

BERKSHIRE BANCORP INC /DE/

Form 10-Q

August 05, 2010

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2010

or

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

For the transition period from _____ to _____

Commission file number: 0-13649

BERKSHIRE BANCORP INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State or Other Jurisdiction of
Incorporation or Organization)

94-2563513
(I.R.S. Employer
Identification No.)

160 Broadway, New York, New York
(Address of Principal Executive Offices)

10038
(Zip Code)

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

N/A

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act. Yes

No

As of August 5, 2010, there were 7,054,183 outstanding shares of the issuer's Common Stock, \$.10 par value.

BERKSHIRE BANCORP INC. AND SUBSIDIARIES

FORWARD-LOOKING STATEMENTS

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

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

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

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

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

	June 30, 2010	December 31, 2009
ASSETS		
Cash and due from banks	\$ 7,350	\$ 5,427
Interest bearing deposits	71,555	55,376
Total cash and cash equivalents	78,905	60,803
Investment Securities:		
Available-for-sale	338,469	357,478
Held-to-maturity, fair value of \$328 in 2010 and \$337 in 2009	329	340
Total investment securities	338,798	357,818
Loans, net of unearned income	383,273	430,349
Less: allowance for loan losses	(13,105)	(11,416)
Net loans	370,168	418,933
Accrued interest receivable	3,823	4,253
Premises and equipment, net	8,355	8,532
Goodwill, net	18,549	18,549
Other assets	38,095	40,379
Total assets	\$ 856,693	\$ 909,267
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	\$ 66,008	\$ 62,870
Interest bearing	613,937	650,574
Total deposits	679,945	713,444
Securities sold under agreements to repurchase	50,000	50,000
Borrowings	12,851	31,004
Subordinated debt	22,681	22,681
Accrued interest payable	3,464	3,578
Other liabilities	4,191	3,324
Total liabilities	773,132	824,031
Stockholders' equity		
Preferred stock - \$.01 Par value: Authorized — 2,000,000 shares Issued — 60,000 shares Outstanding — June 30, 2010, 60,000 shares December 31, 2009, 60,000 shares	1	1
Common stock - \$.10 par value Authorized — 25,000,000 shares Issued — 7,698,285 shares Outstanding — June 30, 2010, 7,054,183 shares December 31, 2009, 7,054,183 shares	770	770
Additional paid-in capital	150,985	150,985
Accumulated Deficit	(47,454)	(46,833)
Accumulated other comprehensive loss, net	(14,330)	(13,276)
Treasury Stock at cost June 30, 2010, 644,102 December 31, 2009, 644,102 shares	(6,411)	(6,411)
Total stockholders' equity	83,561	85,236
Total liabilities and stockholders' equity	\$ 856,693	\$ 909,267

The accompanying notes are an integral part of these statements

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

	For The Three Months Ended June 30,		For The Six Months Ended June 30,	
	2010	2009	2010	2009
INTEREST INCOME				
Loans, including related fees	\$ 6,473	\$ 7,449	\$ 13,006	\$ 15,220
Investment securities	3,720	4,042	7,520	8,445
Federal funds sold and interest bearing deposits	65	182	116	453
Total interest income	10,258	11,673	20,642	24,118
INTEREST EXPENSE				
Deposits	1,953	3,237	4,213	7,254
Securities sold under agreements to repurchase	502	591	1,000	1,175
Borrowings and subordinated debt	422	578	939	1,345
Total interest expense	2,877	4,406	6,152	9,774
Net interest income	7,381	7,267	14,490	14,344
PROVISION FOR LOAN LOSSES	1,500	400	2,750	550
Net interest income after provision for loan losses	5,881	6,867	11,740	13,794
NON-INTEREST INCOME				
Service charges on deposits accounts	130	116	256	238
Investment securities gains	247	112	402	187
Gain on sale of foreclosed real estate, net	229	—	229	—
Other income	95	150	197	352
Total non-interest income	701	378	1,084	777
NON-INTEREST EXPENSE				
Total other than temporary impairment ("OTTI") charges on securities	1,202	4,100	1,202	5,125
Less non-credit portion of OTTI recorded in other comprehensive loss	—	—	—	—
Net OTTI recognized in earnings	1,202	4,100	1,202	5,125
Salaries and employee benefits	2,407	2,311	4,748	4,672
Net occupancy expense	547	546	1,113	1,052
Equipment expense	92	95	183	194
FDIC assessment	468	585	936	1,268
Data processing expense	126	116	252	210
Other	876	861	1,696	1,773
Total non-interest expense	5,718	8,614	10,130	14,294
Income (loss) before provision for taxes	864	(1,369)	2,694	277
Provision for income taxes	239	1,066	915	1,643
Net income (loss)	\$ 625	\$ (2,435)	\$ 1,779	\$ (1,366)
Dividends on preferred stock	1,200	1,200	2,400	2,400
(Loss) allocated to common stockholders	\$ (575)	\$ (3,635)	\$ (621)	\$ (3,766)
Net (loss) per common share:				
Basic	\$ (.08)	\$ (.52)	\$ (.09)	\$ (.53)

Diluted	\$	(.08)	\$	(.52)	\$	(.09)	\$	(.53)
Number of shares used to compute net (loss) per common share:								
Basic		7,054		7,054		7,054		7,054
Diluted		7,054		7,054		7,054		7,054

The accompanying notes are an integral part of these statements.

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

For The Six Months Ended June 30, 2010 and 2009
(In Thousands)
(Unaudited)

	Common Shares	Preferred Shares	Common Par Value	Preferred Par Value	Additional paid-in capital	Accumulated other comprehensive (loss), net	Retained Earnings/ Accumulated deficit	Treasury stock	Comprehensive income (loss)	Total stockholders' equity
Balance at December 31, 2008	7,698	60	\$ 770	\$ 1	\$ 150,985	\$ (39,598)	\$ (39,795)	\$ (6,411)		\$ 65,952
Net (loss)							(1,366)		\$ (1,366)	(1,366)
Other comprehensive income net of taxes						8,421			8,421	8,421
Comprehensive income									\$ 7,055	
Cash dividends - Preferred Stock							(2,400)			(2,400)
Balance at June 30, 2009	7,698	60	\$ 770	\$ 1	\$ 150,985	\$ (31,177)	\$ 43,561	\$ (6,411)		\$ 70,607
Balance at December 31, 2009	7,698	60	\$ 770	\$ 1	\$ 150,985	\$ (13,276)	\$ (46,833)	\$ (6,411)		\$ 85,236
Net income							1,779		\$ 1,779	1,779
Other comprehensive loss net of taxes						(1,054)			(1,054)	(1,054)
Comprehensive income									\$ 725	
Cash dividends - Preferred Stock							(2,400)			(2,400)
Balance at June 30, 2010	7,698	60	\$ 770	\$ 1	\$ 150,985	\$ (14,330)	\$ (47,454)	\$ (6,411)		\$ 83,561

The accompanying notes are an integral part of these statements.

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

	For The Six Months Ended June 30,	
	2010	2009
Cash flows from operating activities:		
Net income (loss)	\$ 1,779	\$ (1,366)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Realized gains on investment securities	(402)	(187)
Gain on sale of foreclosed real estate	(229)	—
Other than temporary impairment charges on securities	1,202	5,125
Net amortization (accretion) of premiums of investment securities	1,008	15
Depreciation and amortization	258	274
Provision for loan losses	2,750	550
Decrease in accrued interest receivable	430	981
Decrease in other assets	2,056	18,559
Increase (decrease) in accrued interest payable and other liabilities	753	(16,274)
Net cash provided by operating activities	9,605	7,677
Cash flows from investing activities:		
Investment securities available for sale		
Purchases	(113,680)	(138,550)
Sales, maturities and calls	130,055	133,710
Investment securities held to maturity		
Maturities	11	11
Net decrease in loans	33,696	20,423
Proceeds from sale of foreclosed real estate	12,548	—
Acquisition of premises and equipment	(81)	(41)
Net cash provided by investing activities	62,549	15,553
Cash flows from financing activities:		
Net increase in non interest bearing deposits	3,138	4,884
Net decrease in interest bearing deposits	(36,637)	(60,134)
Decrease in securities sold under agreements to repurchase	—	(2,504)
Repayment of borrowings	(18,153)	(8,799)
Dividends paid on preferred stock	(2,400)	(2,400)
Net cash (used in) financing activities	(54,052)	(68,953)
Net increase (decrease) in cash and cash equivalents	18,102	(45,723)
Cash and cash equivalents at beginning of period	60,803	102,387
Cash and cash equivalents at end of period	\$ 78,905	\$ 56,664
Supplemental disclosure of cash flow information:		
Cash used to pay interest	\$ 6,266	\$ 12,516
Cash used to pay income taxes, net of refunds	\$ (1,080)	\$ 930

Schedule of non-cash investing activities:

Transfer from loans to real estate owned	\$	12,318	\$	—
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The accompanying notes are an integral part of these statements.

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BERKSHIRE BANCORP INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2010 and 2009

(unaudited)

Note 1. General

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

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

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

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

Note 2. Earnings (Loss) Per Share

Basic earnings (loss) per common share is calculated by dividing income (loss) available to common stockholders by the weighted average common stock outstanding, excluding stock options from the calculation. In calculating diluted earnings per common share, the dilutive effect of stock options is calculated using the average market price for the Company's common stock during the period. There is no effect for dilutive shares for the three and six months ended June 30, 2010 and 2009 due to the net loss allocated to common stockholders. The following tables present the Company's calculation of loss per common share for the periods indicated:

	For The Three Months Ended					
	June 30, 2010			June 30, 2009		
	Income (numerator)	Shares (denominator)	Per share amount	Income (numerator)	Shares (denominator)	Per share amount
(In thousands, except per share data)						
Basic earnings (loss) per common share						
Net income (loss)	\$ 625			\$ (2,435)		
Dividends paid to preferred shareholders	(1,200)			(1,200)		
Net (loss) available to common stockholders	(575)	7,054	\$ (.08)	(3,635)	7,054	\$ (.52)
Effect of dilutive securities Options	—	—	.—	—	—	.—
Diluted earnings (loss) per common share						
Net (loss) available to common stockholders plus assumed conversions	\$ (575)	7,054	\$ (.08)	\$ (3,635)	7,054	\$ (.52)

	For The Six Months Ended					
	June 30, 2010			June 30, 2009		
	Income (numerator)	Shares (denominator)	Per share amount	Income (numerator)	Shares (denominator)	Per share amount