

Federal Deposit Insurance Corporation  
Washington, D.C. 20429

FORM 10-Q

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

For the quarterly period ended: September 30, 2010

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

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

FDIC Certificate number 57524

LIBERTY BELL BANK

(Exact name of registrant as specified in its charter)

New Jersey

22-3811547

(State or other jurisdiction of incorporation or organization) (IRS Employer Identification Number)

145 North Maple Avenue, Marlton, New Jersey 08053

(Address of principal executive offices)

856 830-1100

(Registrant's telephone number)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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

Yes  X No

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

Yes  No  (Not applicable)

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

Large accelerated filer  Accelerated filer  Smaller reporting company

Non-accelerated filer  (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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 2,808,551 shares of common stock outstanding as of November 12, 2010.

**LIBERTY BELL BANK**  
**FORM 10-Q**  
**FOR THE QUARTER ENDED September 30, 2010**

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**Liberty Bell Bank****Balance Sheets****September 30, 2010 and December 31, 2009****(Unaudited)**

	2010		2009
<b>Assets</b>			
Cash and cash due from banks	\$ 2,055,057	\$	1,538,947
Interest-bearing deposits with other banks	245,000		7,948,017
Federal funds sold	22,985,000		5,025,000
Cash and cash equivalents	25,285,057		14,511,964
Certificates of deposit with other banks	1,328,000		980,000
Investment securities available for sale, at fair value	9,325,739		15,830,241
Loans held for sale	164,000		-
Loans (net of allowance for loan losses of \$1,782,838 and \$1,420,000 at September 30, 2010 and December 31, 2009, respectively)	135,763,713		131,565,224
Bank premises and equipment, net	4,570,857		4,461,772
Federal Home Loan Bank stock, at cost	549,700		534,100
Prepaid FDIC assessment	694,983		878,961
Accrued interest receivable and other assets	1,060,938		1,061,995
Total assets	\$ 178,742,987	\$	169,824,257
<b>Liabilities and Shareholders' Equity</b>			
<b>Liabilities</b>			
Deposits			
Noninterest-bearing	\$ 11,084,536	\$	8,123,787
Interest-bearing	146,194,444		140,478,336
Total deposits	157,278,980		148,602,123
Borrowings	7,500,000		7,500,000
Accrued interest payable and other accrued liabilities	567,676		486,011
Total liabilities	165,346,656		156,588,134
<b>Shareholders' Equity</b>			
Common stock, \$5 par value, 5,000,000 shares authorized;			
Issued and outstanding, 2,808,551 and 2,771,414 shares			
at September 30, 2010 and December 31, 2009	14,042,755		13,857,070
Additional paid-in capital	6,782,228		6,847,071
Accumulated deficit	(7,638,003)		(7,839,590)
Accumulated other comprehensive income	209,351		371,572
Total shareholders' equity	13,396,331		13,236,123
Total liabilities and shareholders' equity	\$ 178,742,987	\$	169,824,257

See Notes to Financial Statements.

**Liberty Bell Bank**

**Statements of Operations  
(Unaudited)**

	Three Months ended, September 30,		Nine Months ended, September 30,	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
<b>Interest and Dividend Income</b>				
Interest and fees on loans	\$ 1,948,060	\$ 1,974,217	\$ 5,778,126	\$ 5,850,927
Interest on securities available for sale	89,943	151,048	353,484	512,002
Interest on deposits with banks	4,861	14,882	25,648	15,490
Dividends on FHLB stock	7,302	8,441	17,938	22,933
Interest on federal funds sold	8,340	5,373	18,586	14,645
Total interest income	<u>2,058,506</u>	<u>2,153,961</u>	<u>6,193,782</u>	<u>6,415,997</u>
<b>Interest Expense</b>				
Interest on deposits	570,669	851,453	1,800,924	2,640,016
Interest on borrowings	75,615	75,581	224,312	226,011
Total interest expense	<u>646,284</u>	<u>927,034</u>	<u>2,025,236</u>	<u>2,866,027</u>
Net interest income	<u>1,412,222</u>	<u>1,226,927</u>	<u>4,168,546</u>	<u>3,549,970</u>
Provision for Loan Losses	145,000	257,813	365,000	459,813
Net interest income after provision for loan losses	<u>1,267,222</u>	<u>969,114</u>	<u>3,803,546</u>	<u>3,090,157</u>
<b>Noninterest Income</b>				
Service charges on deposit accounts	46,404	38,515	128,412	104,641
Other income	16,747	24,925	76,225	94,568
Gain on sale of investment securities available for sale	112,911	-	184,939	-
Total noninterest income	<u>176,062</u>	<u>63,440</u>	<u>389,576</u>	<u>199,209</u>
<b>Noninterest Expenses</b>				
Compensation and benefits	678,138	627,441	2,019,418	1,821,428
Occupancy	197,069	202,188	587,508	608,884
Equipment and data processing	110,931	111,577	331,260	307,104
Marketing and business development	36,022	44,017	98,935	92,907
Professional services	121,188	119,539	358,744	309,665
Other operating expenses	198,268	205,668	595,351	626,680
Total noninterest expenses	<u>1,341,616</u>	<u>1,310,430</u>	<u>3,991,216</u>	<u>3,766,668</u>
Income Before Income Tax Expense	101,668	(277,876)	201,907	(477,302)
Income Tax Expense	320	-	320	-
Net income (loss)	<u>\$ 101,348</u>	<u>\$ (277,876)</u>	<u>\$ 201,587</u>	<u>\$ (477,302)</u>
Net income (loss) Per Share, Basic and Diluted	<u>\$ 0.04</u>	<u>\$ (0.10)</u>	<u>\$ 0.07</u>	<u>\$ (0.18)</u>
Weighted Average Shares Outstanding, Basic and Diluted	<u>2,808,551</u>	<u>2,771,414</u>	<u>2,796,452</u>	<u>2,722,566</u>

See Notes to Financial Statements.

Liberty Bell Bank

Statements of Shareholders' Equity

Nine Months Ended September 30, 2010 and September 30, 2009 (Unaudited)

	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance, December 31, 2008	\$ 13,452,965	\$ 7,223,776	\$ (7,424,696)	\$ 380,574	\$ 13,632,619
Stock option expense		20,550			20,550
Comprehensive income (loss) :					
Net loss - nine months ended September 30, 2009			(477,302)		(477,302)
Common stock dividend issued as a 3 for 100 stock split	404,105	(404,105)			-
Change in net unrealized loss on securities available for sale, net of tax effect, if any				181,167	181,167
Total comprehensive loss					(296,135)
Balance, September 30, 2009	<u>\$ 13,857,070</u>	<u>\$ 6,840,221</u>	<u>\$ (7,901,998)</u>	<u>\$ 561,741</u>	<u>\$ 13,357,034</u>
Balance, December 31, 2009	\$ 13,857,070	\$ 6,847,071	\$ (7,839,590)	\$ 371,572	\$ 13,236,123
Stock issuance - 37,137 shares	185,685	(85,393)			100,292
Stock option expense		20,550			20,550
Comprehensive income (loss):					
Net income - nine months ended September 30, 2010			201,587		201,587
Change in unrealized gain on securities available for sale, net of tax effect, if any				22,718	22,718
Reclassification adjustment for (gains) realized, net of tax effect, if any				(184,939)	(184,939)
Total comprehensive income					39,366
Balance, September 30, 2010	<u>\$ 14,042,755</u>	<u>\$ 6,782,228</u>	<u>\$ (7,638,003)</u>	<u>\$ 209,351</u>	<u>\$ 13,396,331</u>

See Notes to Financial Statements

**Liberty Bell Bank**  
**Statements of Cash Flows**

	Nine Months ended September 30,	
	2010	2009
<b>Cash Flows from Operating Activities</b>		
Net income (loss)	\$ 201,587	\$ (477,302)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	360,772	325,165
Provision for loan losses	365,000	459,813
Origination of loans held for sale	(2,080,200)	(903,546)
Proceeds from the sale of loans held for sale	1,916,200	903,546
Net amortization of securities	7,113	10,671
Gain on sale of investment securities available for sale	(184,939)	-
Stock compensation expense	20,550	20,550
Changes in operating assets and liabilities:		
Amortization of prepaid FDIC assessment	183,978	-
Decrease in accrued interest receivable and other assets	1,057	45,147
Increase in accrued interest payable and other liabilities	81,665	68,205
<b>Net cash provided by operating activities</b>	<b>872,783</b>	<b>452,249</b>
<b>Cash Flows from Investing Activities</b>		
Purchases of certificates of deposits with other banks	(348,000)	(4,519,000)
Purchase of FHLB stock	(15,600)	-
Purchases of investment securities available for sale	(7,499,000)	(4,032,224)
Proceeds from calls and sales of securities available for sale	12,018,390	11,200,000
Proceeds from principal payments on mortgage-backed securities available for sale	2,000,717	3,655,460
Net increase in loans	(4,563,489)	(12,124,137)
Purchase of bank premises and equipment	(469,857)	(293,705)
<b>Net cash provided by (used in) investing activities</b>	<b>1,123,161</b>	<b>(6,113,606)</b>
<b>Cash Flows from Financing Activities</b>		
Net decrease in lines of credit borrowings	-	(7,900,000)
Net increase in interest-bearing deposits	5,716,108	20,774,561
Net increase in noninterest-bearing deposits	2,960,749	797,580
Issuance of common stock	100,292	-
<b>Net cash provided by financing activities</b>	<b>8,777,149</b>	<b>13,672,141</b>
<b>Increase in cash and cash equivalents</b>	<b>10,773,093</b>	<b>8,010,784</b>
Cash and Cash Equivalents, beginning of period	14,511,964	1,215,446
Cash and Cash Equivalents, end of period	<b>\$ 25,285,057</b>	<b>\$ 9,226,230</b>
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Cash paid during the period for:		
Interest on deposits and borrowed funds	\$ 2,064,946	\$ 2,870,640
Income taxes	\$ -	\$ -
Net change in unrealized (loss) gain on investment securities available for sale	<b>\$ (162,221)</b>	<b>\$ 181,167</b>

See Notes to Financial Statements.

## **LIBERTY BELL BANK**

### **NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)**

#### **NOTE 1. - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **Nature of Operations**

Liberty Bell Bank (the "Bank") is a commercial bank, which was incorporated on November 26, 2002, and commenced operations on August 11, 2003. The Bank is chartered by the New Jersey Department of Banking and Insurance and insured by the Federal Deposit Insurance Corporation ("FDIC"). The Bank became a public filer in April of 2004 when it filed its Form 10-SB Registration Statement with the FDIC. The Bank moved its principal office from Cherry Hill to Evesham, New Jersey that houses the Bank's Operations Center and administrative headquarters on September 3, 2009. In addition to its offices in Cherry Hill and Evesham Township, the Bank also has branch offices in Moorestown and in Mount Laurel. The Bank provides financial services primarily to Camden and Burlington Counties, as well as surrounding counties in New Jersey and Southeastern Pennsylvania. In April 2004, the Bank purchased land with a building in the Township of Voorhees, Camden County, New Jersey. To date, the Bank has not requested regulatory approval to open a branch office at the Voorhees location. The Bank is actively marketing this property for sale.

##### **Financial Statements**

The financial statements as of September 30, 2010, and for the three and nine-months ended September 30, 2010 and 2009, included herein have not been audited. The December 31, 2009 Balance Sheet is derived from the audited financial statements. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted ("GAAP") in the United States of America have been condensed or omitted; therefore, these financial statements should be read in conjunction with the Bank's 2009 Annual Report on Form 10-K, as filed with the Federal Deposit Insurance Corporation ("FDIC"). The accompanying financial statements reflect all adjustments, which are, in the opinion of management, necessary to present a fair statement of the results for the interim periods presented. Such adjustments are of a normal recurring nature. The results for the three and nine-month periods ended September 30, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010. The Bank has evaluated subsequent events for potential recognition and/or disclosure from the date of the financial statements included in this quarterly report on Form 10-Q through the date of its filing with the FDIC.

##### **Use of Estimates**

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from such estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and the valuation of deferred tax assets.

## **NOTE 1. – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)**

### **Allowance for Loan Losses**

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses. Loans that are determined to be uncollectible are charged against the allowance account, and subsequent recoveries, if any, are credited to the allowance. When evaluating the adequacy of the allowance, an assessment of the loan portfolio will typically include changes in the composition and volume of the loan portfolio, overall portfolio quality and past loss experience, review of specific problem loans, current economic conditions which may affect borrowers' ability to repay, and other factors which may warrant current recognition. Such periodic assessments may, in management's judgment, require the Bank to recognize additions or reductions to the allowance.

Various regulatory agencies periodically review the adequacy of the Bank's allowance for loan losses as an integral part of their examination process. Such agencies may require the Bank to recognize additions or reductions to the allowance based on their judgments of information available to them at the time of their examination. It is reasonably possible that the above factors may change significantly and, therefore, affect management's determination of the allowance for loan losses in the near term.

The allowance consists of specific and general components. The specific component relates to loans that are deemed impaired. For those loans that are classified as impaired, an allowance is established when the discounted cash flows, the collateral value or the observable market price of the impaired loan is lower than the carrying value of that loan. The general component covers nonimpaired loans and is based on environmental factors including growth and volume trends, credit concentrations, collateral quality, delinquency/impairment trends, historical charge-off experience and expected loss given default derived from the Bank's internal risk rating process. Other adjustments may be made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data.

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

### **Securities Available for Sale**

Securities classified as available for sale are stated at fair value. Unrealized gains and losses are excluded from earnings and are reported net of tax as a separate component of shareholders' equity. Such items, along with net income, are components of comprehensive income. Realized gains and losses are determined using the specific-identification method and are included in earnings on the trade date. The Bank classified all of its securities as available for sale at September 30, 2010 and December 31, 2009.

## **NOTE 1. – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)**

### **Income Taxes**

The Bank accounts for income taxes according to the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using the enacted tax rates applicable to taxable income for the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Valuation reserves are established against certain deferred tax assets when it is more likely than not that the deferred tax assets will not be realized. Increases or decreases in the valuation reserve are charged or credited to the income tax provision.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that ultimately would be sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more-likely-than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. The evaluation of a tax position taken is considered by itself and not offset or aggregated with other positions.

Tax positions that meet the more-likely-than not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination.

Interest and penalties associated with unrecognized tax benefits are recognized in income tax expense on the Statement of Operations.

### **New Accounting Pronouncements**

New authoritative guidance (Accounting Standards Update No. 2010-20) requires an entity to provide disclosures that facilitate financial statement users' evaluation of the following:

- The nature of credit risk inherent in the entity's portfolio of financing receivables;
- How that risk is analyzed and assessed in arriving at the allowance for credit losses; and
- The changes and reasons for those changes in the allowance for credit losses.

To achieve these objectives, an entity should provide disclosures on a disaggregated basis on two defined levels: (1) portfolio segment; and (2) class of financing receivable. The new authoritative guidance makes changes to existing disclosure requirements and includes additional disclosure requirements about financing receivables, including:

## **NOTE 1. – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)**

### **New Accounting Pronouncements**

- Credit quality indicators of financing receivables at the end of the reporting period by class of financing receivables;
- The aging of past due financing receivables at the end of the reporting period by class of financing receivables; and
- The nature and extent of troubled debt restructurings that occurred during the period by class of financing receivables and their effect on the allowance for credit losses.

The disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The Bank is currently evaluating the impact of the guidance on its financial statements.

New authoritative accounting guidance (Accounting Standards Update No. 2010-6) provides amendments to ASC Topic 820 that require new disclosures as follows: 1) A reporting entity should disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers. 2) In the reconciliation for fair value measurements using significant unobservable inputs (Level 3), a reporting entity should present separately information about purchases, sales, issuances, and settlements (that is, on a gross basis rather than as one net number). The new authoritative guidance also clarifies existing disclosures as follows: 1) A reporting entity should provide fair value measurement disclosures for each class of assets and liabilities. A class is often a subset of assets or liabilities within a line item in the statement of financial position. A reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities. 2) A reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements that fall in either Level 2 or Level 3.

These new disclosures and clarifications of existing disclosures were effective for the Bank's financial statements beginning after December 15, 2009, (except for the disclosures about the purchases, sales, issuances, and settlements in the roll forward activity of Level 3 fair value measurements, which is effective for fiscal years beginning after December 15, 2010) and did not have a significant impact on the Bank's financial statements.

FASB ASC Topic 860, "Transfers and Servicing." New authoritative accounting guidance under ASC Topic 860, "Transfers and Servicing," amends prior accounting guidance to enhance reporting about transfers of financial assets, including securitizations, and where companies have continuing exposure to the risks related to transferred financial assets. The new authoritative accounting guidance eliminates the concept of a "qualifying special-purpose entity" and changes the requirements for derecognizing financial assets. The new authoritative accounting guidance also requires additional disclosures about all continuing involvements with transferred financial assets including information about gains and losses resulting from transfers during the period. The new authoritative accounting guidance under ASC Topic 860 became effective January 1, 2010 and did not have a significant impact on the Bank's financial statements.

## **NOTE 2. – EARNINGS PER COMMON SHARE**

Basic earnings per common share is computed by dividing net income available to common shareholders (the numerator) by the weighted average number of common shares outstanding (the denominator) during the period. Shares issued during the period are weighted for the portion of the period that they were outstanding. The weighted average number of common shares outstanding for the three months ended September 30, 2010 and 2009 were 2,808,551 and 2,771,414 and for the nine months ended September 30, 2010 and 2009 were 2,796,452 and 2,722,566, respectively.

Diluted earnings per common share consider common stock equivalents (when dilutive) outstanding during the period such as options outstanding. The assumed conversion of these options had an anti-dilutive effect on the calculation of dilutive earnings per share for the three and nine month periods ended September 30, 2010 and 2009; accordingly, they were not considered in the dilutive earnings per share computation.

## **NOTE 3. – COMPREHENSIVE INCOME (LOSS)**

Total comprehensive income (loss) includes net income (loss) and other comprehensive income or loss that is comprised of unrealized gains and losses on investment securities available for sale, and the adjustment for realized gain from the sale of securities from the available for sale portfolio net of taxes. The Bank's total comprehensive income (loss) for the three months ended September 30, 2010 and 2009 was (\$30,518) and (\$102,609), respectively. The Bank's total comprehensive income (loss) for the nine months ended September 30, 2010 and 2009 was \$39,366 and (\$296,135), respectively. The difference between the Bank's net income (loss) and total comprehensive income for these periods relates to the change in net unrealized gains and losses on investment securities available for sale during the applicable period of time and in 2010 the adjustment for realized gain on the sale of investment securities from the available for sale portfolio.

## **NOTE 4. – REGULATORY MATTERS**

The Bank is subject to various regulatory capital requirements administered by federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of its assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of September 30, 2010 and December 31, 2009, that the Bank met all capital adequacy and other regulatory requirements to which it is subject.

The Bank's actual capital amounts and ratios as of September 30, 2010 and December 31, 2009 are presented in the following tables:

	Actual		For Capital Adequacy Purposes		To Be Well-Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(dollars in thousands)						
<b>As of September 30, 2010:</b>						
Total risk based capital (to risk weighted assets)	\$ 14,904	10.85%	\$ 10,992	8.00%	\$ 13,740	10.00%
Tier I capital (to risk weighted assets)	13,187	9.60%	5,496	4.00%	8,244	6.00%
Tier I capital (to average assets)	13,187	7.67%	6,877	4.00%	8,596	5.00%
<b>As of December 31, 2009:</b>						
Total risk based capital (to risk weighted assets)	\$ 14,285	10.46%	\$ 10,993	8.00%	\$ 13,653	10.00%
Tier I capital (to risk weighted assets)	12,865	9.42%	5,461	4.00%	8,192	6.00%
Tier I capital (to average assets)	12,865	7.44%	6,919	4.00%	8,649	5.00%

#### NOTE 5. – SHARE BASED PAYMENT

On February 24, 2004, the Bank adopted the 2004 Incentive Stock Option Plan and the 2004 Non Qualified Stock Option Plan, which are stock-based incentive compensation plans (the "Plans"), authorizing an aggregate of 127,596 stock-based awards.

FASB ASC Topic 718, "Compensation – Stock Compensation," requires the Bank to recognize the fair value of stock option awards over a vesting period. Compensation costs totaling \$6,850 for each three month period ended September 30, 2010 and 2009. For the nine months ended September 30, 2010 and 2009 total compensation costs were \$20,550 for each period. As of September 30, 2010, aggregate unrecognized compensation costs of approximately \$41 thousand related to the non-vested share based compensation arrangements existed under Bank's stock option plans. The cost is expected to be recognized over a weighted average period of 1.4 years, the estimated remaining vesting period.

Transactions under the Bank's stock option plans during the nine months ended September 30, 2010 are summarized as follows:

<b>Options</b>	<b>Shares</b>	<b>Weighted Average Exercise Price</b>	<b>Average Remaining Contractual Term</b>	<b>Aggregate Intrinsic Value</b>
Outstanding at January 1, 2010	107,260	\$ 5.79	6.6 years	\$ -
Granted	-	-	-	-
Exercises	-	-	-	-
Expired/Terminated	(18,747)	\$ 5.79	5.9 years	-
Outstanding at September 30, 2010	88,513	\$ 5.79	5.9 years	\$ -
Exercisable at September 30, 2010	64,378	\$ 5.86	5.7 years	\$ -

A summary of the status of the Bank's non-vested options as of September 30, 2010 is as follows:

	<b>Shares</b>	<b>Weighted Average Grant-Date Fair Value</b>
Nonvested at January 1, 2010	43,495	\$1.68
Granted	-	
Vested	(14,499)	1.68
Expired/Terminated	(4,861)	1.68
Nonvested at September 30, 2010	24,135	\$1.68

## NOTE 6. – AVAILABLE FOR SALE SECURITIES PORTFOLIO

The following table provides the major components of securities available for sale at amortized cost and estimated fair value at September 30, 2010 and December 31, 2009. All securities held in the available for sale portfolio are U.S government agencies or government-sponsored enterprises.

	September 30, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
<u>Available For Sale</u>				
U.S. Government agency obligations	\$ 3,499,006	\$ 6,581	\$ -	\$ 3,505,587
Mortgage-backed securities issued by:				
Ginnie Mae	1,876,824	49,833	-	1,926,657
Fannie Mae	1,856,762	69,778	-	1,926,540
Freddie Mac	1,883,796	83,159	-	1,966,955
Total securities available for sale	<u>\$ 9,116,388</u>	<u>\$ 209,351</u>	<u>\$ -</u>	<u>\$ 9,325,739</u>

	December 31, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
<u>Available For Sale</u>				
U.S. Government agency obligations	\$ 4,500,000	\$ 4,604	\$ (15,973)	\$ 4,488,631
Mortgage-backed securities issued by:				
Ginnie Mae	2,012,069	4,064	(6,253)	2,009,880
Fannie Mae	5,671,172	230,340	-	5,901,512
Freddie Mac	3,275,428	154,790	-	3,430,218
Total securities available for sale	<u>\$ 15,458,669</u>	<u>\$ 393,798</u>	<u>\$ (22,226)</u>	<u>\$15,830,241</u>

## NOTE 6. – AVAILABLE FOR SALE SECURITIES PORTFOLIO – (continued)

The table below provides the remaining contractual maturities of U.S. callable agencies and mortgage-backed securities which may have principal repayment provisions, are distributed based on contractual maturities. Expected maturities may differ materially from contractual maturities as a result of early prepayments and calls.

(Dollars in thousands)	At September 30, 2010									
	After 1									
	Within 1 Year		Within 5 Years		Over 5 Years		Total			
	Market Value	Yield	Market Value	Yield	Market Value	Yield	Market Value	Yield	Market Value	Yield
Investment securities available for sale:										
U.S. Government agency obligations	\$ -	-	\$ 3,506	1.21%	\$ -	-	\$ 3,506	1.21%		
Mortgage-backed securities issued by										
Ginnie Mae	-	-	-	-	1,927	4.24%	1,927	4.24%		
Fannie Mae	-	-	1,926	4.28%	-	-	1,926	4.28%		
Freddie Mac	-	-	-	-	1,967	4.82%	1,967	4.82%		
Total available for sale	\$ -	-	\$ 5,432	2.28%	\$ 3,894	4.54%	\$ 9,326	3.20%		

For the three and nine month periods ended September 30, 2010, gross realized gains on sales of available for sale securities were \$112,911 and \$184,939, respectively. There were no gross realized losses incurred during these periods. There were no gross realized gains or losses for the three and nine month periods ended September 30, 2009.

The Bank has a process in place to identify debt securities that could potentially have a credit impairment that is other-than-temporary. This process involves monitoring late payments, pricing levels, downgrades by rating agencies, key financial ratios, financial statements, revenue forecasts and cash flow projections as indicators of credit issues. On a quarterly basis, we review all securities to determine whether other-than-temporary decline in value exists and whether losses should be recognized. We consider relevant facts and circumstances in evaluating whether a credit or interest rate-related impairment of a security is other-than-temporary. Relevant facts and circumstances considered include: (1) the extent and length of time the fair value has been below cost; (2) the reasons for the decline in value; (3) the financial position and access to capital of the issuer, including the current and future impact of any specific events and (4) for fixed maturity securities, our intent to sell a security or whether it is more likely than not we will be required to sell the security before the recovery of its amortized cost which, in some cases, may extend to maturity and for equity securities, our ability and intent to hold the security for a period of time that allows for the recovery in value.

**NOTE 6. – AVAILABLE FOR SALE SECURITIES PORTFOLIO – (continued)**

There were no securities in a continuous unrealized loss position as of September 30, 2010. Provided below is a summary of the Bank’s investment securities that were in a continuous unrealized loss position as of December 31, 2009.

	December 31, 2009			
	Continuous Unrealized Losses Existing for Less than 12 Months		Continuous Unrealized Losses Existing for 12 Months of More	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<u>Available for Sale:</u>				
U.S. Government agencies	\$ 2,984,027	\$ 15,973	\$ -	\$ -
Mortgage-backed securities issued by Ginnie Mae	1,000,742	6,253	-	-
Total securities available for sale	<u>\$ 3,984,769</u>	<u>\$ 22,226</u>	<u>\$ -</u>	<u>\$ -</u>

**U.S. Government and Agency Obligations.** The unrealized losses on the Bank’s investment in U.S. Government agencies were caused by interest rate increases. The principal of those investments are guaranteed by an agency of the U.S. government. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost bases of the Bank’s investments. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Bank does not intend to sell the investments and it is not more likely than not that the Bank will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Bank did not consider the three agencies callable (FNMA) at December 31, 2009 to be other-than-temporarily impaired.

**Residential Mortgage-Backed Securities** The unrealized losses on the Bank’s investment in federal agency mortgage-backed securities were caused by interest rate increases. The contractual cash flows of these investments are guaranteed by an agency of the U.S. government. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost bases of the Bank’s investments. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Bank does not intend to sell the investments and it is not more likely than not that the Bank will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Bank did not consider the one agency residential mortgage-backed security (GNMA) at December 31, 2009 to be other-than-temporarily impaired. The Bank uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with the Fair Value Measurements and Disclosures topic of FASB ASC 820, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

## **NOTE 7 – Fair Value of Financial Instruments**

Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Bank's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

The recent fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions. In accordance with this guidance, the Bank groups its assets and liabilities carried at fair value in three levels as follows:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's assumptions about the assumptions that market participants would use in pricing an asset or liability.

A financial instrument's categorization within the valuation hierarchy is based on the lowest level of input that is significant to the fair value measurement.

### **Fair Value on a Recurring Basis**

Securities Available for Sale ("AFS"): Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would include highly liquid government bonds and exchange traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flow. Level 2 securities would include U.S. agency securities and mortgage backed agency securities, obligations of states and political subdivisions and certain corporate, asset backed and other securities. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy.

As of September 30, 2010, the fair value of the Bank's AFS securities portfolio was \$9,325,739. Approximately 62 percent of the portfolio was made up of residential mortgage-backed securities, which had a fair value of \$5,820,152 at September 30, 2010. All the residential mortgage-backed securities were issued or are guaranteed by the Government National Mortgage Association ("GNMA"), the Federal National Mortgage Association ("FNMA") or the Federal Home Loan Mortgage Corporation ("FHLMC"). The underlying loans for these securities are residential mortgages that are geographically dispersed throughout the United States. All AFS securities were classified as Level 2 assets at September 30, 2010. The valuation of AFS securities using Level 2 inputs was primarily determined using the market approach, which uses quoted prices for similar securities and all relevant information.

## Fair Value on a Recurring Basis – (continued)

The following tables summarize the available for sale securities measured at fair value as of September 30, 2010 and December 31, 2009, respectively, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value on a recurring basis.

	September 30, 2010			
Available for Sale	Total	Level 1	Level 2	Level 3
U.S. Government agencies	\$ 3,505,587	\$ -	\$ 3,505,587	\$ -
Mortgage-backed securities issued by				
Ginnie Mae	1,926,657	-	1,926,657	-
Fannie Mae	1,926,540	-	1,926,540	-
Freddie Mac	1,966,955	-	1,966,955	-
Total securities available for sale	\$ 9,325,739	\$ -	\$ 9,325,739	\$ -

	December 31, 2009			
Available for Sale	Total	Level 1	Level 2	Level 3
U.S. Government agencies	\$ 4,488,631	\$ -	\$ 4,488,631	\$ -
Mortgage-backed securities issued by				
Ginnie Mae	2,009,880	-	2,009,880	-
Fannie Mae	5,901,512	-	5,901,512	-
Freddie Mac	3,430,218	-	3,430,218	-
Total securities available for sale	\$ 15,830,241	\$ -	\$ 15,830,241	\$ -

## Fair Value on a Non-Recurring Basis

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

### Impaired Loans

The carrying value of impaired loans is derived in accordance with FASB ASC Topic 310, "Receivables". Fair value is determined based on the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. Appraised and reported values may be discounted based on management's historical knowledge, changes in market conditions from the time of valuation, and/or management's expertise and knowledge of the client and client's business. The valuation allowance for impaired loans is included in the allowance for loan losses in the balance sheets. The valuation allowance for impaired loans at September 30, 2010 and December 31, 2009 was \$529,000 and \$234,000 respectively.

## Impaired Loans – (continued)

The following tables presents the financial assets carried on the balance sheet by caption and by level within the fair value hierarchy (as described above) as of September 30, 2010 and December 31, 2009 for which a nonrecurring change in fair value has been recorded during the nine and twelve months periods ended in each respective year.

September 30, 2010				
	Level 1	Level 2	Level 3	Total
Impaired Loans	-	-	\$ 1,727,000	\$ 1,727,000

December 31, 2009				
	Level 1	Level 2	Level 3	Total
Impaired Loans	-	-	\$ 1,624,000	\$ 1,624,000

There were no changes in the inputs or methodologies used to determine fair value during the nine months ended September 30, 2010 as compared to the year ended December 31, 2009.

## Fair Value of Financial Instruments

FASB ASC Topic 825, "Financial Instruments," requires the disclosure of the estimated fair value of certain financial instruments, including those financial instruments for which the Company did not elect the fair value option. These estimated fair values as of September 30, 2010 and December 31, 2009 have been determined using available market information and appropriate valuation methodologies. Considerable judgment is required to interpret market data to develop estimates of fair value. The estimates presented are not necessarily indicative of amounts the Company could realize in a current market exchange. The use of alternative market assumptions and estimation methodologies could have had a material effect on these estimates of fair value. The following methods and assumptions were used to estimate the fair value of other financial instruments for which it is practicable to estimate that value:

Cash and Cash Equivalents: The carrying amount of cash and short-term investments approximates fair value.

Investment Securities Available for Sale: The fair value of investment securities is detailed above.

Certificates of Deposit with Banks: The carrying amount of interest bearing deposits with other banks approximates fair value.

Loans Held for Sale: The carrying amount of loans held for sale approximate fair value.

Loans other than Impaired Loans: Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type such as commercial, residential mortgage and other consumer. Each loan category is further segmented into groups by fixed and adjustable rate interest terms and by performing and non-performing categories.

The fair value of performing loans is typically calculated by discounting scheduled cash flows through their estimated maturity, using estimated market discount rates that reflect the credit and interest rate risk inherent in each group of loans. The fair value of non-performing loans is detailed above. The estimate of maturity is based on contractual maturities for loans within each group, or on the Bank's historical experience with repayments for each loan classification, modified as required by an estimate of the effect of current economic conditions. For all loans, assumptions regarding the characteristics and segregation of loans, maturities, credit risk and cash flows, and discount rates are judgmentally determined using specific borrower and other available information.

Federal Home Loan Bank Stock: The carrying value of restricted stock approximates fair value based on redemption provisions.

Accrued Interest Receivable and Payable: The fair value of interest receivable and payable is estimated to approximate the carrying amounts.

Deposits: The fair value of deposits with no stated maturity, such as demand deposits, checking accounts, savings and money market accounts, is equal to the carrying amount. The fair value of certificates of deposit is based on the discounted value of contractual cash flows, where the discount rate is estimated using market rates currently offered for deposits of similar remaining maturities.

Borrowings: The fair values of borrowings are estimated using discounted cash flow analysis based on the Bank's current market rates for similar types of borrowing arrangements.

Off-Balance Sheet Instruments: Since the majority of the Bank's off-balance sheet instruments are not fee-producing, variable rate commitments, the Bank has determined that they do not have a distinguishable fair value.

The following table summarizes carrying amounts and fair values for financial instruments at September 30, 2010 and December 31, 2009.

	September 30, 2010		December 31, 2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial Assets:</b>				
Cash and cash equivalents	\$ 25,285,057	\$ 25,285,057	\$ 14,511,964	\$ 14,511,964
Certificates of deposit with other banks	1,328,000	1,328,000	980,000	980,000
Investment securities	9,325,739	9,325,739	15,830,241	15,830,241
Loans held for sale	164,000	164,000	-	-
Loans, net	135,763,713	134,220,000	131,565,224	131,671,000
Federal Home Loan Bank, stock	549,700	549,700	534,100	534,100
Accrued interest receivable	514,888	514,888	512,731	512,731
<b>Financial Liabilities</b>				
Demand deposits interest, and non-interest-bearing, and savings deposits	72,683,581	72,683,581	54,934,871	54,934,871
Time deposits	84,595,399	85,805,000	93,667,252	94,861,000
Borrowings	7,500,000	8,614,000	7,500,000	8,731,000
Accrued interest payable	166,121	166,121	205,831	205,831

## NOTE 8 – Impaired Loans and the Allowance For Loan Losses

Summaries of information pertaining to impaired and non-accrual loans are as follows:

	September 30, 2010	December 31, 2009
Impaired loans without a valuation allowance	\$ 8,637,386	\$ 6,045,114
Impaired loans with a valuation allowance	2,256,064	1,858,233
Total Impaired loans	<u>10,893,450</u>	<u>7,903,347</u>
Valuation allowance related to impaired loans	529,029	234,102
Average investment in impaired loans	8,104,288	6,414,000
Total non-accrual loans (included in impaired loans)	9,291,426	6,097,711

Impaired loans without a valuation allowance increased \$2.6 million since December 31, 2009 as a result of the Bank designating new loans as impaired where the current appraisal supports the full amount of the loan .

## Allowance for Loan Losses

Changes in the allowance for loan losses are as follows:

	For the three months ended September 30,		For the nine months ended September 30,	
	2010	2009	2010	2009
Balance, beginning of period	\$ 1,637,838	\$ 1,335,445	\$ 1,420,000	\$ 1,326,676
Provision for loan losses	145,000	257,813	365,000	459,813
Charge-offs	-	(323,258)	(2,162)	(516,489)
Recoveries	-	-	-	-
Balance, at end of period	<u>\$ 1,782,838</u>	<u>\$ 1,270,000</u>	<u>\$ 1,782,838</u>	<u>\$ 1,270,000</u>
Average loans outstanding (1)	<u>\$139,568,497</u>	<u>\$136,962,721</u>	<u>\$ 135,503,316</u>	<u>\$ 132,364,432</u>

(1) Includes non-accruing loans

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

### **Forward-Looking Statements**

This report contains certain "forward-looking statements" which are made by the Bank in good faith pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements, include statements of the Bank's plans, objectives, expectations, estimates and intentions, involve risks and uncertainties and are subject to change based on various important factors (some of which are beyond the Bank's control). The following factors, among others could cause the Bank's financial performance to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements: unexpected loan losses, the strength of the United States economy in general and the strength of the local economies in which the Bank conducts operations; the effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System, inflation, interest rate, market and monetary fluctuations; the timely development of and acceptance of new products and services of the Bank and the perceived overall value of these products and services by users, including the features, pricing and quality compared to competitors' products and services; the impact of changes in financial services' laws and regulations (including laws concerning taxes, banking, securities and insurance); technological changes; acquisitions; changes in consumer spending and saving habits; and the success of the Bank at managing the risks involved in the foregoing.

The Bank cautions that the foregoing list of important factors is not exclusive. The Bank also cautions readers not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date on which they are given. The Bank is not obligated to publicly revise or update these forward-looking statements to reflect events or circumstances that arise after any such date. Readers should carefully review the other documents the Bank files from time to time with the FDIC, including other quarterly reports on Form 10-Q, annual reports on Form 10-K and any current reports on Form 8-K.

### **General**

The Bank's results of operations are dependent primarily on net interest income, which is the difference between the interest income earned on its interest-earning assets, such as loans and securities, and the interest expense paid on its interest-bearing liabilities, such as deposits and borrowings. The Bank also generates noninterest income such as service charges and other fees. The Bank's noninterest expenses primarily consist of compensation and benefits, occupancy expenses, equipment and data processing expenses, marketing and business development costs, professional services and other operating expenses. The Bank is also subject to losses from its loan portfolio if borrowers fail to meet their obligations. The Bank's results of operations are also significantly affected by general economic and competitive conditions, particularly changes in market interest rates, government policies and actions of regulatory agencies.

## **Critical Accounting Policy**

### **Allowance for Losses on Loans**

The allowance for losses on loans is based on management's ongoing evaluation of the loan portfolio and reflects an amount considered by management to be its best estimate of known and inherent losses in the portfolio. Management considers a variety of factors when establishing the allowance, such as the impact of current economic conditions, diversification of the loan portfolio, delinquency statistics, results of loan review and related classifications, and historic loss rates. In addition, certain individual loans which management has identified as problematic are specifically provided for, based upon an evaluation of the borrower's perceived ability to pay, the estimated adequacy of the underlying collateral and other relevant factors. Consideration is also given to examinations performed by regulatory agencies. Although provisions have been established and segmented by type of loan, based upon management's assessment of their differing inherent loss characteristics, the entire allowance for losses on loans is available to absorb further loan losses in any category.

Management uses significant estimates to determine the allowance for loan losses. Since the allowance for loan losses is dependent, to a great extent, on conditions that may be beyond the Bank's control, it is at least reasonably possible that management's estimate of this allowance for loan losses and actual results could differ in the near term.

In addition, regulatory authorities, as an integral part of their examinations, periodically review the allowance for loan losses. They may require additions to the allowance based upon their judgments about information available to them at the time of examination.

## Comparison of Results of Operations for the Three Months Ended September 30, 2010 and 2009

### (UNAUDITED)

The following discussion and analysis is intended to provide information about the results of operations for the three month period ended September 30, 2010 (unaudited) compared to the results of operations for the three month period ended September 30, 2009 (unaudited). This discussion should be read in conjunction with the accompanying financial statements (unaudited) and related notes as well as statistical information included in this Form 10-Q.

#### Results of Operations

**Net Income (Loss).** The Bank recorded net income of \$101 thousand, or \$0.04 per basic and diluted common share for the three months ended September 30, 2010, an increase in income of \$379 thousand as compared to a loss of \$278 thousand or \$(0.10) per basic and diluted common share for the three months ended September 30, 2009. Earnings were driven primarily by a \$185 thousand increase in net interest income to \$1.4 million for the period ending September 30, 2010, supplemented by a reduction in the provision for loan losses of \$113 thousand and the recording of a gain on the sale of investment securities available for sale of \$113 thousand, offset by higher noninterest expenses, specifically compensation and benefits as the Bank hired a Chief Deposit Officer in October 2009 and support staff starting in the first quarter 2010 to strengthen its business development efforts.

**Net Interest Income.** Net interest income, which is expected to be the primary source of earnings for the Bank, is the difference between interest income earned on interest-earning assets, such as loans, investment securities and federal funds sold, and interest expense incurred on the interest-bearing sources of funds, such as, interest-bearing demand, savings and time deposits and borrowings. The level of net interest income is determined primarily by the average balances (“volume”) and the rate spreads between the interest-earning assets and interest-bearing liabilities. Net interest income, before the provision for loan losses, increased \$185 thousand to \$1.4 million for the three months ended September 30, 2010, compared to net interest income of \$1.2 million for the comparable prior year period. Although interest income decreased \$95 thousand to \$2.1 million for the three months ended September 30, 2010, this was more than offset by a \$281 thousand decrease in interest expense during the period.

**Interest income** on loans decreased \$26 thousand over these periods. The decrease in interest income on loans is primarily due to the increase in non-accrual loans since the third quarter of 2009, as these loans would have added \$87 thousand to the Bank’s interest income for the three months ended September 30, 2010. The Bank had one loan past due greater than 90 days and still accruing interest at September 30, 2010 in the aggregate principal amount of \$2 thousand compared to none for the same period in 2009. The Bank is continuing to accrue interest on this loan because management has determined that it is in the process of collection. In addition, interest income generated from the security portfolio decreased \$61 thousand. This can be attributed to a decline in the average yield earned from the security portfolio from 4.30 percent to 3.53 percent. In addition, to these unfavorable variances, interest income from deposits with other banks decreased \$10 thousand for the three month period ending September 30, 2010 compared to the same period ending 2009 as the Bank reduced holdings in these instruments as rates offered by other banks have declined significantly.

**Interest expense** was \$646 thousand for the three months ended September 30, 2010, compared to \$927 thousand for the second quarter of 2009. The decrease was due to \$281 thousand decline in interest expense on deposits resulting from a decrease in the average cost of deposits from 2.25 percent to 1.51 percent. The reduced average interest rates paid on each of the Bank’s deposit classifications

## Results of Operations – (continued)

during the third quarter 2010 compared to the same period of 2009 reflects a general trend of declining market rates for deposits and management's continued efforts to improve the net interest margin in a challenging interest rate environment.

The largest contributors to lower interest expense for the third quarter of 2010 compared to the same period in 2009 were time deposit accounts. Interest expense on time deposit accounts decreased \$273 thousand over the same period last year as average rates paid declined to 2.06 percent from 2.93 percent. In addition, interest paid on interest bearing checking and savings accounts decreased \$16 thousand and \$2 thousand, respectively, when compared to the third quarter 2009. The average rate paid on interest bearing checking decreased from 1.39 percent in the third quarter 2009 to 0.98 percent in the third quarter 2010 while the average rate paid on savings accounts fell 0.03 percent to 0.63 percent. These favorable variances were partially offset by increased interest expense on money market accounts of \$10 thousand as balances in this deposit classification increased by \$8.0 million on average while the average rates paid declined from 1.43 percent at June 31, 2010 to 1.07 percent for the comparable period in 2010. Long term borrowing levels and rates for the three months ended September 30, 2010 and September 30, 2009 were unchanged.

**Noninterest Income.** Noninterest income increased \$113 thousand from \$63 thousand for the third quarter of 2009 to \$176 thousand for the same period in 2010. This increase can be primarily attributed to a gain on the sale of securities from the available for sale portfolio of \$113 thousand. Service charges on deposit accounts increased \$8 thousand from \$38 thousand in the third quarter of 2009 to \$46 thousand for the third quarter 2010 reflecting the higher deposit fee structure introduced by the Bank effective September 1, 2009. This favorable variance was offset by lower other income that decreased from \$25 thousand in the third quarter 2009 by \$8 thousand to \$17 thousand for the comparable period in 2010.

**Provision for Loan Losses.** The provision for loan losses decreased \$113 thousand to \$145 thousand for the three months ended September 30, 2010, compared to \$258 thousand for the same period in 2009. When determining the provision for loan losses, management assesses the risk inherent in the Bank's loan portfolio based upon information available at such time relating to the composition and volume of the loan portfolio, overall portfolio quality and past loss experience, review of specific problem loans, current economic conditions which may affect borrowers' ability to repay, and other factors which may warrant current recognition. Consistent with the Bank's policy, the provision of \$145 thousand for the third quarter of 2010 represents the provision determined appropriate relative to loan growth and quality necessary to maintain an adequate allowance for loan losses. The allowance for loan losses increased \$363 thousand to \$1.8 million at September 30, 2010 from \$1.4 million at December 31, 2009.

**Noninterest Expenses.** Total noninterest expense increased \$31 thousand remaining at \$1.3 million for the three months ended September 30, 2010, compared to the same period in 2009. The increase is primarily attributable to higher compensation and benefits, offset by lower occupancy, marketing and loan related expenses. Compensation and benefits increased \$51 thousand to \$678 thousand for the period ending September 30, 2010 compared to \$627 thousand for the same period in 2009. Increased compensation and benefits can be attributed to the hiring of a chief deposit officer, a business development support staff member and higher costs for related taxes and medical insurance coverage, net of the impact of the departure of one loan officer in August 2010.

## Results of Operations – (continued)

The increase in noninterest expense attributed to compensation and benefits was partially offset by decreased occupancy expenses of \$5 thousand from \$202 thousand at September 30, 2009 to \$197 thousand at September 30, 2010. The Bank negotiated a \$3 thousand reduction in its monthly lease payments with the landlord of our Cherry Hill Office which were offset by higher other occupancy costs. Marketing expenditures decreased \$8 thousand to \$36 thousand at September 30, 2010 from \$44 thousand for the comparable period in 2009. In an effort to control costs, the chief deposit officer and his support staff have initiated community sponsored events to spur name recognition in communities serviced by the Bank and trimming back on more expensive marketing initiatives. Other operating expenses decreased \$7 thousand to \$198 thousand at September 30, 2010 compared to \$206 thousand for the same period in 2009. The decrease is primarily due to lower loan related expenditures of \$13 thousand, as loan volumes have declined offset in part by increased FDIC insurance premiums of \$9 thousand.

**Income Taxes.** The Bank recorded \$320 of New Jersey Corporate Business Tax and no federal income tax in the third quarter 2010. The Bank recorded no income tax expense in the third quarter of 2009. The Bank anticipates that any tax liabilities in 2010 will be offset by its net operating loss carry forwards from prior periods.

## Comparison of Results of Operations for the Nine Months Ended September 30, 2010 and 2009 (UNAUDITED)

The following discussion and analysis is intended to provide information about the results of operations for the nine month period ended September 30, 2010 (unaudited) compared to the results of operations for the nine month period ended September 30, 2009 (unaudited). This discussion should be read in conjunction with the accompanying financial statements (unaudited) and related notes as well as statistical information included in this Form 10-Q.

### Results of Operations

**Net Income.** The Bank recorded net income of \$202 thousand, or \$0.07 per basic and diluted common share for the nine months ended September 30, 2010, an increase of \$679 thousand as compared to a loss of \$477 thousand or \$(0.18) per basic and diluted common share for the nine months ended September 30, 2009. Increased net income year to date is attributed to increased net interest income and a lower provision for loan loss, supplemented by a gain on the sale of investment securities available for sale, offset by higher operating expenses, specifically compensation and benefits, equipment, marketing and professional fees.

**Net interest income**, before the provision for loan losses, increased \$619 thousand to \$4.2 million for the nine months ended September 30, 2010, compared to net interest income of \$3.6 million for the comparable prior year period. Although interest income decreased \$222 thousand to \$6.2 million for the nine months ended September 30, 2010, compared to \$6.4 million for the comparable prior year period, this was more than offset by the \$841 thousand decrease in interest expense for the year.

**Interest income** on loans decreased \$73 thousand over these periods. The decrease in interest income on loans is primarily due to the increase in loans placed on non-accrual, as these loans would have added \$237 thousand in interest income for the nine months ending September 30, 2010. The Bank had one loan past due greater than 90 days and still accruing in the aggregate principal amount of \$2 thousand for the nine months ended September 30, 2010 compared to none for the same period 2009. The Bank is continuing to accrue interest on this loan because management has determined that it is in the process of collection. In addition, interest income generated from the Bank's securities available for sale portfolio declined by \$159 thousand from \$512 thousand for the nine months ended September 30, 2009 to \$353 thousand at the comparable period in 2010. The average yield earned from the securities portfolio declined from 4.39 percent to 3.56 percent while the average balance of securities year to date was \$13.2 million, a decrease of \$2.3 million from the same period 2009. These unfavorable variances were offset in part by favorable variances as interest income earned on deposits with banks and federal funds sold increased by \$14 thousand. The increase in the interest income earned on federal funds sold and other interest earning assets was primarily due to an increase of average balances of \$4.5 million coupled with an decrease in the weighted average yield of 0.11 percent.

**Interest expense** decreased \$841 thousand to \$2.0 million for the nine months ended September 30, 2010, compared to \$2.9 million for the comparable period in 2009, primarily due to a \$839 thousand decrease in interest expense on deposits resulting from a decrease in the average cost of deposits from 2.63 percent to 1.74 percent. The decreased interest expense was offset, in part, by higher average deposit balances that grew an average of \$4.1 million to \$138.3 million from the prior comparable period. The reduced average interest rates paid on each of the Bank's deposit classifications year to date in 2010 compared to the same period of 2009 reflects a general trend of declining market rates for deposits and management's efforts to improve the net interest margin in a challenging interest rate environment.

## Results of Operations – (continued)

Interest expense on time deposit accounts decreased \$801 thousand over the same period last year as average rates paid declined to 2.20 percent from 3.29 percent and average balances declined \$3.7 million. In addition, interest paid on interest bearing checking and savings accounts decreased \$43 thousand and \$23 thousand, respectively, when compared to year to date 2009. The average rate paid on interest bearing checking decreased from 1.42 percent year to date 2009 to 1.01 percent for the comparable period in 2010 on increased average balances of \$1.9 million.

The average rate paid on savings accounts fell from 0.79 percent to 0.62 percent on lower average balances of \$1.2 million. These favorable variances were offset in part by increased interest expense of \$28 thousand on money market accounts as average balances grew by \$7.2 million while the average rate declined by 39 basis points to 1.12 percent. Interest expense on long term borrowings was essentially at the same level as for the comparable period in 2009.

**Noninterest Income.** Noninterest income increased \$191 thousand to \$390 thousand year to date 2010 from \$199 thousand for the same period in 2009. This increase can be primarily attributed to a gain on the sale of securities from the available for sale portfolio of \$185 thousand. In addition, service charges on deposit accounts increased \$24 thousand from \$104 thousand year to date 2009 to \$128 for the comparable period in 2010. Increased service charges are primarily the result of the higher deposit fee structure introduced by the Bank effective September 1, 2009. These favorable variances are offset in part by a decline in other income of \$18 thousand from \$94 thousand for the nine months ended September 30, 2009 to \$76 thousand for the comparable period in 2010, as a result of lower loan volume.

**Provision for Loan Losses.** The provision for loan losses decreased \$95 thousand to \$365 thousand for the nine months ended September 30, 2010, compared to \$460 thousand for the same period in 2009. Through September 30, 2010, the Bank has charged the allowance for loan losses \$2 thousand related to interest income originally recorded in 2009 related to three loans placed on a non-accrual status during the first quarter 2010. The allowance for loan losses of \$1.8 million at September 30, 2010 approximates 1.30% of total gross loans at September 30, 2010. Although management believes that it uses the best information available to determine the allowance, unforeseen market conditions could result in adjustments and net earnings being significantly affected if circumstances differ substantially from the assumptions used in making the final determinations. Future additions to the Bank's allowance may result from periodic loan, property and collateral reviews and, thus, cannot be predicted in advance.

**Noninterest Expenses.** Total noninterest expense increased \$225 thousand to \$4.0 million for the nine months ended September 30, 2010, compared to \$3.8 million for the same period in 2009. The increase is primarily attributable to increased compensation expense, up \$198 thousand for the first nine months of 2010 compared to first nine months of 2009. In addition, professional fees, equipment and data processing and marketing expenditures increased \$49 thousand, \$24 thousand and \$6 thousand, respectively, from the comparable prior year period. These increased costs were offset in part by lower other operating expenses and reduced occupancy expenses of \$31 thousand and \$21 thousand, respectively. Compensation and benefits increased to \$2.0 million for the nine months ended September 30, 2010 compared to \$1.8 million for the same period in 2009. Increased compensation and benefits can be attributed to the hiring of a chief deposit officer in October 2009, business development support staff members in the first quarter 2010 and higher costs for related taxes and medical insurance coverage, net of the impact of the departure of one loan officer in August 2010. Professional fees increased by \$49 thousand from \$310 thousand for the nine months ended September 30, 2009 to \$359 thousand for the comparable period in 2010. Accruals for higher legal expenditures of \$42 thousand associated with the preparation of the offering circular for the Bank's stock offering which commenced in October 2010, the anticipated possible transition to a bank holding company structure, and due diligence expenses incurred in analyzing potential business opportunities account for a majority of this increase.

## Results of Operations – (continued)

Equipment and data processing expense totaled \$331 thousand for the nine months ended September 30, 2010 compared to \$307 thousand for the comparable period in 2009, an increase of \$24 thousand.

Higher maintenance and license fees related to the enhancement of our remote capture product, increased fees paid to our core service provider based on the Bank's growth, and higher depreciation costs incurred for computer hardware and software for our Mount Laurel office that was open for two more months in the first half of 2010 compared to the first half of 2009, all contributed to this increased expense. Marketing expenditures increased \$6 thousand to \$99 thousand for the nine months ended September 30, 2010 from \$93 thousand for the comparable period in 2009. This increase in costs can be attributed to business development initiatives introduced by the chief deposit officer to grow core deposits and spur name recognition in communities serviced by the Bank. Occupancy expenses decreased by \$21 thousand from \$609 thousand at September 30, 2009 to \$588 thousand for the nine month ended September 30, 2010 due to the \$3 thousand reduction in its monthly lease payments discussed above offset in part by higher real estate taxes assessed for the Bank's corporate headquarters located in Evesham Township. Other operating expenses decreased \$31 thousand to \$595 thousand for the nine months ended September 30, 2010 compared to \$626 thousand for the same period in 2009. The decrease is primarily due to the FDIC Special Assessment of \$75 thousand charged in the second quarter 2009 that did not recur, offset by higher insurance premiums of \$30 thousand for the comparable period in 2010. In addition, \$11 thousand of non-recurring expenditures for stationery and supplies resulting from the Cherry Hill fire contributed to this favorable variance. These lower levels of other operating expenses were offset, in part by higher ATM processing costs of \$15 thousand related to volume increases, and increased business development and miscellaneous expenses of \$5 thousand.

**Income Taxes.** The Bank recorded \$320 of New Jersey Corporate Business Tax for the first nine months of 2010, and no income tax the first nine months of 2009. We anticipate that any federal income tax liabilities in 2010 will be offset by its net operating loss carry forwards.

## Financial Condition

Total assets increased \$8.9 million year to date to \$178.7 million from \$169.8 million at December 31, 2009. The management team continued its efforts to improve the Bank's deposit mix this year through a multi-faceted approach. The Chief Deposit Officer and the business development group are focusing on bringing new lower cost deposit relationships to the Bank. The ALCO Management group has lowered CD rates offered to our customers to median level compared to peers in our market and are evaluating other opportunities to lower our cost of funds. The overall objective of these initiatives is to manage excess liquidity and lower dependence on certificates of deposit, while improving the net interest margin.

Total securities of \$9.3 million at September 30, 2010 were \$6.5 million below 2009 year end levels reflecting the sale of five securities totaling \$3.4 million from the investment securities available for sale portfolio, \$8.6 million in securities called and \$2.0 million in principal reductions among the Bank's holdings of mortgage backed securities. These decreases were partially offset by the purchase of U.S. government agency bonds totaling \$7.5 million. The available-for-sale investment portfolio includes a net unrealized gain of \$209 thousand at September 30, 2010. The market value of the available-for-sale portfolio increased \$23 thousand from a net unrealized gain of \$371 thousand at year end 2009 after consideration of the impact of security sales of \$185 thousand.

## Financial Condition (continued)

Total gross loans of \$137.5 million at September 30, 2010 increased approximately \$4.5 million from \$133.0 million at December 31, 2009. Growth was funded by an increase in deposits. The commercial mortgage and commercial loans grew by \$4.0 million and \$1.4 million, respectively, from year end 2009 levels offset in part by a decline in consumer loans of \$608 thousand. Loans comprised 82.4 percent of average interest-earning assets at September 30, 2010, compared to 83.8 percent at September 30, 2009.

Interest bearing deposits with other banks declined \$7.7 million from \$7.9 million at December 31, 2009 to \$245 thousand at the end of the third quarter 2010. Federal funds sold as of September 30, 2010 were \$23.0 million compared to \$5.0 million at year end 2009 an increase of \$18.0 million. Management continues to strive to improve its net interest margin based on strategic decisions, described above.

Deposits increased \$8.7 million as of September 30, 2010 from December 31, 2009. The Bank has improved its deposit mix significantly from year end levels. Time deposits decreased \$9.1 million from \$93.7 million at December 31, 2009 to \$84.6 million at September 30, 2010. At the same time, money market, interest bearing and savings accounts grew \$10.9 million, \$3.1 million and \$846 thousand respectively. Noninterest bearing balances also grew \$3.0 million from \$8.1 million at year end 2009 to \$11.1 million at the end of the third quarter 2010. Borrowings at September 30, 2010 and December 31, 2009 were \$7.5 million.

## Average Balances, Interest Income and Expense, Average Yields and Rates:

The following table illustrates the average balances of total interest-earning assets and total interest-bearing liabilities for the periods indicated, showing the average balances of assets, liabilities, shareholders' equity and the related interest income, interest expense and corresponding weighted average yields and costs.

	Nine months ended September 30,					
	(Dollars in thousands)					
	2010			2009		
	Average Balance	Interest	Average Yield /Rate	Average Balance	Interest	Average Yield /Rate
<b>Earning assets:</b>						
Loans, net of deferred fees (3)	\$ 126,058	\$ 5,778	6.13%	\$ 128,076	\$ 5,851	6.11%
Securities	13,218	353	3.56%	15,539	512	4.39%
Federal Funds Sold	9,763	19	0.26%	6,774	15	0.29%
Other interest-earning assets	3,861	44	1.52%	2,358	38	2.13%
Total interest-earning assets	152,900	6,194	5.42%	152,747	6,416	5.61%
<b>Noninterest earning assets:</b>						
Cash and due from banks	1,652			1,413		
Allowance for loan losses	(1,568)			(1,291)		
Non accrual loans	9,362			4,227		
Other assets	6,818			6,117		
Total noninterest earning assets	16,264			10,466		
Total assets	\$ 169,164			\$ 163,213		
<b>Interest-bearing liabilities:</b>						
<b>Interest-bearing deposits:</b>						
Interest-bearing demand	\$ 20,465	154	1.01%	\$ 18,600	197	1.42%
Money Market	18,356	154	1.12%	11,165	126	1.51%
Savings	12,252	57	0.62%	13,501	80	0.79%
Time	87,206	1,436	2.20%	90,938	2,237	3.29%
Total interest-bearing deposits	138,279	1,801	1.74%	134,204	2,640	2.63%
<b>Borrowings:</b>						
Short Term borrowing	4		1.25%	734	2	0.36%
FHLB Advances	7,500	224	3.94%	7,500	224	3.94%
Total borrowings	7,504	224	3.94%	8,234	226	3.62%
Total interest bearing liabilities	145,783	2,025	1.85%	142,438	2,866	2.69%
<b>Noninterest bearing liabilities:</b>						
Demand deposits	9,502			6,609		
Other liabilities	425			419		
Total noninterest-bearing liabilities	9,927			7,028		
Total liabilities	155,710			149,466		
Shareholders' equity	13,454			13,747		
Total liabilities and shareholders equity	\$ 169,164			\$ 163,213		
Net interest spread (1)			3.57%			2.92%
Net interest income and margin (2)		\$ 4,169	3.65%		\$ 3,550	3.11%
Average interest-earning assets as a percentage of interest-bearing liabilities			104.88%			107.24%

(1) Net interest spread is the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities.

(2) Net interest margin is net interest income divided by the average total interest-earning assets.

(3) The loan averages are stated net of non accrual loans, unearned income and discontinued interest (in those periods when the Bank has loans for which the accrual of interest has been discontinued).

The table below recaps loans accruing past due 90 days or more, non-accrual loans, OREO (other Real Estate Owned), and troubled debt restructurings as of the dates listed.

	September 30, 2010	December 31, 2009
Loans accruing, past due 90 days or more	\$ 2,234	\$ -
Non-accrual Loans:		
Commercial, Financial and Agricultural		
Real Estate - Construction	4,564,647	2,570,661
Real Estate - Commercial	3,847,090	3,312,868
Commercial Loans	217,592	21,604
Home Equity & Second Mortgages	662,097	192,578
Total Non-accrual loans	<u>9,291,426</u>	<u>6,097,711</u>
Total Non-performing loans	<u>9,293,660</u>	<u>6,097,711</u>
Other Real Estate Owned	-	-
Total Non-performing assets	<u>\$ 9,293,660</u>	<u>\$ 6,097,711</u>
Non-performing loans/Total loans	6.76%	4.58%
Non-performing assets/Total assets	5.20%	3.59%
Allowance for loan losses/Total non-performing loans	19.18%	23.29%

## Liquidity

Liquidity is the ability to meet the current and future financial obligations that arise out of the ordinary course of business, such as deposit withdrawals on demand or at contractual maturity, and current and planned expenditures. Liquidity is derived primarily from cash on hand, the sale of assets, deposits and other borrowings and the repayment of and income from earning-assets. The primary sources of liquidity for the nine months ended September 30, 2010 were sales and calls from the available for sale securities portfolio of \$12.0 million. In addition, noninterest bearing and interest bearing deposits increased \$3.0 million and \$5.7 million, respectively.

At September 30, 2010 and December 31, 2009, the Bank had cash and cash equivalents of \$25.3 million and \$14.5 million, respectively. The Statement of Cash Flows presents the change in cash and cash equivalents from operating, investing and financing activities.

As of September 30, 2010, the Bank's investment securities portfolio included approximately \$5.8 million of mortgage-backed securities that provide cash flow each month. The Bank's investment portfolio is classified as available for sale, is readily marketable, and is available to meet liquidity needs.

As of September 30, 2010, the Bank had approved unused overnight lines of credit with the Federal Home Loan Bank of New York and The Independent Bankers Bank of \$8.3 million and \$1.0 million, respectively. The Bank held \$1.1 million in unpledged securities to support use of these lines. The Bank's Asset Liability Management continues to closely monitor deposit rates offered by peers for comparable products within its geographic market considering its liquidity position, market share and interest rate environment.

## **Capital**

Total shareholders' equity increased approximately \$160 thousand to \$13.4 million at September 30, 2010 from \$13.2 million at December 31, 2009. The increase is primarily attributable to the purchase of 37,137 shares of common stock by a bank director that approximates \$100 thousand, plus year-to-date income earned of \$202 thousand and recognition of \$20 thousand stock option expense, less the decrease of \$162 thousand in the market values of securities available for sale as the Bank realized gains of \$185 thousand from sales of securities that were held in the available for sale portfolio.

A strong capital position is fundamental to support the continued growth of the Bank. The Bank is subject to various regulatory capital requirements. Regulatory capital is defined in terms of Tier I capital (shareholders' equity less unrealized gains or losses on available-for-sale securities), Tier II capital (which includes a portion of the allowance for loan losses) and total capital (Tier I plus Tier II). Risk-based capital ratios are expressed as a percentage of risk-weighted assets. Risk-weighted assets are determined by assigning various weights to all assets and off-balance sheet associated risk. Regulators have also adopted minimum Tier I leverage ratio standards, which measure the ratio of Tier I capital to quarterly average assets.

The Bank's regulatory capital ratios at September 30, 2010 and December 31, 2009 are provided in "Note 4 Regulatory Matters" in Notes to the Financial Statements. At September 30, 2010, management believes that the Bank is "well-capitalized" and in compliance with all applicable regulatory requirements.

The Bank is seeking to generate additional capital in 2010 to support future growth. An offering to the general public of up to 1.4 million shares of its common stock at an offering price of \$3.30 per share commenced in October 2010.

## **Changes in Laws and Regulations**

On July 21, 2010, the President signed the Dodd-Frank Wall Street Reform and Consumer Protection Act, a financial regulatory reform bill into legislation. The act includes the creation of a Consumer Financial Protection Bureau within the Federal Reserve Board and increases premiums paid to the FDIC by financial institutions with \$10 billion or more in assets. The act also requires the creation of a nine-member Financial Stability Oversight Council to monitor and make recommendations to the Federal Reserve to increase the capital, leverage, liquidity, and risk management requirements for financial institutions, as companies have grown in size and complexity. The act does amend Section 404 of the Sarbanes Oxley Act of 2002 (SOX) to exempt smaller reporting companies, such as the Bank, from compliance with the internal control over financial reporting auditor attestation requirements of SOX. This act may subject the Bank to increased regulation, which may impose additional cost and operational burdens on the Bank. However, we cannot say with any certainty whether or how the regulations which may be promulgated under the authority of this legislation will affect our business.

## **Off-Balance Sheet Arrangements**

The Bank's financial statements do not reflect off-balance sheet arrangements that are made in the normal course of business. These off-balance sheet arrangements consist of unfunded loans and letters of credit made under the same standards as on-balance sheet instruments. These unused commitments at September 30, 2010 totaled \$11.6 million. The commitments at September 30, 2010 consisted of \$2.4 million in construction lines of credit; \$4.9 million in residential lines of credit; \$4.1 million in commercial lines of credit; \$187 thousand in commercial real estate loans; and the remainder in other

## Off-Balance Sheet Arrangements – (continued)

unused commitments. These instruments have fixed maturity dates, and because many of them will expire without being drawn upon, they do not generally present any significant liquidity risk to the Bank.

The Bank is confident that if it experiences an unforeseen and unusual demand to draw on previously unused loan commitments or lines of credit, it can fund the demands through increased deposits generated through certificates of deposit. The Bank has not had demands of this nature to date. Management believes that any amounts drawn on these commitments can be funded in the normal course of operations.

The following table reflects our commitments to extend credit by type of loan and maturity date.

Commitments to extend credit:	At September 30, 2010				
	Total Amounts Committed	Less Than 1 Year	1-3 Years	4-5 Years	After 5 Years
	(Dollars in thousands)				
Commercial Real Estate	\$ 187	\$ 187	\$ -	\$ -	\$ -
Commercial	4,078	4,078	-	-	-
Construction	2,384	2,384	-	-	-
Residential first and second mortgages	4,882	10	-	-	4,872
Other commitments	92	-	-	-	92
Total Commitments	\$ 11,623	\$ 6,659	\$ -	\$ -	\$ 4,964

## ITEM 4T. CONTROLS AND PROCEDURES

### (a) Evaluation of Disclosure Controls and Procedures.

The management of the Bank, including the Chief Executive Officer and Vice President/Finance, have conducted an evaluation of the effectiveness of the Bank's disclosure controls and procedures pursuant to Rule 13a-15(e) under the Securities Exchange Act of 1934 as of the end of the period covered by this report (the "Evaluation Date"). Based on that evaluation, the Chief Executive Officer and Vice President/Finance concluded that, as of the Evaluation Date, the Bank's disclosure controls and procedures were effective in ensuring that all material information relating to the Bank required to be set forth in this report has been made known to them in a timely manner.

### (b) Changes in Internal Control Over Financial Reporting.

There have not been any changes in the Bank's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the last fiscal quarter of the year to which this report relates that have materially affected, or are reasonably likely to materially affect, the Bank's internal control over financial reporting.

## **Part II. OTHER INFORMATION –**

### **Item 5. OTHER INFORMATION**

On October 29, 2010, the New Jersey Department of Banking and Insurance issued an Order affirming its Cease and Desist Order issued February 24, 2010 and providing among other things that Michael W. Kwasnik, Carol J. Kwasnik, Steven C. Kwasnik, William Kwasnik, Liberty State Financial Holding Corp., Erik J. Deitsch, Russell T. DiBella, Hemant J. Desai, Russell H. Bates, Raymond J. Norton, Hansford H. Rowe, Robert Motter Irrevocable Family Trust, Anthony R. Thompson, John L. Harris, Harry F. Bauer, Jr., Dennis C. Ferry, James Hanna, Constitution Title, Inc., Opis Management Fund, LLC, Howard Z. Kanowitz, and Cape Enterprise, Inc. shall not continue to own or control, individually or by acting in concert, greater than 24.9% of the Bank's common stock. The Department further provided that the failure of any person or entity to comply with this requirement may result in further action and the imposition of civil money penalties for each violation under N.J.S.A. 17:1-28 and N.J.S.A. 17:9A-268 and 416. These civil money penalties would include fines of up to \$10,000 for each violation, or up to \$50,000 for each willful violation.

### **ITEM 6. EXHIBITS –**

3.1 Certificate of Incorporation of Liberty Bell Bank (Incorporated by reference to Exhibit 3.1 to the Bank's Registration Statement on Form 10-SB filed with the Federal Deposit Insurance Corporation on April 28, 2004).

3.2 Amended and Restated Bylaws of Liberty Bell Bank (Incorporated by reference to Exhibit 3.1 to the Bank's Current Report on Form 8-K filed with the FDIC on December 22, 2008).

3.3 Specimen share certificate of the common stock of Liberty Bell Bank (Incorporated by reference to Exhibit 4.1 to the Bank's Form 10-SB filed with the Federal Deposit Insurance Corporation on April 28, 2004).

31.1 Certification of Chief Executive Officer and Acting Chief Financial Officer pursuant to Rule 13a.-14(a)/15d-14(a), as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of the Chief Executive Officer and Acting Chief Financial Officer pursuant to 18 U.S.C. section 906 of the Sarbanes-Oxley Act of 2002.

## 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.

LIBERTY BELL BANK

Date: November 12, 2010

/s/ Kevin L. Kutcher  
Kevin L. Kutcher  
President, Chief Executive Officer and  
Acting Chief Financial Officer

## Certification

## Exhibit 31.1

I, Kevin L. Kutcher, President, Chief Executive Officer and Acting Chief Financial Officer of Liberty Bell Bank, certify that:

1. I have reviewed this Form 10-Q of Liberty Bell Bank to which this certification is an exhibit (the "Bank");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Bank as of, and for, the periods presented in this report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Bank and I have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the Bank is made known to me by others within the Bank, particularly during the period in which this report is being prepared;
  - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under supervision to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) evaluated the effectiveness of the Bank's disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) disclosed in this report any change in the Bank's internal control over financial reporting, that occurred during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Bank's internal control over financial reporting.
5. I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Bank's auditors and the audit committee of the Bank's board of directors (or persons performing the equivalent functions):
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Bank's ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Bank's internal control over financial reporting.

Date: November 12, 2010

/s/ Kevin L. Kutcher  
Kevin L Kutcher  
President, Chief Executive Officer and  
Acting Chief Financial Officer

**32.1 Section 1350 Certification of Chief Executive Officer and Chief Financial Officer**

**Statement of Chief Executive Officer and Chief Financial Officer Pursuant to Section 1350 of Title 18 of the United States Code**

Pursuant to Section 1350 of Title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, Kevin L. Kutcher, the President, Chief Executive Officer and Acting Chief Financial Officer of Liberty Bell Bank (“the Bank”), hereby certifies that, to the best of my knowledge:

- (1) The Bank’s Quarterly Report on Form 10-Q for the period ended September 30, 2010 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Bank.

Date: November 12, 2010

/s/ Kevin L. Kutcher  
Kevin L. Kutcher  
President, Chief Executive Officer and Acting  
Chief Financial Officer