000 and \$131,000 for the three months ended March 31, 2010 and 2009, respectively.

The following discussion and analysis is intended to provide a better understanding of the consolidated financial condition and results of operations of Berkshire Bancorp Inc. and subsidiaries. All references to earnings per share, unless stated otherwise, refer to earnings per diluted share. References to Notes herein are references to the "Notes to Consolidated Financial Statements" of the Company located in Item 1 herein.

#### Critical Accounting Policies, Judgments and Estimates

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

The Company considers that the determination of the allowance for loan losses involves a higher degree of judgment and complexity than any of its other significant accounting policies. The allowance for loan losses is calculated with the objective of maintaining a reserve level believed by management to be sufficient to absorb estimated credit losses. Management's determination of the adequacy of the allowance is based on periodic evaluations of the loan portfolio and other relevant factors. However, this evaluation is inherently subjective as it requires material estimates, including, among others, expected default probabilities, loss given default, the amounts and timing of expected future cash flows on impaired loans, mortgages, and general amounts for historical loss experience. The process also considers economic conditions, uncertainties in estimating losses and inherent risks in the loan portfolio. All of these factors may be susceptible to significant change. To the extent actual outcomes differ from management estimates, additional provisions for loan losses may be required that would adversely impact earnings in future periods. See "Provision for Loan Losses" in Item 3 for further discussion of the allowance for loan losses.

Goodwill is subject to impairment testing at least annually or when triggering events occur to determine whether write-downs of the recorded balances are necessary. The Company tests for impairment based on the goodwill maintained at the Bank, the reporting unit. A fair value is determined for each reporting unit based on at least one of three various market valuation methodologies. If the fair value of the reporting units exceed the book value, no write-down of recorded goodwill is necessary. If the fair value of the reporting unit is less, an expense may be required on the Company's books to write down the related goodwill to the carrying value. As of December 31, 2009, the goodwill was evaluated for impairment with no recognition of impairment considered necessary. The fair value of the reporting unit was substantially greater than the carrying value at the date of valuation. Management determined that there were no additional impairment indicators subsequent to the December 31, 2009 evaluation.

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

The Company conducts a periodic review and evaluation of its securities portfolio, taking into account the severity and duration of each unrealized loss, as well as management's intent and ability to hold the security until the unrealized loss is substantially eliminated, in order to determine if a decline in market value of any security below its carrying value is either temporary or other than temporary. Unrealized losses on held-to-maturity securities that are deemed temporary are disclosed but not recognized. Unrealized losses on debt or equity securities available-for-sale that are deemed temporary are excluded from net income and reported net of deferred taxes as other comprehensive income or loss. All unrealized losses that are deemed other than temporary on either available-for-sale or held-to-maturity securities are recognized immediately as a reduction of the carrying amount of the security, with a charge recorded in the Company's consolidated statements of operations.

The following table presents the total dollar amount of interest income from average interest-earning assets and the resultant yields, as well as the interest expense on average interest-bearing liabilities, expressed in both dollars and rates.

	For The Three Months Ended March 31,					
	Average Balance	2010 Interest and Dividends	Average Yield/Rate (Dollars in Thousands)	Average Balance	2009 Interest and Dividends	Average Yield/Rate
<b>INTEREST-EARNING ASSETS:</b>						
Loans (1)	\$ 419,820	\$ 6,533	6.22%	\$ 458,820	\$ 7,771	6.77%
Investment securities	363,083	3,800	4.19	302,347	4,403	5.83
Other (2)(5)	59,780	51	0.34	68,368	271	1.59
Total interest-earning assets	842,683	10,384	4.93	829,535	12,445	6.00
Noninterest-earning assets	62,539			64,368		
Total Assets	\$ 905,222			\$ 893,903		
<b>INTEREST-BEARING LIABILITIES:</b>						
Interest bearing deposits	224,372	508	0.91%	204,515	716	1.40%
Time deposits	419,678	1,752	1.67	435,326	3,301	3.03
Other borrowings	101,168	1,015	4.01	123,564	1,351	4.38
Total interest-bearing liabilities	745,218	3,275	1.76	763,405	5,368	2.81
Demand deposits	66,323			53,844		
Noninterest-bearing liabilities	7,682			10,099		
Stockholders' equity (5)	85,999			66,555		
Total liabilities and stockholders' equity	\$ 905,222			\$ 893,903		
Net interest income		\$ 7,109			\$ 7,077	
Interest-rate spread (3)			3.17%			3.19%
Net interest margin (4)			3.37%			3.41%
Ratio of average interest-earning assets to average interest bearing liabilities	1.13			1.09		

(1) Includes nonaccrual loans.

(2) Includes interest-bearing deposits, federal funds sold and securities purchased under agreements to resell.

(3) Interest-rate spread represents the difference between the average yield on interest-earning assets and the average cost of interest bearing liabilities.

(4) Net interest margin is net interest income as a percentage of average interest-earning assets.

(5) Average balances are daily average balances except for the parent company which have been calculated on a monthly basis.



## Results of Operations

Results of Operations for the Three Months Ended March 31, 2010 Compared to the Three Months Ended March 31, 2009.

**Net Income (Loss) Allocated to Common Stockholders.** Net loss allocated to common stockholders for the three-month period ended March 31, 2010 was \$46,000 or \$.01 per common share, compared to a net loss of \$131,000, or \$.02 per common share, for the three-month period ended March 31, 2009. The net loss for the 2010 quarter includes dividends on our Series A Preferred Stock of \$1.2 million, or \$.17 per common share. The net loss in the 2009 quarter includes other than temporary impairment ("OTTI") charges on securities of \$1.03 million, or \$.14 per common share, and dividends on our Series A Preferred Stock of \$1.2 million, or \$.17 per common share.

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

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

For the quarter ended March 31, 2010, net interest income increased by approximately \$30,000 to \$7.11 million from \$7.08 million for the quarter ended March 31, 2009. The increase in net interest income was due to the decrease in the average amounts of interest-bearing liabilities to \$745.2 million during the 2010 quarter from \$763.4 million during the 2009 quarter, and the decrease in the average rates paid on interest-bearing liabilities to 1.76% from 2.81% during the three months ended March 31, 2010 and 2009, respectively. The increase in net interest income was also due to the increase in the average amounts of interest-earning assets to \$842.7 million during the 2010 quarter from \$829.5 million during the 2009 quarter, partially offset by the decrease in the averages yield on interest-earning assets to 4.93% from 6.00% during the three months ended March 31, 2010 and 2009, respectively. The Company's interest-rate spread, the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities, was relatively flat at 3.17% and 3.19% during the three months ended March 31, 2010 and 2009, respectively.

Net Interest Margin. Net interest margin, or annualized net interest income as a percentage of average interest-earning assets, decreased by 4 basis points to 3.37% during the quarter ended March 31, 2010 from 3.41% during the quarter ended March 31, 2009. We seek to secure and retain customer deposits with competitive products and rates, while making strategic use of the prevailing interest rate environment to borrow funds at what we believe to be attractive rates. We invest such deposits and borrowed funds in a prudent mix of fixed and adjustable rate loans, investment securities and short-term interest-earning assets. The decrease in net interest margin is primarily due to the decrease in the average amount of higher yielding loans as a percentage of our total mix of interest-earning assets.

Interest Income. Total interest income for the quarter ended March 31, 2010 decreased by approximately \$2.0 million to \$10.4 million from \$12.4 million for the quarter ended March 31, 2009. The decrease in total interest income was due to the decrease in the average yields earned on the average amounts of interest-earning assets, partially offset by the increase in the average amounts of such assets as discussed above.

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

	Three Months Ended March 31,			
	2010	2009	2010	2009
	Interest Income	% of Total	Interest Income	% of Total
(In thousands, except percentages)				
Loans	\$ 6,533	62.92%	\$ 7,771	62.44%
Investment Securities	3,800	36.59	4,403	35.38
Other	51	0.49	271	2.18
Total Interest Income	\$ 10,384	100.00%	\$ 12,445	100.00%

Loans, which are inherently risky and therefore command a higher return than our portfolio of investment securities and other interest-earning assets, decreased to 50.0% of our total amount of average interest-earning assets during the quarter ended March 31, 2010 from 55.3% during the quarter ended March 31, 2009. During the three months ended March 31, 2010, the average amounts of investment securities increased to 43.1% of total interest-earning assets from 36.4% of total interest-earning assets during the three months ended March 31, 2009. While we actively seek to originate new loans with qualified borrowers who meet the Bank's underwriting standards, our strategy has been to maintain those standards, sacrificing some current income to avoid possible large future losses in the loan portfolio.

At March 31, 2010, total non-performing loan assets were \$15.5 million, comprised of \$3.2 million of non-accrual loans and \$12.3 million of foreclosed real estate. Additions to non-performing loan assets, were such additions to occur, would have an adverse effect on our results of operations.

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

Federal Home Loan Bank Stock. The Bank owns stock of the Federal Home Loan Bank New York ("FHLB-NY") which is necessary for it to be a member of the FHLB-NY. Membership requires the purchase of stock equal to 1% of the Bank's residential mortgage loans or 5% of the outstanding borrowings, whichever is greater. The stock is redeemable at par, therefore, its cost is equivalent to its redemption value. The Bank's ability to redeem FHLB-NY shares is dependent upon the redemption practices of the FHLB-NY. At March 31, 2010, the FHLB-NY neither placed restrictions on redemption of shares in excess of a member's required investment in stock, nor stated that it will cease paying dividends. The Bank did not consider this asset impaired at either March 31, 2010 or 2009.

Interest Expense. Total interest expense during the quarter ended March 31, 2010 decreased by \$2.1 million to \$3.3 million from \$5.4 million during the quarter ended March 31, 2009. The decrease in total interest expense was due to the decrease in the average amounts of interest-bearing liabilities, to \$745.2 million during the 2010 quarter from \$763.4 million during the 2009 quarter, and the decrease in the average rates paid on the average amounts of interest-bearing liabilities to 1.8% in the 2010 quarter from 2.8% in the 2009 quarter.

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

	Three Months Ended March 31,			
	2010		2009	
	Interest Expense	% of Total	Interest Expense	% of Total
(In thousands, except percentages)				
Interest-Bearing Deposits	\$ 508	15.51%	\$ 716	13.34%
Time Deposits	1,752	53.50	3,301	61.49
Borrowings and Subordinated Debt	1,015	30.99	1,351	25.17
Total Interest Expense	\$ 3,275	100.00%	\$ 5,368	100.00%

**Non-Interest Income.** Non-interest income consists primarily of realized gains on sales of marketable securities and service fee income. For the three months ended March 31, 2010, total non-interest income decreased by \$16,000 to \$383,000 from \$399,000 for the three months ended March 31, 2009.

**Non-Interest Expense.** Non-interest expense includes salaries and employee benefits, occupancy and equipment expenses, legal and professional fees, OTTI charges on investment securities and other operating expenses associated with the day-to-day operations of the Company. Total non-interest expense for the three months ended March 31, 2010 was \$4.4 million, compared to total non-interest expense of \$5.7 million, including other than temporary impairment charges on securities of \$1.0 million, for the three months ended March 31, 2009. Excluding the OTTI charges on securities in the 2009 quarter, total non-interest expense decreased by approximately \$243,000 to \$4.4 million from \$4.7 million for the three months ended March 31, 2010 and 2009, respectively. The decrease was primarily due to the \$215,000 decrease in our FDIC assessment.



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

	Three Months Ended March 31,			
	2010		2009	
	Non-Interest Expense	% of Total	Non-Interest Expense	% of Total
(In thousands, except percentages)				
Salaries and Employee Benefits	\$ 2,341	53.05	\$ 2,361	41.57%
Net Occupancy Expense	566	12.83	506	8.91
Equipment Expense	91	2.06	99	1.74
FDIC Assessment	468	10.61	683	12.02
Data Processing Expense	126	2.86	94	1.65
Other than temporary impairment charges on securities	—	—	1,025	18.05
Other	820	18.59	912	16.06
Total Non-Interest Expense	\$ 4,412	100.00%	\$ 5,680	100.00%

Provision for Income Tax. During the three-month periods ended March 31, 2010 and 2009, we recorded income tax expense of \$676,000 and \$577,000, respectively.

The effective tax rate was 36.9% for the three months ended March 31, 2010 as compared to 35.1% for the three months ended March 31, 2009.

#### Issuer Purchases of Equity Securities

On May 15, 2003, The Company's Board of Directors authorized the purchase of up to an additional 450,000 shares of its Common Stock in the open market, from time to time, depending upon prevailing market conditions, thereby increasing the maximum number of shares which may be purchased by the Company from 1,950,000 shares of Common Stock to 2,400,000 shares of Common Stock. Since 1990 through March 31, 2010, the Company has purchased a total of 1,898,909 shares of its Common Stock. We did not repurchase shares of the Company's Common Stock during the first quarter of 2010. At March 31, 2010, there were 501,091 shares of Common Stock which may yet be purchased under our stock repurchase plan.

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

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



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

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

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

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

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

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

	Three Months Ended	
	2010	2009
Average loans outstanding	\$ 419,820	\$ 458,820
Allowance at beginning of period	11,416	9,204
Charge-offs:		
Commercial and other loans	—	102
Real estate loans	766	—
Total loans charged-off	766	102
Recoveries:		
Commercial and other loans	—	105
Total loans recovered	—	105
Net (charge-offs) recoveries	(766)	3
Provision for loan losses charged to operating expenses	1,250	150
Allowance at end of period	\$ 11,900	\$ 9,357
Ratio of net (charge-offs) recoveries to average loans outstanding	(0.18)%	0.00%
Allowance as a percent of total loans	2.94%	2.06%
Total loans at end of period	\$ 404,883	\$ 454,986

## Loan Portfolio.

**Loan Portfolio Composition.** The Company's loans consist primarily of mortgage loans secured by residential and non-residential properties as well as commercial loans which are either unsecured or secured by personal property collateral. Most of the Company's loans are either made to individuals or personally guaranteed by the principals of the business to which the loan is made. At March 31, 2010 and December 31, 2009, the Company had loans, net of unearned income, of \$403.8 million and \$430.3 million, respectively, and an allowance for loan losses of \$11.9 million and \$11.4 million, respectively. From time to time, the Bank may originate residential mortgage loans, sell them on the secondary market, normally recognizing fee income in connection with the sale.

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

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

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

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

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

**Commercial Loans.** The Bank makes commercial loans to businesses for inventory financing, working capital, machinery and equipment purchases, expansion, and other business purposes. These loans generally have higher yields than mortgages loans, with maturities of one year, after which the borrower's financial condition and the terms of the loan are re-evaluated. At March 31, 2010 and December 31 2009, approximately \$36.3 million and \$50.7 million, respectively, or 9.0% and 11.70%, respectively, of the Company's total loan portfolio consisted of such loans.

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

**Residential Mortgage Loans (1 to 4 family loans).** The Bank makes residential mortgage loans secured by first liens on one-to-four family owner-occupied or rental residential real estate. At March 31, 2010 and December 31, 2009, approximately \$127.3 million and \$129.9 million, respectively, or 31.4% and 30.1%, respectively, of the Company's total loan portfolio consisted of such loans. The Bank offers both adjustable rate mortgages ("ARMs") and fixed-rate mortgage loans. The relative proportion of fixed-rate loans versus ARMs originated by the Bank depends principally upon current customer preference, which is generally driven by economic and interest rate conditions and the pricing offered by the Bank's competitors. At March 31, 2010 and December 31, 2009, approximately 14.6% and 14.0%, respectively, of the Bank's residential one-to-four family owner-occupied first mortgage portfolio were ARMs and approximately 85.4% and 86.0%, respectively, were fixed-rate loans. The percentage represented by fixed-rate loans tends to increase during periods of low interest rates. The ARMs generally carry annual caps and life-of-loan ceilings, which limit interest rate adjustments.

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

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

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

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

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

The Bank offers a variety of other loan products including residential single family construction loans to persons who intend to occupy the property upon completion of construction, home equity loans secured by junior mortgages on one-to-four family owner-occupied residences, and short-term fixed-rate consumer loans either unsecured or secured by monetary assets such as bank deposits and marketable securities or personal property. At March 31, 2010 and December 31, 2009, the Company's loan portfolio was comprised of \$241.3 million and \$250.8 million, respectively, or 59.6% and 58.2%, respectively, of other loan products.

## Capital Adequacy

Quantitative measures established by regulations to ensure capital adequacy require 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, and of Tier I capital to average assets. Management believes that, as of March 31, 2010, the Bank meets all capital adequacy requirements to which it is subject.

As of March 31, 2010, the Bank met all regulatory requirements for classification as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the following table. There are no conditions or events since that date that management believes have changed the Bank's category.

The following table set forth the actual and required regulatory capital amounts and ratios of the Company and the Bank as of March 31, 2010. (dollars in thousands):

	Actual Amount	Ratio	For capital adequacy purposes Amount	Ratio		To be well capitalized under prompt corrective action provisions Amount	Ratio
<b>March 31, 2010</b>							
<b>Total Capital (to Risk-Weighted Assets)</b>							
Company	\$ 106,810	20.1%	\$ 42,453	>8.0 %		—	N/A
Bank	91,936	17.8%	41,308	>8.0 %	\$	51,635	>10.0 %
<b>Tier I Capital (to Risk-Weighted Assets)</b>							
Company	99,896	18.8%	21,226	>4.0 %		—	N/A
Bank	85,414	16.5%	20,654	>4.0 %	\$	30,981	>6.0 %
<b>Tier I Capital (to Average Assets)</b>							
Company	99,896	11.0%	36,209	>4.0 %		—	N/A
Bank	85,414	9.8%	34,824	>4.0 %	\$	45,531	>5.0 %



## Liquidity

The management of the Company's liquidity focuses on ensuring that sufficient funds are available to meet loan funding commitments, withdrawals from deposit accounts, the repayment of borrowed funds, and ensuring that the Bank and the Company comply with regulatory liquidity requirements. Liquidity needs of the Bank have historically been met by deposits, investments in federal funds sold, principal and interest payments on loans, and maturities of investment securities. Additional liquidity, up to approximately \$291 million is available from the Federal Reserve Bank and the FHLB-NY.

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

At March 31, 2010, our portfolio of investment securities included approximately \$16.5 million, at cost, of corporate notes and approximately \$6.5 million, at cost, of TPCDO's for which an OTTI charge has not been recorded in our financial statements. Due primarily to liquidity issues, the fair value of these securities, presently \$15.0 million and \$294,000, respectively, may be negatively impacted in the future.

OTTI is a non-cash charge and not necessarily an indicator of a permanent decline in value. Security valuations require significant estimates, judgments and assumptions by management and are considered a critical accounting policy of the Company. See Note 8, "Fair Value of Financial Instruments" for further discussion of this policy.

Based on our expected operating cash flows, and our other sources of cash, we do not expect the potential lack of liquidity in these auction rate securities and corporate notes to affect our capital, liquidity or our ability to execute our current business plan. We have cash and cash equivalents totaling \$72.5 million, or 7.9% of total assets at March 31, 2010. In addition, we have the capacity to borrow up to approximately \$205 million from the Federal Reserve Bank and approximately \$86 million from the FHLB-NY if the need should arise.

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

The ability of the Company to meet these obligations, including the payment of dividends on its preferred and common stock when and if declared by the Board of Directors, is not currently dependent upon the receipt of dividends from the Bank. At March 31, 2010, the Company had cash of approximately \$5.3 million and investment securities with a fair market value of \$7.0 million.

The Bank maintains financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments, approximately \$12.0 million at March 31, 2010, include commitments to extend credit, stand-by letters of credit and loan commitments. The Bank also had interest rate caps with a notional amount of \$40.0 million.

At March 31, 2010, the Bank had outstanding commitments of approximately \$446.7 million; including \$27.9 million of borrowings, \$4.1 million of operating leases, and \$414.7 million of time deposits. These commitments include \$354.0 million that mature or renew within one year, \$89.9 million that mature or renew after one year and within three years, \$2.7 million that mature or renew after three years and within five years and \$178,000 that mature or renew after five years.

#### Impact of Inflation and Changing Prices

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

#### ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

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

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

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

#### ITEM 4 - CONTROLS AND PROCEDURES

##### Disclosure Controls and Procedures.

As of the end of the period covered by this Quarterly Report on Form 10-Q, the Company evaluated the effectiveness of the design and operation of its "disclosure controls and procedures" as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended ("Disclosure Controls"). The Disclosure Controls are designed to allow the Company to reach a reasonable level of assurance that information required to be disclosed by the Company is recorded, processed, summarized and reported within the time period specified in the SEC's rules and forms and that any information relating to the Company is accumulated and communicated with management, including its principal executive/financial officer to allow timely decisions regarding required disclosure. The evaluation of the Disclosure Controls ("Controls Evaluation") was done under the supervision and with the participation of the Company's management, including the Chief Executive Officer ("CEO"), who is also the Chief Financial Officer ("CFO"). Based upon the Controls Evaluation and subsequent discussions and actions by the Company as described in its Annual Report on Form 10-K for the fiscal year ended December 31, 2009 ("Form 10-K"), the CEO/CFO has concluded that as of March 31, 2010, the Disclosure Controls were not effective due to a material weakness pertaining to evaluation of other than temporary impairment and related tax accounting as described in the Form 10-K. However, as of June 7, 2010, due to the remediation described in the Form 10-K, the Company believes its Disclosure Controls are effective at the reasonable assurance level.

##### Changes in Internal Control over Financial Reporting.

In accordance with SEC requirements, the CEO/CFO notes that during the fiscal quarter ended March 31, 2010, no changes in the Company's "internal control over financial reporting", as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended ("Internal Control") have occurred that have materially affected or are reasonably likely to materially affect the Company's Internal Control.

Limitations on the Effectiveness of Controls.

The Company's management, including the CEO/CFO, does not expect that its Disclosure Controls and/or its Internal Control will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs.

Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

PART II. OTHER INFORMATION

Item 6. Exhibits

Exhibit Number	Description
31	Certification of Principal Executive and Financial Officer pursuant to Section 302 Of The Sarbanes-Oxley Act of 2002.
32	Certification of Principal Executive and Financial Officer pursuant to Section 906 Of The Sarbanes-Oxley Act of 2002.

42

---

SIGNATURES

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

BERKSHIRE BANCORP INC.  
(Registrant)

Date: June 18 , 2010

By: /s/ Steven Rosenberg  
Steven Rosenberg  
President and Chief  
Financial Officer

EXHIBIT INDEX

Exhibit Number	Description
31	Certification of Principal Executive and Financial Officer pursuant to Section 302 Of The Sarbanes-Oxley Act of 2002.
32	Certification of Principal Executive and Financial Officer pursuant to Section 906 Of The Sarbanes-Oxley Act of 2002.
44	

---