

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

BERKSHIRE BANCORP INC /DE/
Form 10-Q
May 04, 2006

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2006

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

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

Indicate by check mark whether the Registrant is a large accelerated filer, an
accelerated filer, or a non-accelerated filer. See definition of "accelerated
filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.
Large accelerated filer Accelerated filer Non-accelerated filer

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

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

As of May 2, 2006, there were 6,893,556 outstanding shares of the issuer's Common Stock, \$.10 par value.

BERKSHIRE BANCORP INC. AND SUBSIDIARIES

FORWARD-LOOKING STATEMENTS

Forward-Looking Statements. Statements in this Quarterly Report on Form 10-Q that are not based on historical fact may be "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as "believe", "may", "will", "expect", "estimate", "anticipate", "continue" or similar terms identify forward-looking statements. A wide variety of factors could cause the 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, (ix) cost of compliance with new corporate governance requirements, and other factors referred to in the sections of this Quarterly Report entitled "Business" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

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

The Company cautions readers not to place undue reliance upon any forward-looking statement contained in this 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.

PART I.	FINANCIAL INFORMATION	
Item 1.	Financial Statements	
	Consolidated Balance Sheets as of March 31, 2006 (unaudited) and December 31, 2005	4
	Consolidated Statements of Income For The Three Months Ended March 31, 2006 and 2005 (unaudited)	5
	Consolidated Statement of Stockholders' Equity For The Three Months Ended March 31, 2006 (unaudited)	6
	Consolidated Statements of Cash Flows For The Three Months Ended March 31, 2006 and 2005 (unaudited)	7
	Notes to Consolidated Financial Statements	9
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	16
Item 3.	Quantitative and Qualitative Disclosure About Market Risk	25
Item 4.	Controls and Procedures	32
PART II	OTHER INFORMATION	
Item 6.	Exhibits	32
	Signature	33
	Index of Exhibits	34

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

	March 31, 2006	December 31, 2005
	-----	-----
ASSETS		
Cash and due from banks	\$ 6,102	\$ 9,825
Interest bearing deposits	4,149	4,457
Federal funds sold	4,400	13,600
	-----	-----

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

Total cash and cash equivalents	14,651	27,882
Investment Securities:		
Available-for-sale	591,033	599,410
Held-to-maturity, fair value of \$548 in 2006 and \$573 in 2005	546	562
	-----	-----
Total investment securities	591,579	599,972
Loans, net of unearned income	306,917	309,230
Less: allowance for loan losses	(3,315)	(3,266)
	-----	-----
Net loans	303,602	305,964
Accrued interest receivable	6,210	6,784
Premises and equipment, net	8,899	8,602
Goodwill, net	18,549	18,549
Other assets	8,938	9,699
	-----	-----
Total assets	\$ 952,428	\$ 977,452
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	\$ 45,129	\$ 50,269
Interest bearing	639,198	629,991
	-----	-----
Total deposits	684,327	680,260
Securities sold under agreements to repurchase	50,841	73,044
Long term borrowings	75,121	83,201
Subordinated debt	22,681	22,681
Accrued interest payable	6,411	5,731
Other liabilities	3,780	3,825
	-----	-----
Total liabilities	843,161	868,742
	-----	-----
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 -- 7,698,285 shares		
Outstanding --		
March 31, 2006, 6,893,556 shares		
December 31, 2005, 6,890,556 shares	770	770
Additional paid-in capital	90,595	90,594
Retained earnings	35,000	33,504
Accumulated other comprehensive loss, net	(9,384)	(8,415)
Treasury Stock		
March 31, 2006, 804,729 shares		
December 31, 2005, 807,729 shares	(7,714)	(7,743)
	-----	-----
Total stockholders' equity	109,267	108,710
	-----	-----
	\$ 952,428	\$ 977,452
	=====	=====

The accompanying notes are an integral part of these statements

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

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

	For The Three Months Ended March 31,	
	2006	2005
INTEREST INCOME		
Loans	\$ 5,504	\$ 4,694
Investment securities	6,255	6,179
Federal funds sold and interest bearing deposits	76	94
Total interest income	11,835	10,967
INTEREST EXPENSE		
Deposits	4,855	2,891
Short-term borrowings	541	765
Long-term borrowings	1,211	1,158
Total interest expense	6,607	4,814
Net interest income	5,228	6,153
PROVISION FOR LOAN LOSSES	45	45
Net interest income after provision for loan losses	5,183	6,108
NON-INTEREST INCOME		
Service charges on deposit accounts	140	133
Investment securities gains	741	6
Other income	172	130
Total non-interest income	1,053	269
NON-INTEREST EXPENSE		
Salaries and employee benefits	2,107	1,955
Net occupancy expense	475	381
Equipment expense	96	99
FDIC assessment	21	69
Data processing expense	90	44
Other	624	645
Total non-interest expense	3,413	3,193
Income before provision for taxes	2,823	3,184
Provision for income taxes	1,327	1,486
Net income	\$ 1,496	\$ 1,698
Net income per share:		
Basic	\$.22	\$.25
Diluted	\$.21	\$.25
Number of shares used to compute net income per share:		

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

Basic	6,891	6,754
	=====	=====
Diluted	6,983	6,929
	=====	=====

The accompanying notes are an integral part of these statements.

5

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

For The Three Months Ended March 31, 2006 and 2005
(In Thousands)

	Common Shares	Stock Par value	Additional paid-in capital	Accumulated other comprehensive (loss) net	Retained earnings	Treas sto
	-----	-----	-----	-----	-----	-----
Balance at January 1, 2006	7,698	\$ 770	\$ 90,594	\$ (8,415)	\$ 33,504	\$ (7,
Net income					1,496	
Exercise of stock options			1			
Other comprehensive (loss) net of reclassification adjustment and taxes				(969)		
Comprehensive income						
Balance at March 31, 2006 (Unaudited)	7,698	\$ 770	\$ 90,595	\$ (9,384)	\$ 35,000	\$ (7,
Balance at January 1, 2005	7,698	\$ 770	\$ 89,543	\$ (2,602)	\$ 28,983	\$ (9,
Net income					1,698	
Exercise of stock options			426			
Other comprehensive (loss) net of reclassification adjustment and taxes				(4,846)		
Comprehensive income						
Balance at March 31, 2005 (Unaudited)	7,698	\$ 770	\$ 89,969	\$ (7,448)	\$ 30,681	\$ (8,

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,	
	2006	2005
Cash flows from operating activities:		
Net income	\$ 1,496	\$ 1,698
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Realized gains on investment securities	(741)	(6)
Net amortization of premiums of investment securities	35	40
Depreciation and amortization	176	156
Provision for loan losses	45	45
Decrease (increase) in accrued interest receivable	574	(73)
Decrease (increase) in other assets	761	(2,350)
Increase in accrued interest payable and other liabilities	635	365
	2,981	(125)
Cash flows from investing activities:		
Investment securities available for sale		
Purchases	(137,757)	(191,294)
Sales, maturities and calls	145,825	142,161
Investment securities held to maturity		
Maturities	62	17
Net decrease in loans	2,317	2,257
Acquisition of premises and equipment	(473)	(140)
	9,974	(46,999)

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

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

	For The Three Months Ended March 31,	
	----- 2006 -----	2005 -----
Cash flows from financing activities:		
Net (decrease) increase in non interest bearing deposits	(5,140)	882
Net increase in interest bearing deposits	9,207	28,695
(Decrease) increase in securities sold under agreements to repurchase	(22,203)	8,501
Proceeds from long term debt	--	15,000
Repayment of long term debt	(8,080)	(6,708)
Proceeds from exercise of common stock options	30	93
	-----	-----
Net cash (used in) provided by financing activities	(26,186)	46,463
	-----	-----
Net (decrease) in cash and cash equivalents	(13,231)	(661)
Cash and cash equivalents - beginning of period	27,882	17,383
	-----	-----
Cash and cash equivalents - end of period	\$ 14,651	\$ 16,722
	=====	=====
Supplemental disclosures of cash flow information:		
Cash used to pay interest	\$ 5,927	\$ 4,434
Cash used to pay taxes, net of refunds	\$ 775	\$ 1,507

The accompanying notes are an integral part of these statements.

8

BERKSHIRE BANCORP INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
March 31, 2006 and 2005

NOTE 1. General

Berkshire Bancorp Inc., a Delaware corporation, is a bank holding company registered under the Bank Holding Company Act of 1956. References herein to "Berkshire", the "Company" or "we" and similar pronouns, shall be deemed to refer to Berkshire Bancorp Inc. and its consolidated subsidiaries unless the context otherwise requires. 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.

We have prepared the accompanying financial statements pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC") for interim financial reporting. These consolidated financial statements are

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

unaudited and, in our opinion, include all adjustments, consisting of normal recurring adjustments and accruals necessary for a fair presentation of our consolidated balance sheets, operating results, and cash flows for the periods presented. Operating results for the periods presented are not necessarily indicative of the results that may be expected for 2006 due to a variety of factors. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States ("GAAP") have been omitted in accordance with the rules and regulations of the SEC. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes included in our 2005 Annual Report on Form 10-K.

NOTE 2. Trust Preferred Securities.

As of May 18 2004, the Company established Berkshire Capital Trust I, a Delaware statutory trust, ("BCTI"). The Company owns all the common capital securities of BCTI. BCTI issued \$15.0 million of preferred capital securities to investors in a private transaction and invested the proceeds, combined with the proceeds from the sale of BCTI's common capital securities, in the Company through the purchase of \$15.464 million aggregate principal amount of Floating Rate Junior Subordinated Debentures (the "2004 Debentures") issued by the Company. The 2004 Debentures, the sole assets of BCTI, mature on July 23, 2034 and bear interest at a floating rate, three month LIBOR plus 2.70%.

On April 1, 2005, the Company established Berkshire Capital Trust II, a Delaware statutory trust, ("BCTII"). The Company owns all the common capital securities of BCTII. BCTII issued \$7.0 million of preferred capital securities to investors in a private transaction and invested the proceeds, combined with the proceeds from the sale of BCTII's common capital securities, in the Company through the purchase of \$7.217 million aggregate principal amount of Floating Rate Junior Subordinated Debentures (the "2005 Debentures") issued by the Company. The 2005 Debentures, the sole assets of BCTII, mature on May 23, 2035 and bear interest at a floating rate, three month LIBOR plus 1.95%.

9

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

NOTE 2. - (continued)

Based on current interpretations of the banking regulators, the 2004 Debentures and 2005 Debentures (collectively, the "Debentures") qualify under the risk-based capital guidelines of the Federal Reserve as Tier 1 capital, subject to certain limitations. The Debentures are callable by the Company, subject to any required regulatory approvals, at par, in whole or in part, at any time after five years from the date of issuance. The Company's obligations under the Debentures and related documents, taken together, constitute a full, irrevocable and unconditional guarantee on a subordinated basis by the Company of the obligations of BCTI and BCTII under the preferred capital securities sold by BCTI and BCTII to investors. FIN46(R) precludes consideration of the call option embedded in the preferred capital securities when determining if the Company has the right to a majority of BCTI and BCTII expected residual returns. Accordingly, BCTI and BCTII are not included in the consolidated balance sheet of the Company.

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

The Federal Reserve has issued guidance on the regulatory capital treatment for the trust-preferred securities issued by BCTI and BCTII. This rule would retain the current maximum percentage of total capital permitted for Trust Preferred Securities at 25%, but would enact other changes to the rules governing Trust Preferred Securities that affect their use as part of the collection of entities known as "restricted core capital elements." The rule would take effect March 31, 2009; however, a five year transition period starting March 31, 2004 and leading up to that date would allow bank holding companies to continue to count Trust Preferred Securities as Tier 1 Capital after applying FIN-46(R). Management has evaluated the effects of this rule and does not anticipate a material impact on its capital ratios when the proposed rule is finalized.

NOTE 3. Earnings Per Share

Basic earnings per share is calculated by dividing 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, 2006			March 31, 2005	
	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	\$ 1,496	6,891	\$.22	\$ 1,698	6,75
Effect of dilutive securities Options	30	92	(.01)	--	17
	-----	-----	-----	-----	-----
Diluted earnings per share					
Net income available to common stockholders plus assumed conversions	\$ 1,466	6,983	\$.21	\$ 1,698	6,92
	=====	=====	=====	=====	=====

10

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

NOTE 4. Investment Securities

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

The following tables summarize held to maturity and available-for-sale investment securities as of March 31, 2006 and December 31, 2005:

March 31, 2006				
	Amortized Cost	Gross unrealized gains	Gross unrealized losses	Fair value
(In thousands)				
Held To Maturity Investment Securities				
U.S. Government Agencies	\$ 546	\$ 2	\$ --	\$ 548
Totals	\$ 546	\$ 2	\$ --	\$ 548

December 31, 2005				
	Amortized Cost	Gross unrealized gains	Gross unrealized losses	Fair value
(In thousands)				
Held To Maturity Investment Securities				
U.S. Government Agencies	\$ 562	\$ 11	\$ --	\$ 573
Totals	\$ 562	\$ 11	\$ --	\$ 573

March 31, 2006				
	Amortized Cost	Gross unrealized gains	Gross unrealized losses	Fair value
(In thousands)				
Available-For-Sale Investment Securities				
U.S. Treasury and Notes	\$ 5,000	\$ --	\$ (11)	\$ 4,989
U.S. Government Agencies	455,770	--	(10,044)	445,726
Mortgage-backed securities	80,777	25	(2,661)	78,141
Corporate notes	45,492	89	(2,168)	43,413
Municipal Securities	1,973	571	--	2,544
Marketable equity securities and other	15,962	319	(61)	16,220
Totals	\$ 604,974	\$ 1,004	\$ (14,945)	\$ 591,033

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

NOTE 4. - (continued)

	December 31, 2005			
	Amortized Cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(In thousands)			
Available-For-Sale				
Investment securities				
U.S. Treasury and Notes	\$ 14,985	\$ --	\$ (86)	\$ 14,899
U.S. Government Agencies	448,196	--	(8,551)	439,645
Mortgage-backed securities	81,681	112	(2,107)	79,686
Corporate Notes	54,590	352	(2,638)	52,304
Municipal securities	1,972	334	--	2,306
Marketable equity				
securities and other	10,351	284	(65)	10,570
Totals	\$ 611,775	\$ 1,082	\$ (13,447)	\$ 599,410

In November 2003, the Emerging Issues Task Force (the "EITF") of the FASB issued EITF Abstract 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" (EITF Issue No. 03-1). In March 2004, the EITF reached a consensus on EITF Issue No. 03-1 and in September 2004, the FASB issued a proposed Board-directed FASB Staff Position (an "FSP"), FSP EITF 03-1-a "Implementation Guidance for the Application of Paragraph 16 of EITF Issue No. 03-1" (FSP EITF 03-1-a). The guidance in FSP EITF 03-1-a is applicable for investments in (a) debt and equity securities that are within the scope of SFAS Nos. 115 and 124, and (b) equity securities that are not subject to the scope of FAS 115 and 124 and not accounted for under the equity method of accounting, "cost-method investments."

The final FSP, retitled FSP FAS 115-1 and FAS 124-1 "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments," nullifies certain requirements of EITF No. 03-1 and supersedes EITF Topic No. D-44, "Recognition of Other-Than-Temporary Impairment upon the Planned Sale of a Security Whose Cost Exceeds Fair Value." FSP FAS 115-1 and FAS 124-1 specifically (a) nullifies the requirements of paragraphs 10-18 of EITF No. 03-1, (b) carries forward the requirements of paragraphs 8 and 9 with respect to cost-method-investments and the disclosure requirements included in paragraphs 21 and 22 of EITF No. 03-1 and related examples, and (c) references existing other-than-temporary impairment guidance. FSP FAS 115-1 and FAS 124-1 establishes a three-step approach for determining when an investment is considered impaired, whether that impairment is other than temporary, and the measurement of an impairment loss. Application of the guidance in FSP FAS 115-1 and FAS 124-1 is applicable to reporting periods beginning after December 15, 2005. The Company adopted FSP FAS 115-1 and FAS 124-1 in the first quarter of fiscal year 2006, the adoption of which did not have an impact on its operating results and financial condition.

The Company has investments in debt and equity securities that have unrealized losses or may otherwise be impaired, but an other than temporary impairment has not been recognized in its financial statements. Based upon our review of the available information, such unrealized losses are not considered to be other than temporary.

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

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

NOTE 5. Loan Portfolio

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

	March 31, 2006		December 31, 2005	
	Amount	% of Total	Amount	% of Total
	(Dollars in thousands)			
Commercial and professional loans	\$ 34,772	11.3%	\$ 33,370	10.8%
Secured by real estate				
1-4 family	143,839	46.7	139,931	45.1
Multi family	2,769	0.9	2,874	0.9
Non-residential (commercial)	125,398	40.7	132,142	42.6
Consumer	1,101	0.4	2,018	0.6
Total loans	307,879	100.0%	310,335	100.0%
Deferred loan fees	(962)		(1,105)	
Allowance for loan losses	(3,315)		(3,266)	
Loans, net	\$ 303,602		\$ 305,964	

NOTE 6. Deposits

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

	March 31, 2006		December 31, 2005	
	Average Amount	Average Yield	Average Amount	Average Yield
	(Dollars in thousands)			
Demand deposits	\$ 46,422	--	\$ 44,739	--
NOW and money market	40,253	0.62%	42,756	0.56%
Savings deposits	174,422	2.48	221,374	1.99
Time deposits	412,963	3.59	338,834	2.82
Total deposits	\$ 674,060	2.89%	\$ 647,703	2.19%

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

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

NOTE 7. Comprehensive Income (Loss)

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

	For The Three Months Ended					
	March 31, 2006			March 31, 2005		
	Before tax amount	Tax (expense) benefit	Net of tax Amount	Before tax amount	Tax (expense) benefit	Net of amou
	(In thousands)					
Unrealized (losses) gains on investment securities:						
Unrealized holding gains (losses) arising during period	\$ (835)	\$ 311	\$ (524)	\$ (7,627)	\$ 2,785	\$ (4)
Less reclassification adjustment for gains realized in net income	741	(296)	445	6	(2)	
Other comprehensive (loss) income, net	\$ (1,576)	\$ 607	\$ (969)	\$ (7,633)	\$ 2,787	\$ (4)

NOTE 8. Accounting For Stock Based Compensation

In December 2004, the Financial Accounting Standards Board (the "FASB") issued Statement No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123(R)") which requires the measurement and recognition of compensation expense for all stock-based compensation payments and supersedes the Company's current accounting under Accounting Principals Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25). SFAS 123(R) is effective for all annual periods beginning after June 15, 2005 or our fiscal year 2006. In March 2005, the Securities and Exchange Commission (the "SEC") issued Staff Accounting Bulletin No. 107 ("SAB 107") relating to the adoption of SFAS 123(R).

The Company adopted SFAS 123(R) in the first quarter of fiscal year 2006, the adoption of which did not have an impact on its operating results and financial condition.

At March 31, 2006, the Company has one stock-based employee compensation plan. Prior to the adoption of SFAS 123(R), the Company accounted for that plan under the recognition and measurement principles of APB 25 and related interpretations. Stock-based employee compensation costs were 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 Company did not grant stock options during the quarter ended March 31, 2006 or during the fiscal year ended December 31, 2005. We have no plans to grant

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

significant stock options, if any, in 2006. Therefore, we do not expect the implementation of FAS 123(R) to affect our financial position or results of operations in the near future.

14

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

NOTE 9. Employee Benefit Plans

The Company has a Retirement Income Plan (the "Plan"), a noncontributory plan covering substantially all full-time, non-union United States employees of the Company. The following interim-period information is being provided in accordance with FASB Statement 132(R).

	For The Three Months Ended March 31,	
	2006	2005
Service cost	\$ 82,000	\$ 66,000
Interest cost	37,000	28,000
Expected return on plan assets	(38,000)	(34,000)
Amortization and Deferral:		
Transition amount	--	--
Prior service cost	5,000	4,593
(Gain)/loss	14,000	6,407
Net periodic pension cost	100,000	71,000

During the fiscal year ending December 31, 2006, we expect to contribute approximately \$333,000 to the Plan. We did not make any contributions, required or otherwise, to the Plan in the three months ended March 31, 2006 and 2005.

Internal Control Over Financial Reporting

The current objective of the Bank's Internal Control Program is to allow management to comply with FDICIA requirements and with Section 302 of the Sarbanes-Oxley Act of 2002 (the "Act"). Section 302 of the Act requires the CEO and CFO of the Company to (i) certify that the annual and quarterly reports filed with the Securities and Exchange Commission are accurate and (ii) acknowledge that they are responsible for establishing, maintaining and periodically evaluating the effectiveness of the disclosure controls and procedures. Section 404 of the Act requires management to report on internal control over financial reporting. Presently, the SEC requires the Company to first comply with Section 404 by the year ending December 31, 2007.

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

15

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., a Delaware corporation. References herein to "Berkshire", the "Company" or "we" and similar pronouns, shall be deemed to refer to Berkshire Bancorp Inc. and its consolidated subsidiaries unless the context otherwise requires. References herein 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 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.

Critical Accounting Policies, Judgments and Estimates

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

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

With the adoption of Statement of Financial Accounting Standards ("SFAS") No. 142 ("SFAS No. 142") on January 1, 2002, the Company discontinued the amortization of goodwill resulting from acquisitions. Goodwill is now subject to impairment testing at least annually to determine whether write-downs of the recorded balances are necessary. The Company tests for impairment based on the goodwill maintained at the Bank. A fair value is determined for each reporting unit based on at least one of three various market valuation methodologies. If the fair values of the reporting units exceed their book values, no write-down of recorded goodwill is necessary. If the fair value of the reporting unit is less, an expense may be required on the Company's books to write down the related goodwill to the proper carrying value. As of December 31, 2005, the Company completed its annual testing, which determined that no impairment

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

write-offs were necessary.

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

16

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,				
	2006			2005	
	Average Balance	Interest and Dividends	Average Yield/Rate	Average Balance	Interest and Dividend
	(Dollars in Thousands)				
INTEREST-EARNING ASSETS:					
Loans (1)	\$ 310,007	\$ 5,504	7.10%	\$ 288,288	\$ 4,699
Investment securities	594,526	6,255	4.21	671,946	6,177
Other (2) (5)	8,496	76	3.53	16,683	91
Total interest-earning assets	913,029	11,835	5.18	976,917	10,967
Noninterest-earning assets	46,352			42,516	
Total Assets	\$ 959,381			\$ 1,019,433	
INTEREST-BEARING LIABILITIES:					
Interest bearing deposits	214,675	1,143	2.13%	321,695	1,333
Time deposits	412,963	3,711	3.59	296,497	1,555
Other borrowings	164,405	1,753	4.27	240,470	1,921
Total interest-bearing liabilities	792,043	6,607	3.34	858,662	4,810
Demand deposits	46,422			43,708	
Noninterest-bearing liabilities	11,728			6,656	
Stockholders' equity (5)	109,188			110,407	

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

Total liabilities and stockholders' equity	\$ 959,381 =====	\$ 1,019,433 =====	
Net interest income	5,228 =====		6,15 =====
Interest-rate spread (3)		1.84% =====	
Net interest margin (4)		2.29% =====	
Ratio of average interest-earning assets to average interest bearing liabilities	1.15 =====		1.14 =====

-
- (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.

17

Results of Operations

Results of Operations for the Three Months Ended March 31, 2006 Compared to the Three Months Ended March 31, 2005.

General. Berkshire Bancorp Inc., a bank holding company registered under the Bank Holding Company Act of 1956, has one wholly-owned banking subsidiary, The Berkshire Bank, a New York State chartered commercial bank. The Bank is headquartered in Manhattan and has ten branch locations, six branches in New York City and four branches in Orange and Sullivan counties New York. An eleventh branch in northern New Jersey is scheduled to open in the Spring of 2006.

Net Income. Net income for the three-month period ended March 31, 2006 was \$1.50 million, or \$.21 per share, as compared to \$1.70 million, or \$.25 per share, for the three-month period ended March 31, 2005.

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

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

From June 2003 through June 30, 2004, interest rates, as measured by the prime rate, remained constant at 4.00%. On July 1, 2004, inflation fighting actions taken by the Federal Reserve Board resulted in a 25 basis point increase in the prime rate to 4.25%, the first such increase in more than four years. Similar 25 basis point moves taken by the Federal Reserve Board during 2004, 2005 and 2006 have moved the prime rate to its present level of 7.75%.

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

For the quarter ended March 31, 2006, net interest income decreased by \$925,000 to \$5.23 million from \$6.15 million for the quarter ended March 31, 2005. The quarter over quarter decrease in net interest income was the result of the 110 basis point increase in the average rates paid on the average amounts of interest-bearing liabilities to 3.34% in the 2006 quarter from 2.24% in the 2005 quarter. The decrease was partially offset by the 69 basis point increase in the average yields earned on the average amounts of interest-earning assets to 5.18% in 2006 from 4.49% in 2005. The difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities, or the Company's interest-rate spread, declined by 41 basis points to 1.84% in the 2006 quarter from 2.25% in the 2005 quarter.

If interest rates remain at current levels or increase slowly over time, we expect to see only moderate pressure on the Company's interest-rate spread and net interest income. Investment securities in our portfolio that have been sold, matured or called by the issuer during fiscal 2005 have been replaced with securities carrying somewhat higher yields and, by design, shorter maturities to partially hedge against a rising interest rate environment. Rates paid on deposit accounts are likely to increase in a rising rate environment due to competition for deposits in the market place. The cost of borrowed funds with floating rather than fixed interest rates will increase as well.

Net Interest Margin. Net interest margin, or annualized net interest income as a percentage of average interest-earning assets, declined by 23 basis points to 2.29% in the first quarter of fiscal 2006 from 2.52% in the first quarter of fiscal 2005. We seek to secure and retain customer deposits with competitive products and rates, while making strategic use of the prevailing interest rate environment to borrow funds at what we believe to be attractive rates. We invest such deposits and borrowed funds in a prudent mix of fixed and adjustable rate loans, investment securities and short-term interest-earning assets which provided an aggregate average yield of 5.18% and 4.49% during the quarters ended March 31, 2006 and 2005, respectively.

The average amount of loans in our portfolio increased by \$21.72 million to \$310.01 million in the quarter ended March 31, 2006 from \$288.29 million in the quarter ended March 31, 2005. The average yield on the loan portfolio increased to 7.10% in the 2006 quarter from 6.51% in the 2005 quarter. The principal amount of new loans originated, loans sold and principal repayments on existing loans during the first quarter of 2006 was \$8.48 million, \$2.66 million and \$8.27 million, respectively.

The average amount of investment securities decreased by \$77.42 million,

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

to \$594.53 million in the three months ended March 31, 2006 from \$671.95 million in the three months ended March 31, 2005. The average yield on investment securities improved by 53 basis points, to 4.21% in 2006 from 3.68% in 2005 and will likely continue to increase in a rising interest rate environment.

Interest Income. Total interest income for the quarter ended March 31, 2006 increased by \$868,000 to \$11.84 million from \$10.97 million for the quarter ended March 31, 2005. The increase in total interest income was primarily due to the increase in the average yields earned on interest-earning assets, partially offset by the overall decrease in the average amount of such assets. Loans contributed \$5.50 million of interest income in 2006, an increase of \$810,000 from the \$4.69 million of interest income contributed in 2005. Investment securities contributed \$6.26 million of interest income in the first quarter of 2006, an increase of \$76,000 from the \$6.18 million of interest income earned on investment securities in the first quarter of 2005.

Three Months Ended March 31,				
2006		2005		
	Interest Income	% of Total	Interest Income	% of Total
(In thousands, except percentages)				
Loans	\$ 5,504	46.51%	\$ 4,694	42.81%
Investment Securities	6,255	52.86	6,179	56.35
Other	76	0.63	94	0.84
Total Interest Income	\$ 11,835	100.00%	\$ 10,967	100.00%

Loans, which are inherently risky and therefore command a higher return than our conservative portfolio of investment securities, increased to 33.95% of our total average interest-earning assets during the three months ended March 31, 2006 from 29.51% of total average interest-earning assets during the three months ended March 31, 2005. Investment securities declined to 65.12% from 68.78% of total average interest-earning assets during 2006 and 2005, respectively.

Three Months Ended March 31,				
2006		2005		
	Average Amount	% of Total	Average Amount	% of Total
(In thousands, except percentages)				
Loans	\$310,007	33.95%	\$288,288	29.51%
Investment Securities	594,526	65.12	671,946	68.78
Other	8,496	0.93	16,683	1.71
Total Interest-Earning Assets	\$913,029	100.00%	\$976,917	100.00%

Interest Expense. Total interest expense for the quarter ended March 31, 2006 increased by \$1.79 million to \$6.61 million from \$4.81 million for the quarter

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

ended March 31, 2005. The increase in interest expense was due primarily to the increase in the average rates paid on the average amount of interest-bearing liabilities, 3.34% in 2006 compared to 2.24% in 2005, partially offset by the decline in the average amounts of interest-bearing liabilities. As interest rates move higher, interest expense will increase as we price our deposit products to meet the competition and the adjustable rates paid on other borrowings increase as well. In 2004 and 2005, we sold an aggregate of \$22.68 million of floating rate junior subordinated debentures which mature in thirty years and used the net proceeds to augment the Bank's capital to allow for business expansion. The interest expense on these debentures, which is included in other borrowings, was \$424,000 and \$206,000 during the three months ended March 31, 2006 and 2005, respectively.

Three Months Ended March 31,				

	2006		2005	
	Interest	% of	Interest	% of
	Expense	Total	Expense	Total
(In thousands, except percentages)				
Interest-Bearing Deposits	\$ 1,143	17.30%	\$ 1,337	27.77%
Time Deposits	3,711	56.17	1,554	32.28
Other Borrowings	1,753	26.53	1,923	39.95
	-----	-----	-----	-----
Total Interest Expense	\$ 6,607	100.00%	\$ 4,814	100.00%

Three Months Ended March 31,				

	2006		2005	
	Average	% of	Average	% of
	Amount	Total	Amount	Total
(In thousands, except percentages)				
Interest-Bearing Deposits	\$214,675	27.10%	\$321,695	37.46%
Time Deposits	412,963	52.14	296,497	34.53
Other Borrowings	164,405	20.76	240,470	28.01
	-----	-----	-----	-----
Total Interest-Bearing Liabilities	\$792,043	100.00%	\$858,662	100.00%

20

Non-Interest Income. Non-interest income consists primarily of realized gains on sales of marketable securities and service fee income. For the three months ended March 31, 2006, total non-interest income increased by \$784,000, to \$1.05 million from \$269,000 for the three months ended March 31, 2005. The increase is largely due to the \$735,000 increase in gains on the sales of investment securities.

Three Months Ended March 31,				

	2006		2005	
	Non-Interest	% of	Non-Interest	% of

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

	Income	Total	Income	Total
	(In thousands, except percentages)			
Service Charges on Deposits	\$ 140	13.30%	\$ 133	49.44%
Investment Securities gains	741	70.37	6	2.23
Other	172	16.33	130	48.33
	-----	-----	-----	-----
Total Non-Interest Income	\$ 1,053	100.00%	\$ 269	100.00%

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 months ended March 31, 2006 increased by \$220,00 to \$3.41 million from \$3.19 million for the three months ended March 31, 2005. The largest component of non-interest expense, almost 62% of the total, are salaries and employee benefits which increased by \$152,000 to \$2.11 million in the 2006 quarter from \$1.96 million in the 2005 quarter. The increase is due to the addition of personnel in our internal control and compliance departments.

	----- Three Months Ended March 31, -----			
	2006		2005	
	Non-Interest	% of	Non-Interest	% of
	Expense	Total	Expense	Total
	(In thousands, except percentages)			
Salaries and Employee Benefits	\$ 2,107	61.72%	\$ 1,955	61.23%
Net Occupancy Expense	475	13.94	381	11.93
Equipment Expense	96	2.81	99	3.10
FDIC Assessment	21	0.61	69	2.16
Data Processing Expense	90	2.64	44	1.38
Other	624	18.28	645	20.20
	-----	-----	-----	-----
Total Non-Interest Expense	\$ 3,413	100.00%	\$ 3,193	100.00%

Provision for Income Tax. We recorded income tax expense of \$1.33 million and \$1.49 million for the three-month periods ended March 31, 2006 and 2005, respectively. The tax provisions for federal, state and local taxes represent effective tax rates of 47.01% and 46.67% for the three months ended March 31, 2006 and 2005, respectively.

Common Stock Repurchases

On May 15, 2003, The Company's Board of Directors authorized the purchase of up to an additional 450,000 shares of its Common Stock in the open market, from time to time, depending upon prevailing market conditions, thereby increasing the maximum number of shares which may be purchased by the Company from 1,950,000 shares of Common Stock to 2,400,000 shares of Common Stock. Since 1990 through December 31, 2004, the Company has purchased a total of 1,848,909 shares of its Common Stock. At March 31, 2006, there were 551,091 shares of Common Stock which may yet be purchased under our stock repurchase plan. We have not repurchased shares of the Company's Common Stock during the first quarter of 2006 or in the fiscal year ended December 31, 2005.

Risk Factors.

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

We operate in the highly competitive banking industry and there can be no assurance that we will be able to compete successfully.

Our ability to maintain our history of strong financial performance and return on investment to shareholders may depend in part on our ability to expand our scope of available financial services as needed to meet the needs and demands of our customers. Our business model focuses on using superior customer service to provide traditional banking services to a growing customer base. However, we operate in an increasingly competitive environment in which our competitors now include securities dealers, brokers, mortgage bankers, investment advisors and finance and insurance companies who seek to offer one-stop financial services to their customers that may include services that we have not been able or allowed to offer to our customers in the past. This increasingly competitive environment is primarily a result of changes in regulation, changes in technology and product delivery systems and the accelerating pace of consolidation among financial services providers. We cannot assure you that we will be able to continue to compete successfully in this environment without expanding the scope of financial services we provide, or that if we need to expand the scope of services that we provide, that we will be able to do so successfully.

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

We face substantial competition in all phases of our operations from a variety of different competitors. We encounter competition from other commercial banks, savings and loan associations, mutual savings banks, credit unions and other financial institutions. Our competitors, including credit unions, consumer finance companies, factors, insurance companies and money market mutual funds, compete with lending and deposit-gathering services offered by us. There is very strong competition for financial services in the New York state areas in which we currently conduct our business. This geographic area includes offices of many of the largest financial institutions in the world. Many of those competing institutions have much greater financial and marketing resources than we have. Due to their size, many competitors can achieve larger economies of scale and as a result may offer a broader range of products and services than we do. If we are unable to offer competitive products and services, our earnings may be negatively affected. Some of the financial services organizations with which we compete are not subject to the same degree of regulation as is imposed on bank holding companies like ourselves and on federally insured financial institutions like our

banking subsidiary, The Berkshire Bank. As a result, these nonbank competitors have certain advantages over us in accessing funding and in providing various services. The banking business in our current primary market area is very

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

competitive, and the level of competition we face may increase further, which may limit our asset growth and profitability.

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

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

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

Our income and cash flow and the value of our assets and liabilities depend to a great extent on the difference between the interest rates earned on interest-earning assets such as loans and investment securities, and the interest rates paid on interest-bearing liabilities such as deposits and borrowings. These rates are highly sensitive to many factors which are beyond our control, including general economic conditions and policies of various governmental and regulatory agencies, in particular, the Board of Governors of the Federal Reserve System. Changes in monetary policy, including changes in interest rates, will influence the origination of loans, the returns on our portfolio of investment securities and the amounts paid on deposits. If the rate of interest we pay on deposits and other borrowings increases more than the rate of interest we earn on loans and other investments, our net interest income, and therefore our earnings, could be adversely affected. Our earnings could also be adversely affected if the rates on our loans and other investments fall more quickly than those on our deposits and other borrowings.

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

We are subject to extensive state and federal regulation, supervision, and legislation which govern almost all aspects of our operations. These laws may change from time to time and are primarily intended for the protection of customers, depositors, and the deposit insurance funds. The impact of any changes to these laws may negatively impact our ability to expand our services and to increase the value of our business. Regulatory authorities have extensive discretion in the exercise of their supervisory and enforcement powers. They may, among other things, impose restrictions on the operation of a banking institution, the classification of assets by such institution and such institution's allowance for loan losses. Regulatory and law enforcement authorities also have wide discretion and extensive enforcement powers under various consumer protection, civil rights and other laws, including the Gramm-Leach-Bliley Act, the Bank Secrecy Act, the Truth-in-Lending Act, the Equal Credit Opportunity Act, the Fair Housing Act and the Real Estate Settlement Procedures Act. These laws also permit private individual and class action lawsuits and provide for the recovery of attorneys fees in certain instances. Any changes to these laws or any applicable accounting principles may negatively impact our results of operations and financial condition. While we cannot predict what effect any presently contemplated or future changes in the laws or

regulations or their interpretations would have, these changes could be materially adverse to our investors and stockholders.

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

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

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

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

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

Under our amended and restated certificate of incorporation, we have authorized 2,000,000 shares of preferred stock, which the board of directors may

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

issue with terms, rights, preferences and designations as the board of directors may determine and without any vote of the shareholders, unless otherwise required by law. Issuing the preferred stock, depending upon the rights, preferences and designations set by the board of directors, may delay, deter, or prevent a change in control of the Company.

24

In addition, we have authorized 10,000,000 shares of common stock of which approximately 7.7 million shares have been issued and approximately 6.9 million shares are outstanding. The price of our common stock may be volatile at times since our common stock is thinly traded and one individual owns or controls approximately 50% of our outstanding shares. It may be difficult for a stockholder to sell a significant number of shares at a time and at a price of their choosing or for a third party to purchase sufficient shares on the open market to cause a change in control of the Company, all of which could depress the price of Berkshire Bancorp's common stock.

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

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

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

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.

As an additional interest rate management strategy, the Bank borrows funds from the Federal Home Loan Bank, approximately \$75.12 million at March 31, 2006, at fixed rates for a period of one to five years.

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

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.

25

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, 2000 (in thousands, except for percentages)				
	3 Months or Less	3 Through 12 Months	1 Through 3 Years	Over 3 Years
Federal funds sold	4,400	--	--	--
(Rate)	4.75%			
Interest bearing deposits in banks	4,149	--	--	--
(Rate)	3.58%			
Loans (1) (2)				
Adjustable rate loans	50,875	8,977	14,416	23,484
(Rate)	8.39%	6.11%	7.25%	6.64%
Fixed rate loans	1,353	11,314	18,528	178,932
(Rate)	7.60%	7.37%	6.65%	6.47%
Total loans	52,228	20,291	32,944	202,416
Investments (3) (4)	112,503	139,760	141,249	198,067
(Rate)	4.13%	3.15%	4.11%	4.93%
Total rate-sensitive assets	168,880	160,051	174,193	400,483
Deposit accounts (5)				
Savings and NOW	195,878	--	--	--
(Rate)	2.41%			
Money market	18,786	--	--	--
(Rate)	0.80%			
Time Deposits	140,055	278,834	5,631	14
(Rate)	3.28%	4.05%	2.87%	1.74%
Total deposit accounts	354,719	278,834	5,631	14.00
Repurchase Agreements	12,841	30,000	8,000	--
(Rate)	3.48%	2.86%	4.16%	
Other borrowings	--	8,513	40,655	48,634

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

	(Rate)	%	4.04%	3.43%	6.03%
	-----	-----	-----	-----	-----
Total rate-sensitive liabilities	367,560	317,347	54,286	48,648	
	-----	-----	-----	-----	-----
Interest rate caps	20,000	--	(20,000)	--	
Gap (repricing differences)	(218,680)	(157,296)	139,907	351,835	
	=====	=====	=====	=====	=====
Cumulative Gap	(218,681)	(375,976)	(236,069)	115,766	
	=====	=====	=====	=====	=====
Cumulative Gap to Total Rate Sensitive Assets	(24.20)%	(41.61)%	(26.13)%	12.81%	
	=====	=====	=====	=====	=====

-
- (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 among maturity/repricing periods based upon The Berkshire Bank's historical experience. All other time accounts are scheduled according to their respective maturity dates.

26

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 extremely 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. There were no loans classified as loss as of March 31, 2006.

For the three month periods ended March 31, 2006 and 2005, we recovered loans totaling \$5,000 and \$50,000, respectively, which amounts were returned to the provision for loan losses. Loan charge-offs were \$1,000 in 2006 and zero in 2005.

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 criticized and impaired loans is based on careful 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 guarantees, 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 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.

27

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

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

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, 2006 and 2005, we had a total of \$253,000 and \$404,000, respectively, of non-accrual loans, and no loans past due more than 90 days and still accruing interest at either date. Based upon management's evaluations of the overall analysis of the Bank's allowance for loan losses, the year over year increase in total loans to \$307.88 million from \$285.53 million and the economic conditions in our market area, the provision for the three months ended March 31, 2006, including net recoveries which are added back to the provision, increased to \$3.32 million from \$3.02 million in the year ago period.

Management believes that the allowance for loan losses and nonperforming loans remains 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 (in thousands, except percentages):

	Three Months Ended March 31,	
	2006	2005
Average loans outstanding	\$ 310,007	\$ 288,288
Allowance at beginning of period	3,266	2,927
Charge-offs:		
Commercial and other loans	1	--
Total loans charged-off	1	--
Recoveries:		
Commercial and other loans	5	50
Total loans recovered	5	50
Net (charge-offs) recoveries	4	50
Provision for loan losses charged to operating expenses	45	45
Allowance at end of period	\$ 3,315	\$ 3,022
Ratio of net recoveries (charge-offs) to average loans outstanding	0.00%	0.02%
Allowance as a percent of total loans	1.08%	1.06%
Total loans at end of period	\$ 307,879	\$ 285,528

Loan Portfolio.

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 commercial loans are either made to individuals or personally guaranteed by the principals of the business to which the loan is made. At March 31, 2006, we had total gross loans of \$307.88 million, deferred loan fees of \$962,000 and an allowance for loan losses of \$3.32 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. During the three-month period ended March 31, 2006, the Bank sold approximately \$2.66 million of such loans and recorded in other income a gain of approximately \$7,000 on such sales.

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

	March 31, 2006	December 31, 2005
	----- Amount -----	----- Amount -----
	(in thousands)	
Commercial and professional loans	\$ 34,772	\$ 33,370
Secured by real estate		
1-4 family	143,839	139,931
Multi family	2,769	2,874
Non-residential (commercial)	125,398	132,142
Consumer	1,101	2,018
	-----	-----
Total loans	307,879	310,335
Less:		
Deferred loan fees	(962)	(1,105)
Allowance for loan losses	(3,315)	(3,266)
	-----	-----
Loans, net	\$ 303,602	\$ 305,964
	=====	=====

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. At March 31, 2006 and 2005, we did not have any loans past due more than 90 days and still accruing interest.

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

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, 2006, 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.

The following tables set forth the actual and required regulatory capital amounts and ratios of the Company and the Bank as of March 31, 2006 and December 31, 2005 (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, 2006						
Total Capital (to Risk-Weighted Assets)						
Company	126,099	29.4%	34,290	>or=8.0%	--	
Bank	96,620	23.7%	32,553	>or=8.0%	40,691	>or=100%
Tier I Capital (to Risk-Weighted Assets)						
Company	122,784	28.7%	17,145	>or=4.0%	--	
Bank	93,305	22.9%	16,276	>or=4.0%	24,415	>or=100%
Tier I Capital (to Average Assets)						
Company	122,784	12.8%	38,375	>or=4.0%	--	
Bank	93,305	10.2%	36,699	>or=4.0%	45,874	>or=100%

	Actual		For capital adequacy purposes		To be well capitalized under prompt corrective action provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	-----	-----	-----	-----	-----	-----
December 31, 2005						
Total Capital (to Risk-Weighted Assets)						
Company	\$124,523	28.6%	\$34,820	>or=8.0%	--	
Bank	95,193	23.0%	33,116	>or=8.0%	34,416	>or=100%
Tier I Capital (to Risk-Weighted Assets)						
Company	121,257	27.9%	17,410	>or=4.0%	--	
Bank	91,927	22.2%	16,558	>or=4.0%	20,649	>or=100%
Tier I Capital (to Average Assets)						
Company	121,257	12.2%	39,651	>or=4.0%	--	

Bank

91,927 10.1% 36,495 >or=4.0% 46,550 >or=

30

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.

For the Company, liquidity means having cash available to fund operating expenses and to pay shareholder dividends, when and if declared by the Company's Board of Directors and to pay the interest on the Debentures issued in May 2004 and April 2005. The ability of the Company to meet all of its obligations, including the payment of dividends, is not dependent upon the receipt of dividends from the Bank. At March 31, 2006, the Company, excluding the Bank, had cash and cash equivalents of \$11.29 million and investment securities available for sale of \$12.62 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, approximately \$21.78 million at March 31, 2006, include commitments to extend credit and stand-by letters of credit.

At March 31, 2006, the Company had outstanding commitments of approximately \$503.78 million; including \$425 million of time deposits, \$75 million of Federal Home Loan Bank debt, and \$4 million of operating leases. These commitments include \$428.26 million that mature or renew within one year, \$47.74 million that mature or renew after one year and within three years, \$27.13 million that mature or renew after three years and within five years and \$662,000 that mature or renew after five years.

Impact of Inflation and Changing Prices

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

31

ITEM 4 - CONTROLS AND PROCEDURES

Evaluation of the Company's Disclosure Controls and Internal Control. As of the end of the period covered by this Quarterly Report on Form 10-Q, the Company evaluated the effectiveness of the design and operation of its "disclosure controls and procedures" as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934 ("Disclosure Controls"). This evaluation ("Controls Evaluation") was done under the supervision and with the participation of the Company's management, including the Chief Executive Officer ("CEO") who is also the Chief Financial Officer ("CFO").

Limitations on the Effectiveness of Controls. The Company's management, including the CEO/CFO, does not expect that its Disclosure Controls and/or its "internal control over financial reporting" as defined in Rule 13(a)-15(f) of the Securities Exchange Act of 1934 ("Internal Control") will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Conclusions. Based upon the Controls Evaluation, the CEO/CFO has concluded that, the Disclosure Controls are effective in reaching a reasonable level of assurance that information required to be disclosed by the Company is recorded, processed, summarized and reported within the time period specified in the SEC's rules and forms. In accordance with SEC requirements, the CEO/CFO notes that during the fiscal quarter ended March 31, 2006, no changes in Internal Control have occurred that have materially affected or are reasonably likely to materially affect Internal Control.

PART II. OTHER INFORMATION

Item 6. Exhibits

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

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 2, 2006

By: /s/ Steven Rosenberg

Steven Rosenberg
President and Chief
Financial Officer

33

EXHIBIT INDEX

Exhibit Number -----	Description -----	Sequential Page Number -----
31	Certification of Principal Executive and Financial Officer pursuant to Section 302 Of The Sarbanes-Oxley Act of 2002.	35
32	Certification of Principal Executive and Financial Officer pursuant to Section 906 Of The Sarbanes-Oxley Act of 2002.	36

34