BERKSHIRE BANCORP INC /DE/
Form 10-Q
May 13, 2002

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2002

or

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

For the transition period from ________________ to ________________________

Commission file number: 0-13649

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

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

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

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

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

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As of May 10, 2002, there were 2,321,390 outstanding shares of the issuers Common Stock, $.10 par value.

BERKSHIRE BANCORP INC. AND SUBSIDIARIES

FORWARD-LOOKING STATEMENTS

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

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

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

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

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

	March 31, 2002	Decembe 200
ASSETS		
Cash and due from banks	$ 3,601	$ 7,
Interest bearing deposits	222	
Federal funds sold	12,600	3,
Total cash and cash equivalents	16,423	10,
Investment Securities:		
Available-for-sale	248,012	240,
Held-to-maturity	1,498	1,
Total investment securities	249,510	242,
Loans, net of unearned income	260,545	252,
Less: allowance for loan losses	(2,058)	(2,
Net loans	258,487	250,
Accrued interest receivable	3,587	3,
Premises and equipment, net	8,337	7,
Other assets	4,726	4,
Goodwill, net of amortization of $2,300 in 2001	18,549	18,
Total assets	$559,619	$536,
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	$ 33,523	$ 30,
Interest bearing	353,144	308,
Total deposits	386,667	338,
Securities sold under agreements to repurchase	23,833	53,
Long term borrowings	46,749	42,
Accrued interest payable	3,395	2,
Other liabilities	4,199	3,
Total liabilities	464,843	440,
Stockholders' equity		
Preferred stock - $.10 Par value: 2,000,000 shares authorized - none issued	--	
Common stock - $.10 par value		
Authorized -- 10,000,000 shares		
Issued -- 2,566,095 shares		
Outstanding --		
March 31, 2002, 2,348,390 shares		
December 31, 2001, 2,379,990 shares	256	
Additional paid-in capital	89,914	89,
Retained Earnings	12,359	11,
Accumulated other comprehensive loss, net	(1,874)	(
Less: Common stock in treasury - at cost:		
March 31, 2002, 217,705 shares		
December 31, 2001, 186,105 shares	(5,879)	(4,
Total stockholders' equity	94,776	95,
	$559,619	$536,

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The accompanying notes are an integral part of this statement.

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

	For The Three Months Ended March 31,	
	2002	2001
INTEREST INCOME		
Loans	$4,543	$1,702
Investment securities	2,750	1,732
Federal funds sold and interest bearing deposits	23	294
Total interest income	7,316	3,728
INTEREST EXPENSE		
Deposits	2,378	1,496
Borrowings	672	216
Total interest expense	3,050	1,712
Net interest income	4,266	2,016
PROVISION FOR LOAN LOSSES	50	10
Net interest income after provision for loan losses	4,216	2,006
NON-INTEREST INCOME		
Service charges on deposits	134	40
Investment securities gains	196	3
Other income	139	125
Total non-interest income	469	168
NON-INTEREST EXPENSE		
Salaries and employee benefits	1,305	619
Net occupancy expense	370	182
Equipment expense	59	30

FDIC assessment	15	6
Data processing expense	37	5
Amortization of goodwill	--	159
Other	613	266
Total non-interest expense	2,399	1,267
Income before provision for taxes	2,286	907
Provision for income taxes	980	501
Net income	$1,306	$ 406
Net income per share:		
Basic	$ .55	$ .21
Diluted	$ .55	$ .21

The accompanying notes are an integral part of this statement.

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

For The Three Months Ended March 31, 2002
(In Thousands)

	Common Shares	Stock Par value	Additional paid-in capital	Accumulated other comprehensive (loss), net	Accum-ulated earnings (deficit)	Treasury stock	C i
Balance at December 31, 2001	2,566	$256	$89,914	$ (281)	$11,053	$(4,950)	
Net income					1,306		
Acquisition of treasury shares						(929)	
Other comprehensive (loss) net of reclassification adjustment and taxes				(1,593)			
Comprehensive (loss)							

Balance at March 31, 2002 (Unaudited)	2,566	$256	$89,914	$(1,874)	$12,359	$(5,879)

The accompanying notes are an integral part of this statement.

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

	For The Three Months Ended March 31, 2002	2001
Cash flows from operating activities:		
Net income	$ 1,306	$ 406
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Realized gain on investment securities	(197)	(3)
Depreciation and amortization	79	192
Provision for loan losses	50	10
(Increase) in accrued interest receivable	(188)	(174)
Decrease in other assets	298	779
Increase (decrease) in accrued interest payable and other liabilities	1,838	(312)
Net cash provided by operating activities	3,186	898
Cash flows from investing activities:		
Investment securities available for sale		
Purchases	(164,854)	(67,170)
Sales	155,387	75,548
Investment securities held to maturity		
Maturities	115	19,965
Net increase in loans	(8,334)	(812)
Acquisition of premises and equipment	(970)	(3,667)
Net cash (used in) provided by investing activities	(18,656)	23,864
Cash flows from financing activities:		
Net increase (decrease) in non interest bearing deposits	3,360	(652)

Net increase (decrease) in interest bearing deposits	44,531	(1,133)
(Decrease) in securities sold under agreements to repurchase	(29,923)	(13,987)
Proceeds from long term debt	10,000	--
Repayment of long term debt	(5,529)	--
Acquisition of treasury stock	(929)	(360)
Net cash provided by (used in) financing activities	21,510	(16,132)
Net increase in cash	6,040	8,630
Cash - beginning of period	10,383	36,367
Cash - end of period	$ 16,423	$ 44,997
Supplemental cash flow information:		
Cash used to pay interest	$ 2,061	$ 2,073
Cash used to pay taxes	$ 564	$ 680

The accompanying notes are an integral part of this statement.

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BERKSHIRE BANCORP INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
March 31, 2002 and 2001

NOTE 1. General

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

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

During interim periods, the Company follows the accounting policies set forth in its Annual Report on Form 10-K filed with the Securities and Exchange Commission. Readers are encouraged to refer to the Company's Form 10-K for the fiscal year ended December 31, 2001 when reviewing this Form 10-Q. Quarterly results reported herein are not necessarily indicative of results to be expected for other quarters.

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of normal recurring adjustments) considered necessary to present fairly the Company's consolidated financial position as of March 31, 2002 and December 31, 2001 and the consolidated results of its operations for the three month periods ended March

31, 2002 and 2001, and its consolidated stockholders' equity for the three months ended March 31, 2002, and its consolidated cash flows for the three month periods ended March 31, 2002 and 2001.

NOTE 2. Acquisitions

GSB Financial Corporation/Goshen Savings Bank. On March 30, 2001, Berkshire, through its wholly-owned subsidiaries, The Berkshire Bank and Greater American Finance Group, Inc., completed its merger with GSB Financial Corporation ("GSB Financial"). Under the terms of the merger, 978,032 shares of GSB Financial common stock were converted into 589,460 shares of Berkshire common stock, and 974,338 shares of GSB Financial common stock were purchased for $20.75 per share, totaling approximately $20.2 million. This transaction was accounted for under the purchase method of accounting and accordingly, the results of GSB Financial's operations have been included in the Company's balances commencing April 1, 2001. The acquisition resulted in the recording of approximately $7.5 million of goodwill, which, through December 31, 2001, has been amortized on a straight-line basis over 15 years.

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

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, 2002			March 31, 20	
	Income (numerator)	Shares (denominator)	Per share amount	Income (numerator)	Sha (denomi
	(In thousands, except per share dat				
Basic earnings per share					
Net income available to common stockholders	$1,306	2,361	$.55	$406	
Effect of dilutive securities					
Options	--	8	--	--	

Diluted earnings per share Net income available to common stockholders plus assumed conversions	$1,306	2,369	$.55	$406

Options to purchase 115,375 shares and 45,375 shares of common stock for $30.00 to $38.00 per share were outstanding during the three month periods ended March 31, 2002 and 2001, respectively. These options were not included in the computation of diluted earnings per share because the option exercise price was greater than the average market price for the Company's common stock during this period.

NOTE 4. Investment Securities

The following tables summarize held to maturity and available-for-sale investment securities as of March 31, 2002 and December 31, 2001:

	March 31, 2002			
	Amortized Cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(In thousands)			
Held To Maturity Investment Securities				
U.S. Government Agencies	$ 259	$1	$--	$ 260
Mortgage-backed securities	1,239	--	--	1,239
Totals	$1,498	$1	$--	$1,499

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

NOTE 4. (continued)

	December 31, 2001			
	Amortized Cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(In thousands)			
Held To Maturity Investment Securities				
U.S. Government Agencies	$1,613	$ 8	$(23)	$1,598
Mortgage-backed securities	--	--	--	--
Totals	$1,613	$ 8	$(23)	$1,598

	March 31, 2002			
	Amortized Cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(In thousands)			
Available-For-Sale Investment Securities				
U.S. Treasury and Notes	$ 40,241	$ --	$ (486)	$ 39,755
U.S. Government Agencies	173,051	125	(2,629)	170,547
Mortgage-backed securities	5,081	8	--	5,089
Corporate notes	9,339	1	(187)	9,153
Marketable equity securities and other	23,365	170	(67)	23,468
Totals	$251,077	$304	$(3,369)	$248,012

	December 31, 2001			
	Amortized Cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(In thousands)			
Available-For-Sale Investment Securities				
U.S. Treasury and Notes	$ 30,012	$ 34	$ (8)	$ 30,038
U.S. Government Agencies	170,610	589	(1,043)	170,156
Mortgage-backed securities	2,493	6	--	2,499
Corporate notes	751	1	(113)	639
Marketable equity securities and other	37,547	87	--	37,634

Totals	$241,413	$717	$(1,164)	$240,966

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

NOTE 5. Loan Portfolio

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

	March 31, 2002		December 31, 2001	
	Amount	% of Total	Amount	% of Total
Commercial and professional loans	$ 17,323	6.7%	$ 19,130	7.6%
Secured by real estate				
1-4 family	174,327	66.9	165,195	65.5
Multi family	10,293	4.0	11,186	4.4
Non-residential (commercial)	53,525	20.5	51,893	20.6
Consumer	3,497	1.3	4,689	1.8
Other	1,580	0.6	140	0.1
Total loans	260,545	100.0%	252,233	100.0%
Less: Allowance for loan losses	(2,058)		(2,030)	
Loans, net	$258,487		$250,203	

NOTE 6. Deposits

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

	March 31, 2002		December 31, 2001	
	Average Amount	Average Yield	Average Amount	Average Yield

	(Dollars in thousands)			
Demand deposits	$ 28,492	--	$ 21,857	--
NOW and money market	60,107	1.33%	51,026	2.64%
Savings deposits	48,539	1.47	34,168	2.69
Time deposits	218,017	3.67	155,079	5.07
Total deposits	$355,155	2.68%	$262,130	3.89%

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

NOTE 7. Comprehensive Income

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

	For The Three Months Ended				
	March 31, 2002			March 31, 2001	
	Before tax amount	Tax (expense) benefit	Net of tax Amount	Before tax amount	Tax (expense) benefit
	(In thousands)				
Unrealized gains (losses) on investment securities:					
Unrealized holding gains (losses) arising during period	$(2,421)	$1,946	$(1,475)	$595	$(239)
Less reclassification adjustment for gains realized in net income	197	(79)	118	3	(2)
Other comprehensive income (loss), net	$(2,618)	$1,025	$(1,593)	$592	$(237)

NOTE 8. New Accounting Pronouncement

Goodwill. Statement of Financial Accounting Standard ("SFAS") No. 141, Business Combinations ("SFAS No. 141"), and SFAS No. 142, Goodwill and Intangible Assets ("SFAS No. 142") were issued in June 2001. These statements resulted in significant modifications relative to the Company's accounting for goodwill and other intangible assets. SFAS No. 142 modifies the accounting for all purchased goodwill and intangible assets. SFAS No. 142 includes requirements to test goodwill and indefinite lived intangible assets for impairment rather than amortize them. The Company has adopted the provisions of SFAS No. 142 as of January 1, 2002. Therefore, acquired goodwill is no longer amortized. The Company is in the process of completing the first step of the goodwill transitional impairment test, as of January 1, 2002. Management does not anticipate this test to result in an impairment loss.

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

NOTE 8. (continued)

The following table presents a reconciliation of net income and earnings- per-share amounts, as reported in the financial statements, to those amounts adjusted for goodwill and intangible asset amortization determined in accordance with the provisions of Statement of Financial Accounting Standard No. 142.

	For The Three Months Ended March 31,	
	2002	2001
	(In thousands, except per share amounts)	
Reported net income	$1,306	$406
Add back: goodwill amortization		159
Adjusted net income	$1,306	$565
Basic earnings per share:		
Reported basic earnings per share	$ .55	$.21
Goodwill amortization		.08
Adjusted basic earnings per share	$ .55	$.29
Diluted earnings per share:		
Reported diluted earnings per share	$ .55	$.21
Goodwill amortization		.08

Adjusted diluted earnings per share	$ .55	$.29

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

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

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

	For The Three Months Ended March 31,					
	2002			2001		
	Average Balance	Interest and Dividends	Average Yield/Rate	Average Balance	Interest and Dividends	Ave Yiel
	(Dollars in Thousands)					
INTEREST-EARNING ASSETS:						
Loans (1)	$256,354	$4,543	7.09%	$ 77,208	$1,702	
Investment securities	239,397	2,750	4.59	104,437	1,732	
Other (2)(5)	5,989	23	1.54	20,979	294	

Total interest-earning assets	501,740	7,316	5.83	202,624	3,728
Noninterest-earning assets	35,922			25,894	
Total Assets	$537,662			$228,518	
INTEREST-BEARING LIABILITIES:					
Interest bearing deposits	$108,646	379	1.40	$ 27,306	231
Time deposits	218,017	1,999	3.67	81,939	1,265
Other borrowings	80,243	672	3.35	16,017	216
Total interest-bearing liabilities	406,906	3,050	3.00	125,262	1,712
Demand deposits	28,492			14,747	
Noninterest-bearing liabilities	6,459			2,890	
Stockholders' equity	95,805			85,619	
Total liabilities and stockholders' equity	$537,662			$228,518	
Net interest income		$4,266			$2,016
Interest-rate spread (3)			2.83		
Net interest margin (4)			3.40		
Ratio of average interest-earning assets to average interest bearing liabilities	1.23			1.62	

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(1) Includes nonaccrual loans.

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

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

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

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

Results of Operations

Results of Operations for the Three Months Ended March 31, 2002 Compared to the Three Months Ended March 31, 2001.

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

On March 30, 2001, Berkshire, through its wholly-owned subsidiaries, The Berkshire Bank and Greater American Finance Group, Inc., completed its merger with GSB Financial Corporation ("GSB Financial") (see Note 2 of Notes to Consolidated Financial Statements). This transaction was accounted for under the purchase method of accounting and, accordingly, the results of operation for the Company include only the results of operation of GSB Financial for the period from April 1, 2001. The Company acquired total loans, assets and deposits of $134.06 million, $190.04 million and $127.86 million, respectively.

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

Net Income. Net income for the three-month period ended March 31, 2002 was $1.31 million, or $.55 per share, as compared to $406,000, or $.21 per share, for the three-month period ended March 31, 2001. On January 1, 2002, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 142, thereby eliminating annual goodwill amortization expense of approximately $1.0 million. Had SFAS No. 142 been in effect on January 1, 2001, net income for the first quarter of fiscal 2001 would have been $565,000, or $.29 per share. (See Note 8.)

Net Interest Income. The Company's primary source of revenue is net interest income, or the difference between interest income on earning assets and interest expense on interest-bearing liabilities. For the quarter ended March 31, 2002, net interest income increased by $2.25 million, or 111.37%, to $4.27 million, from $2.02 million for the quarter ended March 31, 2001. The increase in net interest income was the result of the growth in average interest-earning assets of $299.12 million, partially offset by the growth in average interest-bearing liabilities of $281.64 million. Such increases in interest-earning assets and interest-bearing liabilities were largely due to the acquisition of GSB Financial Corp. on March 30, 2001.

Net interest rate spread, the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities, improved to 2.83% in 2002 from 1.91% in 2001. The increase in net interest-rate spread resulted from a 2.47% decrease in the average cost of interest-bearing liabilities to 3.00% for the quarter ended March 31, 2002, from 5.47% for the quarter ended March 31, 2001, partially offset by a decrease of 1.55% in the average yield on interest-earning assets to 5.83% in 2002, from 7.38% in 2001.

Net Interest Margin. Net interest margin, or annualized net interest income as a percentage of average interest-earning assets, declined by 58 basis points to 3.40% for the first quarter of 2002 from 3.98% for the same period in 2001. The decrease in net interest margin was due, in part, to the acquisition of GSB

Financial whose loan portfolio consists primarily of 1-4 family mortgage loans with annualized yields less than previously earned by Berkshire and, in part, by the sharp decline in interest rates from a prime rate of 8.00% at March 31, 2001 to a prime rate of 4.75% at March 31, 2002. Lower interest rates encourage homeowners to refinance more costly mortgage loans and reduces the yields on investment securities purchased by the Bank.

For the three-month period ended March 31, 2002, the average balances of loans, investment securities and total interest-earning assets increased by approximately 232%, 129% and 148%, respectively, from the three-month period ended March 31, 2001. However, the average yields on loans, investment securities and total interest-earning assets decreased by approximately 20%, 31% and 21%, respectively, during the same periods resulting in lower net interest margin.

Interest Income. Total interest income for the three-month period ended March 31, 2002 increased by $3.59 million, or 96.25%, to $7.32 million, from $3.73 million for the three-month period ended March 31, 2001. The increase was the result of a $299.12 million increase in average interest-earning assets to $501.74 million for the quarter ended March 31, 2001, from $202.62 million for the quarter ended March 31, 2001, partially offset by a decrease in average yield to 5.83% in 2002 from 7.38% in 2001. Interest income on loans and investment securities in the 2002 quarter increased to $4.54 million and $2.75 million, respectively, from $1.70 million and $1.73 million, respectively, in the 2001 quarter.

Interest Expense. Total interest expense for the three-month period ended March 31, 2002 increased by $1.34 million, or 78.36%, to $3.05 million, from $1.71 million for the three-month period ended March 31, 2001. The increase was the result of a $281.64 million increase in average interest-bearing liabilities to $406.91 million for the 2002 quarter, from $125.26 million for the 2001 quarter, partially offset by the decrease in the average rate paid on interest-bearing liabilities to 3.00% in 2002, from 5.47% in 2001. Average balances of interest bearing deposits, time deposits and other borrowings were $108.66 million, $218.02 million and $80.24 million, respectively, in the 2002 quarter, compared to $27.31 million, $81.94 million and $16.02 million, respectively, in the 2001 quarter. The increase in deposits accounts was primarily due to the GSB Financial acquisition, whereas the increase in other borrowings was attributable to our strategy of employing excess capital to fund the growth of our business.

Interest expense on interest-bearing deposits, time deposits and other borrowings was $379,000, $2.0 million and $672,000, respectively, in the 2002 quarter, compared to $231,000, $1.27 million and $216,000, respectively, in the 2001 quarter.

Non-Interest Income. Non-interest income consists primarily of realized gains on sales of marketable securities, loan sales and service fee income. For the three months ended March 31, 2002, non-interest income was $470,000 as compared to $168,000 for the three months ended March 31, 2001.

Non-Interest Expense. Non-interest expense includes salaries and employee benefits, occupancy and equipment expenses, legal and professional fees and other operating expenses associated with the day-to-day operations of the Company. Total non-interest expense for the three-month period ended March 31, 2002 increased by $1.13 million, or approximately 89%, to $2.40 million from $1.27 million for the three-month period ended March 31, 2001. The increase was due primarily to increases of $686,000 for salaries and employee benefits, $188,000 for occupancy expenses and $347,000 for various other items.

Provision for Income Tax. During the first quarter of 2002, the Company recorded income tax expense of $980,000 compared to $501,000 for the first quarter of 2001. The tax provisions for federal, state and local taxes recorded for 2002 and 2001 represent effective tax rates of 42.87% and 55.24%, respectively. The decrease in the effective rate is due to the elimination of the non-deductible amortization expense of goodwill.

ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

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

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

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

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

Berkshire Bancorp Inc.
Interest Rate Sensitivity Gap at March 31, 2002
(in thousands, except for percentages)

		3 Months or Less	3 Through 12 Months	1 Through 3 Years	Over 3 Years	Total
Federal funds sold		$ 12,600	$ --	$ --	$ --	$ 12,600
	(Rate)	1.63%	--	--	--	1.63%
Interest bearing deposits in banks		222	--	--	--	222
	(Rate)	1.80%	--	--	--	1.80%
Loans (1)(2)						
Adjustable rate loans		39,771	20,841	4,837	14,031	79,480
	(Rate)	5.69%	7.14%	8.36%	8.28%	6.69%
Fixed rate loans		30	6,988	8,353	165,694	181,065
	(Rate)	9.55%	7.22%	8.10%	7.16%	7.21%
Total loans		39,801	27,829	13,190	179,725	260,545
Investments (3)(4)		5,650	1,108	63,074	177,273	247,105
	(Rate)	3.74%	5.16%	3.46%	5.13%	4.84%
Total rate-sensitive assets		58,273	28,937	76,264	356,998	520,472
Deposit accounts (5)						
Savings and NOW		66,634	--	--	--	66,634
	(Rate)	1.41%	--	--	--	1.41%
Money market		45,352	--	--	--	45,352
	(Rate)	1.59%	--	--	--	1.59%
Time Deposits		86,252	139,771	15,044	91	241,158
	(Rate)	3.56%	3.35%	4.50%	3.67	3.50%
Total deposit accounts		198,238	139,771	15,044	91	353,144
Repurchase agreements		23,833	--	--	--	23,833
	(Rate)	1.94%	--	--	--	1.94%
Other borrowings		10,000	500	--	36,249	46,749
	(Rate)	2.58%	6.09%	%	5.14%	4.60%
Total rate-sensitive liabilities		232,071	140,271	15,044	36,340	423,726
Interest rate caps		20,000	--	(10,000)	(10,000)	--
Gap (repricing differences)		(193,798)	(111,334)	71,220	330,658	96,746

Cumulative Gap	(193,798)	(305,132)	(233,912)	96,746	
Cumulative Gap to Total Rate Sensitive Assets	(37.24)%	(58.63)%	(44.94)%	18.59%	

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(1) Adjustable-rate loans are included in the period in which the interest rates are next scheduled to adjust rather than in the period in which the loans mature. Fixed-rate loans are scheduled according to their maturity dates.
(2) Includes nonaccrual loans.
(3) Investments are scheduled according to their respective repricing (variable rate loans) and maturity (fixed rate securities) dates.
(4) Investments are stated at book value.
(5) NOW accounts and savings accounts are regarded as readily accessible withdrawal accounts. The balances in such accounts have been allocated amongst maturity/repricing periods based upon The Berkshire Bank's historical experience. All other time accounts are scheduled according to their respective maturity dates.

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

The allowance for loan watch list classified loans addresses those loans maintained on the Company's loan watch list, which are assigned a rating of substandard, doubtful, or loss. Substandard loans are those with a well-defined weakness or a weakness, which jeopardizes the repayment of the debt. A loan may be classified as substandard as a result of impairment of the borrower's financial condition and repayment capacity. Loans for which repayment plans have not been met or collateral equity margins do not protect the Company may also be classified as substandard. Doubtful loans have the characteristics of substandard loans with the added characteristic that collection or liquidation in full, on the basis of presently existing facts and conditions, is highly improbable. Although the possibility of loss is 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 of March 31, 2002.

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 guarantee, by a government agency. Loan balances are also adjusted for unearned discount on installment loans.

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

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

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

At March 31, 2002 and 2001, the Company did not have any non-accrual or non-performing loans. Loans past due more than 90 days and still accruing interest were $75,000 and $0 at March 31, 2002 and 2001, respectively. Based upon management's evaluations of the overall analysis of the Bank's allowance for loan losses and the year over year increase in total loans to $260.55 million (including $134.10 million acquired in the merger with GSB Financial) from $76.45 million, the provision for the three months ended March 31, 2001 was increased to $2.06 million (including $691,000 acquired in the merger with GSB

Financial) from $1.13 million in the year ago period.

The decrease in the allowance as a percentage of loans is due to the acquisition of Goshen on March 30, 2001. Goshen's loan portfolio is primarily 1-4 family mortgage loans which traditionally have a lower charge off rate.

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

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

	Three Months Ended March 31, 2002	2001
Average loans outstanding	$256,354	$77,208
Allowance at beginning of period	2,030	1,108
Charge-offs:		
Commercial and other loans	24	--
Total loans charged-off	24	--
Recoveries:		
Commercial and other loans	2	10
Total loans recovered	2	10
Net (charge-offs) recoveries	(22)	10
Provision for loan losses charged to operating expenses	50	10
Allowance at end of period	$ 2,058	$ 1,128
Ratio of net recoveries (charge-offs) to average loans outstanding	(.01)%	.01%
Allowance as a percent of total loans	0.79%	1.48%
Total loans at end of period	$260,545	$76,445

Loan Portfolio.

Loan Portfolio Composition. The Company's loans consist primarily of mortgage loans secured by residential and non-residential properties as well as commercial loans which are either unsecured or secured by personal property collateral. Most of the Company's 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, 2002, the Company had total loans of $260.55 million and an allowance for loan losses of $2.06 million. From time to time, the Bank may originate residential mortgage loans and then sell them on the secondary market, normally recognizing fee income in connection with the sale.

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

	March 31, 2002	December 31, 2001
	Amount	Amount
	(in thousands)	
Commercial and professional loans	$ 17,323	$ 19,130
Secured by real estate		
1-4 family	174,327	165,195
Multi family	10,293	11,186
Non-residential (commercial)	53,525	51,893
Consumer	3,497	4,698
Other	1,580	140
Total loans	260,545	252,233
Less: Allowance for loan losses	(2,058)	(2,030)
Loans, net	$258,487	$250,203

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, 2002 and 2001, the Company did not have any non-accrual or non-performing loans. Loans past due more than 90 days and still accruing interest were $75,000 and $0 at March 31, 2002 and 2001, respectively.

Quantitative measures established by regulation to ensure capital adequacy require the Company and The Berkshire 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, 2002, 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 Berkshire Bank as of March 31, 2002 and December 31, 2001 (dollars in thousands):

	Actual		For capital adequacy purposes		To be w capitalized prompt corr action prov
	Amount	Ratio	Amount	Ratio	Amount
March 31, 2002					
Total Capital (to Risk-Weighted Assets)					
Company	76,411	29.8%	20,546	>=8.0%	--
Bank	49,256	20.9%	18,896	>=8.0%	23,620
Tier I Capital (to Risk-Weighted Assets)					
Company	74,353	29.0%	10,273	>=4.0%	--
Bank	47,198	20.0%	9,448	>=4.0%	14,172
Tier I Capital (to Average Assets)					
Company	74,353	14.3%	20,765	>=4.0%	--
Bank	47,198	9.1%	20,847	>=4.0%	26,059

	Actual		For capital adequacy purposes		To be w capitalized prompt corr action prov
	Amount	Ratio	Amount	Ratio	Amount
December 31, 2001					
Total Capital (to Risk-Weighted Assets)					
Company	$79,867	20.5%	$20,097	>=8.0%	--
Bank	48,110	20.4%	18,841	>=8.0%	23,551
Tier I Capital (to Risk-Weighted Assets)					
Company	77,837	31.0%	10,048	>=4.0%	--

Bank	46,080	19.6%	9,421	>=4.0%	14,130
Tier I Capital (to Average Assets)					
Company	77,837	20.5%	15,194	>=4.0%	--
Bank	46,080	9.6%	19,190	>=4.0%	23,988

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 Berkshire 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 parent company, Berkshire Bancorp Inc., liquidity means having cash available to fund operating expenses and to pay shareholder dividends, when and if declared by Berkshire's Board of Directors. The ability of Berkshire to fund its operations and to pay dividends is not dependent upon the receipt of dividends from The Berkshire Bank. At March 31, 2002, Berkshire had cash and cash equivalents of $13.7 million and investment securities available for sale of $5.6 million.

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

At March 31, 2002, the Company had outstanding commitments of approximately $8.0 million. These commitments include $6.4 million that mature or renew within one year, $1.6 million that mature or renew after one year and within three years, $29,000 that mature or renew after three years and within five years and $0 commitments that mature or renew after five years.

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

As more fully describe in Note 2, as of the close of business on March 30, 2001, GSB Financial was merged with and into the Company and Goshen Savings Bank was merged with and into The Berkshire Bank. The Company utilized approximately $20.2 million of its cash on hand to fund the cash component of the transaction.

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.

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

a. Exhibits

None

b. The Company did not file any reports on Form 8-K during the quarter for which this report on Form 10-Q is filed.

SIGNATURES

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

BERKSHIRE BANCORP INC.
(Registrant)

Date: May 13, 2002

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

STATEMENT OF DIFFERENCES

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