BERKSHIRE BANCORP INC /DE/
Form 10-Q
May 13, 2003

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2003

or

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

For the transition period from _____________ to _____________

Commission file number: 0-13649

BERKSHIRE BANCORP INC.
(Exact name of registrant as specified in its charter)

Delaware	94-2563513
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
160 Broadway, New York, New York	10038
(Address of principal executive offices)	(Zip Code)

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

N/A
(Former name if changed since last report.)

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).
Yes [_] No [X]

As of May 12, 2003, there were 2,207,676 outstanding shares of the issuers Common Stock, $.10 par value.

BERKSHIRE BANCORP INC. AND SUBSIDIARIES

FORWARD-LOOKING STATEMENTS

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

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

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

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

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

	March 31, 2003	December 31, 2002
ASSETS		

Cash and due from banks	$ 8,427	$ 6,183
Interest bearing deposits	3,647	127
Federal funds sold	5,000	--
Total cash and cash equivalents	17,074	6,310
Investment Securities:		
Available-for-sale	398,101	370,625
Held-to-maturity	802	833
Total investment securities	398,903	371,458
Loans, net of unearned income	271,671	275,497
Less: allowance for loan losses	(2,421)	(2,315)
Net loans	269,250	273,182
Accrued interest receivable	3,947	4,106
Premises and equipment, net	8,836	8,976
Other assets	1,894	1,157
Goodwill, net	18,549	18,549
Total assets	$718,453	$683,738
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	$ 30,928	$ 31,320
Interest bearing	484,802	442,498
Total deposits	515,730	473,818
Securities sold under agreements to repurchase	36,153	46,673
Long term borrowings	60,179	57,699
Accrued interest payable	3,245	3,348
Other liabilities	4,408	3,675
Total liabilities	619,715	585,213
Stockholders' equity		
Preferred stock - $.10 Par value:	--	--
2,000,000 shares authorized - none issued		
Common stock - $.10 par value		
Authorized -- 10,000,000 shares		
Issued -- 2,566,095 shares		
Outstanding --		
March 31, 2003, 2,207,676 shares		
December 31, 2002, 2,237,976 shares	256	256
Additional paid-in capital	89,890	89,890
Retained earnings	17,887	16,145
Accumulated other comprehensive income, net	929	1,480
Common stock in treasury - at cost:		
March 31, 2003, 358,419 shares		
December 31, 2002, 328,119 shares	(10,224)	(9,246)
Total stockholders' equity	98,738	98,525
	$718,453	$683,738

The accompanying notes are an integral part of these statements.

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

	For The Three Months Ended March 31, 2003	2002
INTEREST INCOME		
Loans	$4,757	$4,543
Investment securities	3,610	2,750
Federal funds sold and interest bearing deposits	11	23
Total interest income	8,378	7,316
INTEREST EXPENSE		
Deposits	2,582	2,378
Short-term borrowings	149	150
Long-term borrowings	657	522
Total interest expense	3,388	3,050
Net interest income	4,990	4,266
PROVISION FOR LOAN LOSSES	105	50
Net interest income after provision for loan losses	4,885	4,216
NON-INTEREST INCOME		
Service charges on deposits	218	134
Investment securities gains	628	196
Other income	146	139
Total non-interest income	992	469
NON-INTEREST EXPENSE		
Salaries and employee benefits	1,331	1,305
Net occupancy expense	405	370
Equipment expense	109	59
FDIC assessment	19	15
Data processing expense	59	37
Other	789	613
Total non-interest expense	2,712	2,399
Income before provision for taxes	3,165	2,286
Provision for income taxes	1,423	980
Net income	$1,742	$1,306
Net income per share:		

Basic	$ .78	$ .55
Diluted	$ .78	$ .55

The accompanying notes are an integral part of these statements.

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

For The Three Months Ended March 31, 2003
(In Thousands)

	Common Shares	Stock Par value	Additional paid-in capital	Accumulated other comprehensive income (loss), net	Accum-lated earnings	Treasury stock
Balance at December 31, 2002	2,566	$256	$89,890	$1,480	$16,145	$ (9,246)
Net income					1,742	
Acquisition of treasury shares						(978)
Other comprehensive loss net of reclassification adjustment and taxes				(551)		
Comprehensive income						
Balance at March 31, 2003 (Unaudited)	2,566	$256	$89,890	$ 929	$17,887	$(10,224)

The accompanying notes are an integral part of this statement

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

	For The Three Months Ended March 31, 2003	2002
Cash flows from operating activities:		
Net income	$ 1,742	$ 1,306
Adjustments to reconcile net income to net cash provided by operating activities:		
Realized gain on investment securities	(628)	(197)
Depreciation and amortization	163	79
Provision for loan losses	105	50
Decrease (increase) in accrued interest receivable	159	(188)
(Increase) decrease in other assets	(889)	298
Increase in accrued interest payable and other liabilities	231	1,838
Net cash provided by operating activities	883	3,186
Cash flows from investing activities:		
Investment securities available for sale		
Purchases	(518,852)	(164,854)
Sales	491,249	155,387
Investment securities held to maturity		
Maturities	31	115
Net increase in loans	4,582	(8,334)
Acquisition of premises and equipment	(23)	(970)
Net cash (used in) investing activities	(23,013)	(18,656)

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

	For The Three Months Ended March 31, 2003	2002
Cash flows from financing activities:		
Net (decrease) increase in non interest bearing deposits	$ (392)	$ 3,360
Net increase in interest bearing deposits	42,304	44,531

Decrease in securities sold under agreements to repurchase	(10,520)	(29,923)
Proceeds from long term debt	5,000	10,000
Repayment of long term debt	(2,520)	(5,529)
Acquisition of treasury stock	(978)	(929)
Net cash provided by financing activities	32,894	21,510
Net increase in cash	10,764	6,040
Cash - beginning of period	6,310	10,383
Cash - end of period	$ 17,074	$ 16,423
Supplemental disclosures of cash flow information:		
Cash used to pay interest	$ 3,491	$ 2,061
Cash used to pay taxes	$ 399	$ 564

The accompanying notes are an integral part of these statements.

BERKSHIRE BANCORP INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
March 31, 2003 and 2002

NOTE 1. General

Berkshire Bancorp Inc. ("Berkshire" or the "Company"), a Delaware corporation, is a bank holding company registered under the Bank Holding Company Act of 1956. Berkshire's principal activity is the ownership and management of its wholly owned subsidiary, The Berkshire Bank (the "Bank"), a New York State chartered commercial bank.

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

During interim periods, the Company follows the accounting policies set forth in its Annual Report on Form 10-K filed with the Securities and Exchange Commission. Readers are encouraged to refer to the Company's Form 10-K for the fiscal year ended December 31, 2002 when reviewing this Form 10-Q. Quarterly results reported herein are not necessarily indicative of results to be expected for other quarters.

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of normal recurring adjustments) considered necessary to present fairly the Company's consolidated financial position as of March 31, 2003 and December 31, 2002 and the consolidated results of its operations for the three month periods ended March 31, 2003 and 2002, and its consolidated stockholders' equity for the three month period ended March 31, 2003, and its consolidated cash flows for the three month periods ended March 31, 2003 and 2002.

NOTE 2. Earnings Per Share

Basic earnings per share is calculated by income available to common stockholders by the weighted average common shares outstanding, excluding stock options from the calculation. In calculating diluted earnings per share, the dilutive effect of stock options is calculated using the average market price for the Company's common stock during the period. The following table presents the calculation of earnings per share for the periods indicated.

	For The Three Months Ended				
	March 31, 2003			March 31, 2002	
	Income (numerator)	Shares (denominator)	Per share amount	Income (numerator)	Shares (denominator
	(In thousands, except per share data)				
Basic earnings per share					
Net income available to common stockholders	$1,742	2,221	$.78	$1,306	2,361
Effect of dilutive securities					
Options	--	21	.--	--	8
Diluted earnings per share					
Net income available to common stockholders plus assumed conversions	$1,742	2,242	$.78	$1,306	2,369

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

Note 2. - (continued)

Options to purchase 40,375 and 115,375 shares of common stock for $30.00 to $38.00 per share were outstanding during the three month periods ended March 31, 2003 and 2002, respectively. These options were not included in the computation of diluted earnings per share because the option exercise price was greater than the average market price for the Company's common stock during this period.

NOTE 3. Investment Securities

The following tables summarize held to maturity and available-for-sale investment securities as of March 31, 2003 and December 31, 2002:

	March 31, 2003			
	Amortized Cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(In thousands)			
Held To Maturity Investment Securities				
U.S. Government Agencies	$802	$6	$--	$808
Totals	$802	$6	$--	$808

	December 31, 2002			
	Amortized Cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(In thousands)			
Held To Maturity Investment Securities				
U.S. Government Agencies	$833	$3	$(1)	$835
Totals	$833	$3	$(1)	$835

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

Note 3. - (continued)

	March 31, 2003			
	Amortized Cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(In thousands)			
Available-For-Sale Investment Securities				
U.S. Treasury and Notes	$ 40,037	$ 143	$ (17)	$ 40,163
U.S. Government Agencies	298,031	1,861	(632)	299,260

Mortgage-backed securities	6,182	9	(3)	6,188
Corporate notes	22,572	3	(44)	22,531
Municipal Securities	1,008	61	--	1,069
Marketable equity securities and other	28,973	163	(246)	28,890
Totals	$396,803	$2,240	$(942)	$398,101

	December 31, 2002			
	Amortized Cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(In thousands)			
Available-For-Sale Investment securities				
U.S. Treasury and Notes	$ 20,110	$ 103	$ --	$ 20,213
U.S. Government Agencies	301,224	2,376	(3)	303,597
Mortgage-backed securities	6,256	6	--	6,262
Corporate Notes	3,878	495	(297)	4,076
Marketable equity securities and other	33,383	242	(148)	36,477
Totals	$367,851	$3,222	$(448)	$370,625

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

NOTE 4. Loan Portfolio

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

	March 31, 2003		December 31, 2002	
	Amount	% of Total	Amount	% of Total
	(Dollars in thousands)			
Commercial and professional loans	$ 10,853	4.0%	$ 16,704	6.1%
Secured by real estate				
1 - 4 family	169,018	62.1	180,730	65.4

Multi family	6,885	2.5	8,958	3.2
Non-residential (commercial)	82,551	30.3	65,809	23.8
Consumer	2,992	1.1	4,051	1.5
Other	--	--	--	--
Total loans	272,299	100.0%	276,252	100.0%
Deferred loan fees	(628)		(755)	
Allowance for loan losses	(2,421)		(2,315)	
Loans, net	$269,250		$273,182	

NOTE 5. Deposits

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

	March 31, 2003		December 31, 2002	
	Average Amount	Average Yield	Average Amount	Average Yield
	(Dollars in thousands)			
Demand deposits	$ 30,493	--	$ 30,102	--
NOW and money market	58,656	0.97%	60,114	1.28%
Savings deposits	86,027	1.53	56,217	1.56
Time deposits	317,443	2.66	273,452	3.21
Total deposits	$492,618	2.10%	$419,885	2.48%

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

NOTE 6. Comprehensive Income

The following table presents the components of comprehensive income, based on the provisions of SFAS No. 130.:

	For The Three Months Ended					
	March 31, 2003			March 31, 2002		
	Before tax	Tax (expense)	Net of tax	Before tax	Tax (expense)	Net

	amount	benefit	Amount	amount	benefit	a
			(In thousands)			
Unrealized gains (losses) on investment securities:						
Unrealized holding gains (losses) arising during period	$(291)	$ 117	$(174)	$(2,421)	$1,946	$(
Less reclassification adjustment for gains realized in net income	628	(251)	377	197	(79)	
Unrealized gain (loss) on investment securities						
Other comprehensive income (loss), net	$(919)	$ 368	$(551)	$(2,618)	$1,025	$(

NOTE 7. Accounting For Stock Based Compensation

SFAS No. 148 "Accounting for Stock Based Compensation-Transition and Disclosure", which amends the disclosure and certain provisions of SFAS No. 123, was issued in December 2002. SFAS No. 148 requires all entities with stock based employee compensation arrangements to provide additional disclosures in their summary of significant accounting policies note. The Company has one stock-based employee compensation plan. The Company accounts for that plan under the recognition and measurement principles of APB No. 25, "Accounting for Stock Issued to Employees," and related interpretations. Stock-based employee compensation costs are not reflected in net income, as all options granted under the plan had an exercise price equal to the market value of the underlying common stock on the date of the grant. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," to stock-based employee compensation.

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

Note 7. - (continued)

	For The Three Months Ended March 31,	
	2003	2002

		(In thousands, except per share amounts)	
Net income	As Reported:	$1,742	$1,306
Less: Stock based compensation costs determined under fair value methods for all awards		(32)	(170)
	Pro Forma:	$1,710	$1,136
Basic earnings per share	As Reported:	$ .78	$ .55
	Pro Forma:	.77	.48
Diluted earnings per share	As Reported:	.78	.55
	Pro Forma:	.76	.48

The Company did not grant options during the three months ended March 31, 2003 and 2002.

NOTE 8. New Accounting Pronouncements

Off Balance Sheet Guarantees

The Company adopted FASB Interpretation 45 (FIN 45) Guarantor's Accounting and Disclosure Requirements for Guarantees, including Indirect Guarantees of Indebtedness of Others on January 1, 2003. FIN 45 requires a guarantor entity, at the inception of a guarantee covered by the measurement provisions of the interpretation, to record a liability for the fair value of the obligation undertaken in issuing the guarantee. The Company has financial and performance letters of credit. Financial letters of credit require the Company to make payment if the customer's financial condition deteriorates, as defined in the agreements. Performance letters of credit require the Company to make payments if the customer fails to perform certain non-financial contractual obligations. The Company previously did not record an initial liability, other than the fees received for these letters of credit, when guaranteeing obligations unless it became probable that the Company would have to perform under the guarantee. FIN 45 applies prospectively to letters of credit the Company issues or modifies subsequent to December 31, 2002.

The Company defines the initial fair value of these letters of credit as the fee received from the customer. The maximum potential undiscounted amount of future payments of these letters of credit as of March 31, 2003 are $17.67 million and they expire through 2008. Amounts due under these letters of credit would be reduced by any proceeds that the Company would be able to obtain in liquidating the collateral for the loans, which varies depending on the customer.

Variable Interest Entities

In January 2003, the FASB issued FASB Interpretation 46 (FIN 46), Consolidation of Variable Interest Entities. FIN 46 clarifies the application of Accounting Research Bulletin 51, Consolidated Financial Statements, for certain entities that do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from

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

Note 8. - (continued)

other parties or in which equity investors do not have the characteristics of a controlling financial interest ("variable interest entities"). Variable interest entities within the scope of FIN 46 will be required to be consolidated by their primary beneficiary. The primary beneficiary of a variable interest entity is determined to be the party that absorbs a majority of the entity's expected losses, receives a majority of its expected returns, or both. FIN 46 applies immediately to variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. It applies in the first fiscal year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. The Company has not acquired any variable interest entities after February 1, 2003 through March 31, 2003. The Company is in process of determining what impact, if any, the adoption of the provisions of FIN 46 will have on entities held prior to the issuance of FIN 46 On its financial condition or results of operations. The Company does not anticipate FIN 46 to have a material impact on the consolidated financial position or results of operations.

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

The following discussion and analysis is intended to provide a better understanding of the consolidated financial condition and results of operations of Berkshire Bancorp Inc. and subsidiaries (the "Company"). References to the Company herein shall be deemed to refer to the Company and its consolidated subsidiaries unless the context otherwise requires. References to per share amounts refer to diluted shares. References to Notes herein are references to the "Notes to Consolidated Financial Statements" of the Company located in Item 1 herein.

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

	For The Three Months Ended March 31,	
	2003	2002

	Average Balance	Interest and Dividends	Average Yield/Rate	Average Balance	Interest and Dividends	Yi
			(Dollars in Thousands)			
INTEREST-EARNING ASSETS:						
Loans (1)	$274,929	$4,757	6.92%	$256,354	$4,543	
Investment securities	389,726	3,610	3.71	239,397	2,750	
Other (2)(5)	6,100	11	0.72	5,989	23	
Total interest-earning assets	670,755	8,378	5.00	501,740	7,316	
Noninterest-earning assets	36,464			35,922		
Total Assets	$707,219			$537,662		
INTEREST-BEARING LIABILITIES:						
Interest bearing deposits	$144,683	472	1.30	$108,646	379	
Time deposits	317,443	2,110	2.66	218,017	1,999	
Other borrowings	106,232	806	3.03	80,243	672	
Total interest-bearing liabilities	568,357	3,388	2.38	406,906	3,050	
Demand deposits	30,911			28,492		
Noninterest-bearing liabilities	8,366			6,459		
Stockholders' equity	99,585			95,805		
Total liabilities and stockholders' equity	$707,219			$537,662		
Net interest income		$4,990			$4,266	
Interest-rate spread (3)			2.62%			
Net interest margin (4)			2.98%			
Ratio of average interest-earning assets to average interest bearing liabilities	1.18			1.23		

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

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Results of Operations

Results of Operations for the Three Months Ended March 31, 2003 Compared to the Three Months Ended March 31, 2002.

General. Berkshire Bancorp Inc., a Delaware corporation ("Berkshire", the "Company" or "we" and similar pronouns), is a bank holding company registered under the Bank Holding Company Act of 1956. The Company has one wholly-owned banking subsidiary, The Berkshire Bank, a New York State chartered commercial bank (the "Bank").

References to per share amounts below, unless stated otherwise, refer to diluted shares.

Net Income. Net income for the three-month period ended March 31, 2003 was $1.74 million, or $.78 per share, as compared to $1.31 million or $.55 per share, for the three-month period ended March 31, 2002. Net income is largely dependent on interest rate levels, demand for our loan and deposit products and the strategies employed to manage the risks inherent in the banking business.

Net Interest Income. The Company's primary source of revenue is net interest income, or the difference between interest income on earning assets and interest expense on interest-bearing liabilities.

For the quarter ended March 31, 2003, net interest income increased by $724,000, or 16.97%, to $4.99 million, from $4.27 million for the quarter ended March 31, 2002. The increase in net interest income was the result of the growth in average interest-earning assets of $169.02 million, partially offset by the growth in average interest-bearing liabilities of $161.45 million and the difference between the yield on assets compared to the cost of liabilities. The average yield on interest-earning assets fell to 5.00% from 5.83%, a decline of 83 basis points, or 14.24%, while the cost of interest-bearing liabilities fell to 2.38% from 3.00%, a decline of 62 basis points, or 20.67%. Interest-rate spread, the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities, declined to 2.62% in 2003 from 2.83% in 2002.

With interest rates stabilized at historic lows, we expect to see continued downward pressure on the Company's interest-rate spread as investment securities in our portfolio mature, or are called by the issuer, and are replaced by securities with lower yields. Rates paid on deposit accounts may continue to decline as well, albeit at a slower pace due to competition for deposits in the market place.

Net Interest Margin. Net interest margin, or annualized net interest income as a percentage of average interest-earning assets, declined by 42 basis points to 2.98% for the first quarter of 2003 from 3.40% for the same period in 2002. The decrease in net interest margin was due to the overall decline in the average yields on interest-earning assets. During the first three months of 2003, the average yields on loans, investment securities and other interest-earning assets were 6.92%, 3.71% and 0.72%, respectively, compared to 7.09%, 4.59% and 1.54%, respectively, in the comparable period of 2002.

Interest Income. Total interest income for the three-month period ended March 31, 2003 increased by $1.06 million, or 14.52%, to $8.38 million from $7.32 million for the three-month period ended March 31, 2002. The increase was the result of a $169.02 million increase in average interest-earning assets to $670.76 million for the quarter ended March 31, 2002, from $501.74 million for the quarter ended March 31, 2002, partially offset by a decrease in average yield to 5.00% in 2003 from 5.83% in 2002. Interest income on loans and investment securities in the 2003 quarter increased to $4.76 million and $3.61 million, respectively, from $4.54 million and $2.75 million, respectively, in the 2002 quarter.

Interest Expense. Total interest expense for the three-month period ended March 31, 2003 increased by $338,000, or 11.08%, to $3.39 million from $3.05 million for the three-month period ended March 31, 2002. The increase was the result of a $161.45 million increase in average interest-bearing liabilities to $568.36 million for the 2003 quarter, from $406.91 million for the 2002 quarter. The average amounts of interest bearing deposits, time deposits and other borrowings were $144.68 million, $317.44 million and $106.23 million, respectively, in the 2002 quarter, compared to $108.65 million, $218.02 million and $80.24 million, respectively, in the 2002 quarter. Interest expense on interest-bearing deposits, time deposits and other borrowings was $472,000, $2.11 million and $806,000, respectively, in the 2003 quarter, compared to $379,000, $2.00 million and $672,000, respectively, in the 2002 quarter.

Non-Interest Income. Non-interest income consists primarily of realized gains on sales of marketable securities, loan sales and service fee income. For the three months ended March 31, 2003, non-interest income was $992,000, or 16.58% of total income, as compared to $469,000, or 9.90% of total income for the three months ended March 31, 2002.

Non-Interest Expense. Non-interest expense includes salaries and employee benefits, occupancy and equipment expenses, legal and professional fees and other operating expenses associated with the day-to-day operations of the Company. Total non-interest expense for the three-month period ended March 31, 2003 increased by $313,000, or 13.05%, to $2.71 million from $2.40 million for the three-month period ended March 31, 2002. The increase was due primarily to costs associated with the relocation of the Bank's head office and main bank branch in January 2003.

Provision for Income Tax. During the first quarter of 2003, the Company recorded income tax expense of $1.42 million compared to $980,000 for the first quarter of 2002. The tax provisions for federal, state and local taxes recorded for 2003 and 2002 represent effective tax rates of 44.96% and 42.87%, respectively. Effective tax rates are attributable to the level of income of income adjusted for certain tax-preference items. The increase in the effective rate in 2003 is due to changes in the amounts of such tax-preference items.

ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

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

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

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

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

Berkshire Bancorp Inc.
Interest Rate Sensitivity Gap at March 31, 2
(In thousands, except for percentages)

		3 Months or Less	3 Through 12 Months	1 Through 3 Years	Over 3 Years
Federal funds sold		$ 5,000	$ --	$ --	$ --
	(Rate)	1.25%	--	--	--
Interest bearing deposits in banks		3,647	--	--	--
	(Rate)	1.22%	--	--	--
Loans (1)(2)					
Adjustable rate loans		43,088	13,964	2,951	11,522
	(Rate)	6.04%	5.29%	6.58%	7.33%
Fixed rate loans		548	3,878	9,580	186,767
	(Rate)	7.18%	8.14%	7.47%	6.82%
Total loans		43,636	17,842	12,531	198,289
Investments (3)(4)		170,281	84,336	60,578	83,708
	(Rate)	3.08%	5.53%	2.44%	5.43%
Total rate-sensitive assets		222,564	102,178	73,109	281,997
Deposit accounts (5)					
Savings and NOW		123,861	--	--	--
	(Rate)	1.51%	--	--	--

Money market		38,492	--	--	--
	(Rate)	1.05%	--	--	--
Time Deposits		129,563	186,808	5,988	90
	(Rate)	2.56%	2.56%	2.47%	3.11%
Total deposit accounts		291,916	186,808	5,988	90
Repurchase agreements		26,153	10,000	--	--
	(Rate)	1.29%	1.32%	--	--
Other borrowings		--	--	1,000	59,179
	(Rate)	6.09%	--	5.90%	4.41%
Total rate-sensitive liabilities		318,069	196,808	6,988	59,269
Interest rate caps		30,000	--	(10,000)	(20,000)
Gap (repricing differences)		(125,505)	(94,630)	76,121	242,728
Cumulative Gap		(125,505)	(220,135)	(144,014)	98,714
Cumulative Gap to Total Rate Sensitive Assets		(18.46)%	(32.38)%	(21.18)%	14.52%

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(1) Adjustable-rate loans are included in the period in which the interest rates are next scheduled to adjust rather than in the period in which the loans mature. Fixed-rate loans are scheduled according to their maturity dates.

(2) Includes nonaccrual loans.

(3) Investments are scheduled according to their respective repricing (variable rate loans) and maturity (fixed rate securities) dates.

(4) Investments are stated at book value.

(5) NOW accounts and savings accounts are regarded as readily accessible withdrawal accounts. The balances in such accounts have been allocated amongst maturity/repricing periods based upon The Berkshire Bank's historical experience. All other time accounts are scheduled according to their respective maturity dates.

Provision for Loan Losses. The Company maintains an allowance for loan losses at a level deemed sufficient to absorb losses, which are inherent in the loan portfolio at each balance sheet date. Management reviews the adequacy of the allowance on at least a quarterly basis to ensure that the provision for loan losses has been charged against earnings in an amount necessary to maintain the allowance at a level that is appropriate based on management's assessment of probable estimated losses. The Company's methodology for assessing the appropriateness of the allowance for loan losses consists of several key elements. These elements include a specific allowance for loan watch list classified loans, an allowance based on historical trends, an additional allowance for special circumstances, and an unallocated portion. The Company consistently applies the following comprehensive methodology.

The allowance for loan watch list classified loans addresses those loans maintained on the Company's loan watch list, which are assigned a rating of substandard, doubtful, or loss. Substandard loans are those with a well-defined weakness or a weakness, which jeopardizes the repayment of the debt. A loan may be classified as substandard as a result of impairment of the borrower's financial condition and repayment capacity. Loans for which repayment plans have not been met or collateral equity margins do not protect the Company may also be classified as substandard. Doubtful loans have the characteristics of substandard loans with the added characteristic that collection or liquidation in full, on the basis of presently existing facts and conditions, is highly improbable. Although the possibility of loss is high for doubtful loans, the classification of loss is deferred until pending factors, which might improve the loan, have been determined. Loans rated as doubtful in whole or in part are placed in nonaccrual status. Loans, which are classified as loss, are considered uncollectible and are charged to the allowance for loan losses. For the three month-periods ended March 31, 2003 and 2002, the Company charged-off loans amounting to $1,000 and $24,000, respectively.

Loans on the loan watch list may also be impaired loans, which are defined as nonaccrual loans or troubled debt restructurings, which are not in compliance with their restructured terms. Each of the classified loans on the loan watch list is individually analyzed to determine the level of the potential loss in the loan under the current circumstances. The specific reserve established for these loans is based on analysis of the loan's performance, the related collateral value, cash flow considerations and the financial capability of any guarantor. The allowance for loan watch list classified loans is equal to the total amount of potential unconfirmed losses for the individual classified loans on the watch list. Loan watch list loans are managed and monitored by assigned Senior Management.

The allowance based on historical trends uses charge-off experience of the Company to estimate potential unconfirmed losses in the balances of the loan and lease portfolios. The historical loss experience percentage is based on the charge-off history. Historical loss experience percentages are applied to all non-classified loans to obtain the portion of the allowance for loan losses which is based on historical trends. Before applying the historical loss experience percentages, loan balances are reduced by the portion of the loan balances, which are subject to guarantee, by a government agency. Loan balances are also adjusted for unearned discount on installment loans.

The Company also maintains an unallocated allowance. The unallocated allowance is used to cover any factors or conditions, such as economic conditions in one or more of the Bank's market areas, which may cause a potential loan loss but are not specifically identifiable. It is prudent to maintain an unallocated portion of the allowance because no matter how detailed an analysis of potential loan losses is performed these estimates by definition lack precision. Management must make estimates using assumptions and information, which is often subjective and changing rapidly.

Since all identified losses are immediately charged off, no portion of the allowance for loan losses is restricted to any individual loan or groups of loans, and the entire allowance is available to absorb any and all loan losses.

A loan is placed in a nonaccrual status at the time when ultimate collectibility of principal or interest, wholly or partially, is in doubt. Past due loans are those loans which were contractually past due 90 days or more as to interest or principal payments but are well secured and in the process of collection. Renegotiated loans are those loans which terms have been renegotiated to provide a reduction or deferral of principal or interest as a result of the deteriorating financial position of the borrower.

At March 31, 2003, the Company had $79,000 of non-performing loans consisting of $59,000 of non-accrual loans and $20,000 of accruing loans delinquent more than 90 days. At March 31, 2002 the Company had $75,000 of loans past due more than 90 days and still accruing interest. Based upon management's evaluations of the overall analysis of the Bank's allowance for loan losses and the year over year increase in total loans to $272.30 million from $260.55 million, the provision for possible loan losses was increased to $2.42 million from $2.06 million in the year ago period.

Management believes that the allowance for loan losses and nonperforming loans remained safely within acceptable levels.

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

	Three Months Ended March 31, 2003	Three Months Ended March 31, 2002
Average loans outstanding	$274,929	$256,354
Allowance at beginning of period	2,315	2,030
Charge-offs:		
Commercial and other loans	1	24
Total loans charged-off	1	24
Recoveries:		
Commercial and other loans	2	2
Total loans recovered	2	2
Net (charge-offs) recoveries	1	(22)
Provision for loan losses charged to operating expenses	105	50
Allowance at end of period	$ 2,421	$ 2,058
Ratio of net recoveries (charge-offs) to average loans outstanding	0.00%	(.01)%
Allowance as a percent of total loans	0.89%	0.79%
Total loans at end of period	$272,298	$260,545

Loan Portfolio.

Loan Portfolio Composition. The Company's loans consist primarily of mortgage loans secured by residential and non-residential properties as well as commercial loans which are either unsecured or secured by personal property collateral. Most of the Company's loans are either made to individuals or personally guaranteed by the principals of the business to which the loan is made. At March 31, 2003, the Company had total loans of $272.30 million and an allowance for loan losses of $2.42 million. From time to time, the Bank may originate residential mortgage loans and then sell them on the secondary market, normally recognizing fee income in connection with the sale.

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

	March 31, 2003	December 31, 2002
	Amount	Amount
	(in thousands)	
Commercial and professional loans	$ 10,853	$ 16,704
Secured by real estate		
1-4 family	169,018	180,730
Multi family	6,885	8,958
Non-residential (commercial)	82,551	65,809
Consumer	2,992	4,051
Other	--	--
Total loans	272,299	276,252
Less:		
Deferred loan fees	(628)	(755)
Allowance for loan losses	(2,421)	(2,315)
Loans, net	$269,250	$273,182

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

Capital Adequacy

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and Tier I capital (as defined) to average assets (as defined). As of March 31, 2003, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain certain Total risk-based, Tier I risk-based, and Tier I leverage ratios. There are no conditions or events since the notification that management believes have changed the Bank's category.

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The following tables set forth the actual and required regulatory capital amounts and ratios of the Company and the Bank as of March 31, 2003 and December 31, 2002 (dollars in thousands):

	Actual		For capital adequacy purposes		To be well capitalized under prompt corrective action provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
March 31, 2003						
Total Capital (to Risk-Weighted Assets)						
Company	81,507	25.9%	25,190	>=8.0%	--	N/A
Bank	55,357	18.6%	23,782	>=8.0%	29,727	>=10.0
Tier I Capital (to Risk-Weighted Assets)						
Company	79,086	25.1%	12,595	>=4.0%	--	N/A
Bank	52,936	17.8%	11,891	>=4.0%	17,836	>=6.0
Tier I Capital (to Average Assets)						
Company	79,086	11.5%	27,547	>=4.0%	--	N/A
Bank	52,936	7.7%	27,438	>=4.0%	34,298	>=5.0

	Actual		For capital adequacy purposes		To be well capitalized unde prompt correctiv action provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2002						
Total Capital (to Risk-Weighted Assets)						
Company	$80,811	12.3%	$23,801	>=8.0%	--	N/A

Bank	53,687	19.4%	22,193	>=8.0%	27,741	>=10.0
Tier I Capital (to Risk-Weighted Assets)						
Company	78,496	26.4%	11,900	>=4.0%	--	N/A
Bank	51,372	18.5%	11,096	>=4.0%	16,645	>=6.0
Tier I Capital (to Average Assets)						
Company	78,496	27.2%	25,468	>=4.0%	--	N/A
Bank	51,372	7.8%	26,210	>=4.0%	32,763	>=5.0

Liquidity

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

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For Berkshire, liquidity means having cash available to fund operating expenses and to pay shareholder dividends, when and if declared by Berkshire's Board of Directors. The ability of Berkshire to fund its operations and to pay dividends is not dependent upon the receipt of dividends from the Bank. At March 31, 2003, Berkshire had cash of $10.60 million and investment securities of $4.51 million.

The Company maintains financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and stand-by letters of credit.

At March 31, 2003 the Company had outstanding commitments of approximately $47.67 million. These commitments include $9.10 million that mature or renew within one year, $15.61 million that mature or renew after one year and within three years, $20.43 million that mature or renew after three years and within five years and $2.53 million that matures or renews after five years.

The Company currently does not have any unconsolidated subsidiaries or special purpose entities.

Impact of Inflation and Changing Prices

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

ITEM 4 - CONTROLS AND PROCEDURES

Within the 90-day period prior to the filing of this report, an evaluation was carried out under the supervision and with the participation of the Company's management, including the Chief Executive Officer ("CEO"), who is also the Chief Financial Officer ("CFO"), of the effectiveness of our disclosure controls and procedures. Based on that evaluation, the CEO/CFO has concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. Subsequent to the date of the evaluation, there were no significant changes in the Company's internal controls or in other factors that could significantly affect the internal controls, including any corrective actions with regard to significant deficiencies and material weaknesses.

PART II. OTHER INFORMATION

Item 5. Other Information

In accordance with Section 10A(i)(2) of the Securities Exchange Act of 1934, as added by Section 202 of the Sarbanes-Oxley Act of 2002, the Company is responsible for disclosing the non-audit services approved by the Company's Audit Committee to be performed by Grant Thornton LLP, the Company's external auditor. In April 2003, the Audit Committee's Chairman, pursuant to delegated authority by the Audit Committee, approved the non-audit engagement of Grant Thornton LLP to assist the Company in the preparation of its Federal, New York State and New York City 2002 tax returns.

Item 6. Exhibits and Reports on Form 8-K

a. Exhibits

Exhibit Number	Description
99.1	Certification Pursuant To 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 Of The Sarbanes-Oxley Act Of 2002.

b. There were no reports on Form 8-K filed by the Company during the quarter for which this report on Form 10-Q is filed.

SIGNATURES

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

BERKSHIRE BANCORP INC.
(Registrant)

Date: May 12, 2003

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

Certification of Principal Executive and Financial Officer

I, Steven Rosenberg the Chief Executive Officer, President and Chief Financial Officer of Berkshire Bancorp Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Berkshire Bancorp Inc.;

2. Based on my knowledge, this quarterly 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 12, 2003

/s/ Steven Rosenberg

Steven Rosenberg,
Chief Executive Officer, President
and Chief Financial Officer

EXHIBIT INDEX

Exhibit Number	Description	Sequential Page Number
99.1	Certification Pursuant To 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 Of The Sarbanes-Oxley Act Of 2002	29

STATEMENT OF DIFFERENCES

The greater-than-or-equal-to sign shall be expressed as.................. >=