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BERKSHIRE BANCORP INC /DE/
Form 10-Q
November 08, 2004

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 September 30, 2004

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 an accelerated filer (as
defined in Rule 12b-2 of the Exchange Act). Yes No

As of November 5, 2004, there were 6,748,675 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.

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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)

| | September 30, 2004 | December 31, 2003 |
|---------------------------------|-----------------------|----------------------|
| | ----- | ----- |
| ASSETS | | |
| Cash and due from banks | \$ 6,383 | \$ 7,478 |
| Interest bearing deposits | 1,204 | 1,832 |
| Federal funds sold | 7,600 | -- |
| | ----- | ----- |
| Total cash and cash equivalents | 15,187 | 9,310 |
| Investment Securities: | | |

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| | | |
|--|-----------|-----------|
| Available-for-sale | 638,549 | 569,137 |
| Held-to-maturity | 641 | 711 |
| | ----- | ----- |
| Total investment securities | 639,190 | 569,848 |
| Loans, net of unearned income | 288,221 | 294,756 |
| Less: allowance for loan losses | (2,866) | (2,593) |
| | ----- | ----- |
| Net loans | 285,355 | 292,163 |
| Accrued interest receivable | 5,726 | 5,298 |
| Premises and equipment, net | 8,719 | 8,665 |
| Other assets | 5,719 | 1,836 |
| Goodwill, net | 18,549 | 18,549 |
| | ----- | ----- |
| Total assets | \$978,445 | \$905,669 |
| | ===== | ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Deposits: | | |
| Non-interest bearing | \$ 38,760 | \$ 38,422 |
| Interest bearing | 583,302 | 565,833 |
| | ----- | ----- |
| Total deposits | 622,062 | 604,255 |
| Securities sold under agreements to repurchase | 142,615 | 114,391 |
| Long term borrowings | 86,201 | 77,745 |
| Subordinated debt | 15,464 | -- |
| Accrued interest payable | 2,723 | 2,208 |
| Other liabilities | 2,919 | 3,580 |
| | ----- | ----- |
| Total liabilities | 871,984 | 802,179 |
| | ----- | ----- |
| 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 -- | | |
| September 30, 2004, 6,733,755 shares | | |
| December 31, 2003, 6,614,094 shares | 770 | 256 |
| Additional paid-in capital | 89,574 | 89,866 |
| Retained earnings | 27,284 | 22,960 |
| Accumulated other comprehensive | | |
| income (loss), net | (1,920) | 775 |
| Common stock in treasury - at cost: | | |
| September 30, 2004, 964,530 shares | | |
| December 31, 2003, 1,084,191 shares | (9,247) | (10,367) |
| | ----- | ----- |
| Total stockholders' equity | 106,461 | 103,490 |
| | ----- | ----- |
| | \$978,445 | \$905,669 |
| | ===== | ===== |

The accompanying notes are an integral part of these statements.

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

| | For The | | For The | |
|--|--------------------|---------|-------------------|----------|
| | Three Months Ended | | Nine Months Ended | |
| | September 30, | | September 30, | |
| | 2004 | 2003 | 2004 | 2003 |
| INTEREST INCOME | | | | |
| Loans | \$ 4,652 | \$4,786 | \$14,097 | \$14,250 |
| Investment securities | 5,601 | 3,777 | 15,408 | 11,145 |
| Federal funds sold and interest bearing deposits | 23 | 58 | 35 | 84 |
| Total interest income | 10,276 | 8,621 | 29,540 | 25,479 |
| INTEREST EXPENSE | | | | |
| Deposits | 2,448 | 2,517 | 7,294 | 7,712 |
| Short-term borrowings | 641 | 153 | 1,720 | 429 |
| Long-term borrowings | 1,014 | 662 | 2,605 | 1,974 |
| Total interest expense | 4,103 | 3,332 | 11,619 | 10,115 |
| Net interest income | 6,173 | 5,289 | 17,921 | 15,364 |
| PROVISION FOR LOAN LOSSES | 45 | 45 | 135 | 195 |
| Net interest income after provision for loan losses | 6,128 | 5,244 | 17,786 | 15,169 |
| NON-INTEREST INCOME | | | | |
| Service charges on deposits | 139 | 134 | 380 | 489 |
| Investment securities gains | 173 | 183 | 315 | 2,302 |
| Other income | 143 | 163 | 429 | 477 |
| Total non-interest income | 455 | 480 | 1,124 | 3,268 |
| NON-INTEREST EXPENSE | | | | |
| Salaries and employee benefits | 1,670 | 1,413 | 4,865 | 4,139 |
| Net occupancy expense | 453 | 432 | 1,129 | 1,262 |
| Equipment expense | 90 | 81 | 258 | 292 |
| FDIC assessment | 37 | 21 | 83 | 59 |
| Data processing expense | 48 | 35 | 126 | 148 |
| Other | 828 | 1,111 | 2,799 | 2,632 |
| Total non-interest expense | 3,126 | 3,093 | 9,260 | 8,532 |
| Income before provision for taxes | 3,457 | 2,631 | 9,650 | 9,905 |
| Provision for income taxes | 1,489 | 1,223 | 4,250 | 4,447 |
| Net income | \$ 1,968 | \$1,408 | \$ 5,400 | \$ 5,458 |
| Net income per share: | | | | |
| Basic | \$.29 | \$.21 | \$.81 | \$.82 |
| Diluted | \$.29 | \$.21 | \$.79 | \$.81 |

=====

The accompanying notes are an integral part of these statements.

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

For The Nine Months Ended September 30, 2004
(In Thousands)

| | Common Shares | Stock Par value | Additional paid-in capital | Accumulated other comprehensive (loss), net | Retained earnings | Treasury stock |
|---|------------------|-----------------------|----------------------------------|--|----------------------|-------------------|
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Balance at December 31, 2003 | 2,566 | \$ 256 | \$89,866 | \$ 775 | \$22,960 | \$(10,367) |
| Net income | | | | | 5,400 | |
| Exercise of stock options | | | (59) | | | 1,189 |
| Acquisition of treasury shares | | | | | | (69) |
| Effect of reverse one-for-ten stock split | (2,309) | (230) | (233) | | | |
| Effect of thirty-for-one stock dividend | 7,441 | 744 | | | (744) | |
| Other comprehensive (loss) net of reclassification adjustment and taxes | | | | (2,695) | | |
| Comprehensive income | | | | | | |
| Cash dividends | | | | | (332) | |
| Balance at September 30, 2004 (Unaudited) | 7,698 | \$ 770 | \$89,574 | \$ (1,920) | \$27,284 | \$(9,247) |
| | | ===== | ===== | ===== | ===== | ===== |

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)

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(unaudited)

| | For The Nine Months Ended September 30, | |
|---|--|-------------|
| | 2004 | 2003 |
| Cash flows from operating activities: | | |
| Net income | \$ 5,400 | \$ 5,458 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Realized gains on investment securities | (315) | (2,302) |
| Net amortization of premiums of investment securities | 2,064 | 863 |
| Depreciation and amortization | 430 | 465 |
| Provision for loan losses | 135 | 195 |
| (Increase) in accrued interest receivable | (428) | (1,196) |
| (Increase) in other assets | (3,210) | (1,511) |
| (Decrease) in accrued interest payable and other liabilities | (146) | (1,406) |
| Net cash provided by operating activities | 3,930 | 566 |
| Cash flows from investing activities: | | |
| Investment securities available for sale | | |
| Purchases | (1,290,294) | (1,605,540) |
| Sales, maturities and calls | 1,216,438 | 1,485,877 |
| Investment securities held to maturity | | |
| Maturities | 70 | 97 |
| Net (increase) decrease in loans | 6,673 | (18,774) |
| Purchase of premises and equipment | (484) | (267) |
| Net cash (used in) investing activities | (67,597) | (138,607) |

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

| | For The Nine Months Ended September 30, | |
|---------------------------------------|--|------|
| | 2004 | 2003 |
| Cash flows from financing activities: | | |

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| | | |
|---|-----------|-----------|
| Net increase in non interest bearing deposits | 338 | 3,460 |
| Net increase in interest bearing deposits | 17,469 | 99,473 |
| Increase in securities sold under agreements to repurchase | 28,224 | 27,461 |
| Proceeds from long term debt | 22,000 | 7,831 |
| Repayment of long term debt | (13,544) | -- |
| Proceeds from issuance of subordinated debentures | 14,791 | -- |
| Acquisition of treasury stock | (69) | (1,111) |
| Proceeds from exercise of common stock options | 1,130 | 129 |
| Cash paid for fractional shares | (463) | -- |
| Dividends paid | (332) | (265) |
| | ----- | ----- |
| Net cash provided by financing activities | 69,544 | 136,978 |
| | ----- | ----- |
| Net increase (decrease) in cash | 5,877 | (1,063) |
| Cash - beginning of period | 9,310 | 6,310 |
| | ----- | ----- |
| Cash - end of period | \$ 15,187 | \$ 5,247 |
| | ===== | ===== |
| Supplemental cash flow information: | | |
| Cash used to pay interest | \$ 11,104 | \$ 11,196 |
| Cash used to pay taxes, net of refunds | \$ 4,464 | \$ 3,621 |

The accompanying notes are an integral part of these statements.

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BERKSHIRE BANCORP INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
September 30, 2004 and 2003

NOTE 1. General

Berkshire Bancorp Inc. ("Berkshire" or the "Company" or "we" and similar pronouns), 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, 2003 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

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financial position as of September 30, 2004 and December 31, 2003 and the consolidated results of its operations for the three and nine month periods ended September 30, 2004 and 2003, and its consolidated stockholders' equity for the nine month period ended September 30, 2004, and its consolidated cash flows for the nine month periods ended September 30, 2004 and 2003. As discussed in Note 2 below, all weighted average share and per share information in 2003 has been retroactively restated to reflect the stock split and stock dividend.

NOTE 2. Stock Split and Stock Dividend

At the Annual Meeting of Stockholders held on May 18, 2004, the Company's stockholders approved an amendment to the Company's Certificate of Incorporation effecting a one-for-ten reverse stock split of the Company's issued and outstanding Common Stock (the "Reverse Split"). Following the effectiveness of the Reverse Split, the Company's Board of Directors declared a thirty-for-one forward stock split in the form of a 3,000% stock dividend in Common Stock (the "Stock Dividend) which became effective immediately. The Company paid out approximately \$463,000 to purchase fractional shares from stockholders as part of the Reverse Split. The Company's Common Stock began trading on May 19, 2004 giving effect to these transactions.

NOTE 3. 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 "Debentures") issued by the Company. The Debentures, the sole assets of BCTI, mature on July 23, 2034 and bear interest at a floating rate, three month LIBOR plus a margin of 2.70%.

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

NOTE 3. - (continued)

Based on current interpretations of the banking regulators, 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 under the preferred capital securities sold by BCTI to investors.

Management has determined that BCTI qualifies as a variable interest entity under FASB Interpretation 46 (FIN 46) Consolidation of Variable Interest Entities, as revised. Subsequent to the issuance of FIN 46 in January 2003, the FASB issued a revised interpretation, FIN 46(R) Consolidation of Variable Interest Entities, the provisions of which were to be applied to certain variable interest entities by March 31, 2004.

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The Company adopted the provisions under the revised interpretation in the first quarter of 2004. Accordingly, the Company does not consolidate BCTI as of September 30, 2004. The Company's investment in the common stock of BCTI is included in other assets as of September 30, 2004. In addition, the income received on the Company's common stock investment in BCTI is included in other income. The adoption of FIN 46(R) did not have a material impact on the financial position or results of operations of the Company. The Federal Reserve has issued proposed guidance on the regulatory capital treatment for the trust-preferred securities issued by BCTI as a result of the adoption of FIN 46(R). The proposed 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, 2007; however, a three 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 the proposed rule and does not anticipate a material impact on its capital ratios when the proposed rule is finalized.

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

NOTE 4. 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 | | | | |
|---|---------------------------------------|-------------------------|------------------------|-----------------------|-------------------------|
| | September 30, 2004 | | | September 30, 2003 | |
| | 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 | \$1,968 | 6,688 | \$.29 | \$1,408 | 6,627 |
| Effect of dilutive securities options | -- | 132 | .-- | -- | 120 |
| Diluted earnings per share | | | | | |
| Net income available to common stockholders plus | | | | | |

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| | | | | | |
|---------------------|------------------|----------------|----------------|------------------|----------------|
| assumed conversions | \$1,968 ===== | 6,820 ===== | \$.29 ===== | \$1,408 ===== | 6,747 ===== |
|---------------------|------------------|----------------|----------------|------------------|----------------|

For The Nine Months Ended

| | September 30, 2004 | | | September 30, 2003 | |
|--|---------------------------------------|-------------------------|------------------------|-----------------------|-------------------------|
| | 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 | \$5,400 | 6,647 | \$.81 | \$5,458 | 6,648 |
| Effect of dilutive securities options | -- | 184 | .02 | -- | 93 |
| Diluted earnings per share | | | | | |
| Net income available to common stockholders plus assumed conversions | \$5,400 ===== | 6,831 ===== | \$.79 ===== | \$5,458 ===== | 6,741 ===== |

Options to purchase 121,125 shares of common stock for \$38.00 per share were outstanding during the nine month periods ended September 30, 2003. 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.

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

NOTE 5. Investment Securities

The following tables summarize held to maturity and available-for-sale investment securities as of September 30, 2004 and December 31, 2003:

| September 30, 2004 | | | |
|--------------------|------------------------------|-------------------------------|---------------|
| Amortized Cost | Gross unrealized gains | Gross unrealized losses | Fair value |
| (In thousands) | | | |

Held To Maturity

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Investment Securities

| | | | | |
|--------------------------|-------|------|--------|-------|
| U.S. Government Agencies | \$641 | \$13 | \$ (1) | \$653 |
| | ---- | --- | --- | ---- |
| Totals | \$641 | \$13 | \$ (1) | \$653 |
| | ===== | ==== | ==== | ===== |

December 31, 2003

| Amortized Cost | Gross unrealized gains | Gross unrealized losses | Fair value |
|-------------------|------------------------------|-------------------------------|---------------|
| ----- | ----- | ----- | ----- |
| (In thousands) | | | |

Held To Maturity
Investment Securities

| | | | | |
|--------------------------|-------|------|------|-------|
| U.S. Government Agencies | \$711 | \$4 | \$-- | \$715 |
| | ---- | --- | --- | ---- |
| Totals | \$711 | \$4 | \$-- | \$715 |
| | ===== | ==== | ==== | ===== |

September 30, 2004

| Amortized Cost | Gross unrealized gains | Gross unrealized losses | Fair value |
|-------------------|------------------------------|-------------------------------|---------------|
| ----- | ----- | ----- | ----- |
| (In thousands) | | | |

Available-For-Sale
Investment Securities

| | | | | |
|---|-----------|---------|------------|-----------|
| U.S. Treasury and Notes | \$ 19,913 | \$ -- | \$ (79) | \$ 19,834 |
| U.S. Government Agencies | 479,100 | 613 | (3,518) | 476,195 |
| Mortgage-backed securities | 104,982 | 500 | (939) | 104,543 |
| Corporate notes | 30,736 | 588 | (676) | 30,648 |
| Municipal Securities | 1,307 | -- | (14) | 1,293 |
| Marketable equity securities and other | 5,917 | 197 | (78) | 6,036 |
| | ----- | ----- | ----- | ----- |
| Totals | \$641,955 | \$1,898 | \$ (5,304) | \$638,549 |
| | ===== | ===== | ===== | ===== |

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NOTE 5. - (continued)

| December 31, 2003 | | | | |
|---|-------------------|------------------------------|-------------------------------|---------------|
| | Amortized Cost | Gross unrealized gains | Gross unrealized losses | Fair value |
| (In thousands) | | | | |
| Available-For-Sale Investment securities | | | | |
| U.S. Treasury and Notes | \$ 39,941 | \$ -- | \$ (94) | \$ 39,847 |
| U.S. Government Agencies | 419,175 | 637 | (3,059) | 416,753 |
| Mortgage-backed securities | 93,875 | 3,838 | (265) | 97,448 |
| Corporate Notes | 1,570 | 214 | (122) | 1,662 |
| Municipal securities | 991 | 70 | -- | 1,061 |
| Marketable equity securities and other | 12,305 | 177 | (116) | 12,366 |
| Totals | \$567,857 | \$4,936 | \$ (3,656) | \$569,137 |

NOTE 6. Loan Portfolio

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

| | September 30, 2004 | | December 31, 2003 | |
|-----------------------------------|--------------------|---------------|-------------------|---------------|
| | Amount | % of Total | Amount | % of Total |
| (Dollars in thousands) | | | | |
| Commercial and professional loans | \$ 16,925 | 5.8% | \$ 22,228 | 7.5% |
| Secured by real estate | | | | |
| 1-4 family | 158,531 | 54.7 | 169,589 | 57.4 |
| Multi family | 7,142 | 2.5 | 6,608 | 2.2 |
| Non-residential (commercial) | 104,933 | 36.3 | 94,956 | 32.1 |
| Consumer | 2,011 | 0.7 | 2,239 | 0.8 |
| Total loans | 289,002 | 100.0% | 295,620 | 100.0% |
| Deferred loan fees | (781) | | (864) | |
| Allowance for loan losses | (2,866) | | (2,593) | |
| Loans, net | \$285,355 | | \$292,163 | |

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

NOTE 7. Deposits

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

| | September 30, 2004 | | December 31, 2003 | |
|----------------------|------------------------|------------------|-------------------|------------------|
| | Average Amount | Average Yield | Average Amount | Average Yield |
| | (Dollars in thousands) | | | |
| Demand deposits | \$ 37,864 | -- | \$ 32,592 | -- |
| NOW and money market | 47,761 | 0.65% | 58,723 | 1.02% |
| Savings deposits | 217,473 | 1.52 | 143,094 | 1.95 |
| Time deposits | 316,817 | 1.94 | 333,112 | 2.26 |
| Total deposits | \$619,915 | 1.57% | \$567,521 | 1.78% |
| | ===== | ===== | ===== | ===== |

NOTE 8. Comprehensive Income

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

| | For The Nine Months Ended | | | | |
|---|---------------------------|-----------------------------|----------------------|----------------------|-----------------------------|
| | September 30, 2004 | | | September 30, 2003 | |
| | Before tax amount | Tax (expense) benefit | Net of tax Amount | Before tax amount | Tax (expense) benefit |
| | (In thousands) | | | | |
| Unrealized (losses) gains on investment securities: | | | | | |
| Unrealized holding gains (losses) arising during period | \$ (4,807) | \$1,923 | \$ (2,884) | \$ (6,167) | \$2,467 |
| Less reclassification adjustment for gains realized in net income | 315 | (126) | 189 | 2,302 | (921) |
| Other comprehensive (loss), net | \$ 4,492 | \$1,797 | \$ (2,695) | \$ (3,865) | \$1,546 |
| | ===== | ===== | ===== | ===== | ===== |

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

NOTE 9. Accounting For Stock Based Compensation

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

| | | For The Three Months Ended September 30, | |
|---|--------------|--|------------------|
| | | ----- 2004 | 2003 ----- |
| | | (In thousands, except per share amounts) | |
| Net income | As Reported: | \$1,968 | \$1,408 |
| Less: Stock based compensation costs determined under fair value methods for all awards | | -- | -- |
| | | ----- | ----- |
| | | Pro Forma: | \$1,968 |
| | | ===== | \$1,408 ===== |
| | | | |
| Basic earnings per share | As Reported: | \$.29 | \$.21 |
| | Pro Forma: | .29 | .21 |
| | | | |
| Diluted earnings per share | As Reported: | \$.29 | \$.21 |
| | Pro Forma: | .29 | .21 |

For The
Nine Months Ended
September 30,

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| | | 2004 | 2003 |
|---|--------------|--|---------|
| | | ----- | ----- |
| | | (In thousands, except per share amounts) | |
| Net income | As Reported: | \$5,400 | \$5,458 |
| Less: Stock based compensation costs determined under fair value methods for all awards | | -- | -- |
| | | ----- | ----- |
| | Pro Forma: | \$5,400 | \$5,458 |
| | | ===== | ===== |
| Basic earnings per share | As Reported: | \$.81 | \$.82 |
| | Pro Forma: | .81 | .82 |
| Diluted earnings per share | As Reported: | \$.79 | \$.81 |
| | Pro Forma: | .79 | .81 |

The Company did not grant options during the three and nine months ended September 30, 2004 and 2003.

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

NOTE 9. - (continued)

On March 31, 2004, the Financial Accounting Standards Board (FASB) issued a proposed Statement, Share-Based Payment an Amendment of FASB Statements No. 123 and APB No. 95, that addresses the accounting for share-based payment transactions in which an enterprise receives employee services in exchange for (a) equity instruments of the enterprise or (b) liabilities that are based on the fair value of the enterprise's equity instruments or that may be settled by the issuance of such equity instruments. Under the FASB's proposal, all forms of share-based payments to employees, including employee stock options, would be treated the same as other forms of compensation by recognizing the related cost in the income statement. The expense of the award would generally be measured at fair value at the grant date. Current accounting guidance requires that the expense relating to so-called fixed plan employee stock options only be disclosed in the footnotes to the financial statements. The proposed Statement would eliminate the ability to account for share-based compensation transactions using APB Opinion No. 25, Accounting for Stock Issued to Employees. The Company is currently evaluating this proposed statement and its effects on its results of operations.

NOTE 10. 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). (The dollar amounts in the following

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table are not in thousands.)

| | For The Three Months Ended September 30, | | For The Nine Months Ended September 30, | |
|-----------------------------------|--|-----------|---|-----------|
| | 2004 | 2003 | 2004 | 2003 |
| Service cost | \$ 62,640 | \$ 48,791 | \$ 181,280 | \$146,373 |
| Interest cost | 30,750 | 26,803 | 90,250 | 80,409 |
| Expected return on plan assets | (37,550) | (30,871) | (112,600) | (92,613) |
| Amortization and Deferral: | | | | |
| Transition amount | -- | -- | -- | -- |
| Prior service cost | 4,625 | 4,593 | 13,750 | 13,779 |
| (Gain)/loss | 5,350 | 6,210 | 13,700 | 18,630 |
| Net periodic pension cost | 65,815 | 55,526 | 186,380 | 166,578 |

During the fiscal year ending December 31, 2004, we expect to contribute approximately \$60,000 to the Plan. We are, however, evaluating the impact of the Pension Funding Equity Act enacted in April 2004 on our projected funding. We did not make any contributions, required or otherwise, to the Plan in the three and nine months ended September 30, 2004.

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

NOTE 11. New Accounting Pronouncements

Loan Commitments Accounted for as Derivative Instruments

The Securities and Exchange Commission staff recently released Staff Accounting Bulletin (SAB) 105, "Loan Commitments Accounted for as Derivative Instruments." SAB 105 provides guidance about the measurement of loan commitments recognized at fair value under FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities. SAB 105 also requires companies to disclose their accounting policy for those loan commitments including methods and assumptions used to estimate fair value and associated hedging strategies. SAB 105 is effective for all loan commitments accounted for as derivatives that are entered into after March 31, 2004. The adoption of SAB 105 is not expected to have a material effect on our consolidated financial statements.

Stock Option

On March 31, 2004, the Financial Accounting Standards Board (FASB) issued a proposed Statement, Share-Based Payment an Amendment of FASB Statements No. 123 and APB No. 95, that addresses the accounting for share-based payment transactions in which an enterprise receives employee services in exchange for (a) equity instruments of the enterprise or (b) liabilities that are based on

the fair value of the enterprise's equity instruments or that may be settled by the issuance of such equity instruments. Under the FASB's proposal, all forms of share-based payments to employees, including employee stock options, would be treated the same as other forms of compensation by recognizing the related cost in the income statement. The expense of the award would generally be measured at fair value at the grant date. Current accounting guidance requires that the expense relating to so-called fixed plan employee stock options only be disclosed in the footnotes to the financial statements. The proposed Statement would eliminate the ability to account for share-based compensation transactions using APB Opinion No. 25, Accounting for Stock Issued to Employees. On October 13, 2004, FASB voted to delay the adoption of this proposed standard by public companies until their first fiscal quarter beginning after June 15, 2005. The Company is currently evaluating this proposed statement and its effects on its results of operations.

Other-Than-Temporary Impairment - EITF 03-1

In November 2003, the Emerging Issues Task Force (EITF) of the FASB issued EITF Abstract 03-1, The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments (EITF 03-1). The quantitative and qualitative disclosure provisions of EITF 03-1 were effective for years ending after December 15, 2003 and were included in the Company's 2003 Form 10-K. In March 2004, the EITF issued a Consensus on Issue 03-1 requiring that the provisions of EITF 03-1 be applied for reporting periods beginning after June 15, 2004 to investments accounted for under SFAS No. 115 and 124. EITF 03-1 establishes a three-step approach for determining whether an investment is considered impaired, whether that impairment is other-than-temporary, and the measurement of an impairment loss. In September 2004, the FASB issued a proposed Staff Position, EITF Issue 03-1-a, Implementation Guidance for the Application of Paragraph 16 of EITF 03-1 (EITF 03-1-a). EITF 03-1-a would provide implementation guidance with respect to debt securities that are impaired solely due to interest rates and/or sector spreads and analyzed for other-than-temporary impairment under paragraph 16 of EITF 03-1. In September 2004, the FASB issued a Staff Position, EITF Issue 03-1-1, Effective Date of Paragraphs 10-20 of EITF Issue No. 03-1 (EITF 03-1-1). FSP EITF Issue No. 03-1-1, Effective Date of Paragraphs 10-20 of EITF Issue No. 03-1, 'The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments,' delays the effective date of certain provisions of EITF Issue

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

Note 11. - (continued)

03-1, including steps two and three of the Issue's three-step approach for determining whether an investment is other-than-temporarily impaired. However, step one of that approach must still be initially applied for impairment evaluations in reporting periods beginning after June 15, 2004. The delay of the effective date for paragraphs 10-20 of EITF Issue 03-1 will be superseded with the final issuance of proposed FSP EITF Issue 03-1-a, Implementation Guidance for the Application of Paragraph 16 of EITF Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." The Company is in the process of determining the impact that this EITF will have on its financial statements.

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 the Company and its consolidated subsidiaries unless the context otherwise requires. References to per share amounts refer to diluted shares. References to per share amounts for the three and nine months ended September 30, 2003 have been revised to reflect the one-for-ten reverse stock split and thirty-for-one forward stock split in the form of a 3000% stock dividend which occurred on May 18, 2004 (see Note 2). References to Notes herein are references to the "Notes to Consolidated Financial Statements" of the Company located in Item 1 herein.

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 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 each defined reporting unit. 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, 2003, the Company completed its transitional testing,

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which determined that no impairment 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.

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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 September 30, | | | | | |
|--|--|------------------------------|-----------------------|--------------------|------------------------------|----|
| | 2004 | | | 2003 | | |
| | Average Balance | Interest and Dividends | Average Yield/Rate | Average Balance | Interest and Dividends | Yi |
| | (Dollars in Thousands) | | | | | |
| INTEREST-EARNING ASSETS: | | | | | | |
| Loans (1) | \$289,476 | \$ 4,652 | 6.43% | \$283,944 | \$4,786 | |
| Investment securities | 628,530 | 5,601 | 3.56 | 467,063 | 3,777 | |
| Other (2) (5) | 7,443 | 23 | 1.24 | 2,925 | 58 | |
| Total interest-earning assets | 925,449 | 10,276 | 4.44 | 753,932 | 8,621 | |
| Noninterest-earning assets | 43,303 | | | 35,949 | | |
| Total Assets | \$968,752 | | | \$789,881 | | |
| INTEREST-BEARING LIABILITIES: | | | | | | |
| Interest bearing deposits | 272,840 | 955 | 1.40% | 206,632 | 716 | |
| Time deposits | 309,465 | 1,493 | 1.93 | 326,852 | 1,801 | |
| Other borrowings | 238,319 | 1,655 | 2.78 | 113,993 | 815 | |
| Total interest-bearing liabilities | 820,624 | 4,103 | 2.00 | 647,477 | 3,332 | |
| Demand deposits | 39,048 | | | 31,579 | | |
| Noninterest-bearing liabilities | 7,094 | | | 6,792 | | |
| Stockholders' equity (5) | 101,986 | | | 104,033 | | |
| Total liabilities and stockholders' equity | \$968,752 | | | \$789,881 | | |

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| | | | | |
|--|-------|-------|-------|-------|
| Net interest income | ===== | 6,173 | ===== | 5,289 |
| | | ===== | | ===== |
| Interest-rate spread (3) | | | 2.44% | |
| | | | ===== | |
| Net interest margin (4) | | | 2.67% | |
| | | | ===== | |
| Ratio of average interest-earning assets to average interest bearing liabilities | | 1.13 | | 1.16 |
| | ===== | | ===== | |

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

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| | For The Nine Months Ended September 30, | | | | | |
|--------------------------------------|---|------------------------|--------------------|-----------------|------------------------|------------|
| | 2004 | | | 2003 | | |
| | Average Balance | Interest and Dividends | Average Yield/Rate | Average Balance | Interest and Dividends | Yield/Rate |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| | (Dollars in Thousands) | | | | | |
| INTEREST-EARNING ASSETS: | | | | | | |
| Loans (1) | \$292,139 | \$14,097 | 6.43% | \$278,077 | \$14,250 | |
| Investment securities | 614,828 | 15,408 | 3.34 | 426,708 | 11,145 | |
| Other (2) (5) | 4,239 | 35 | 1.10 | 4,558 | 84 | |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Total interest-earning assets | 911,206 | 29,540 | 4.32 | 709,343 | 25,479 | |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Noninterest-earning assets | 39,465 | | | 36,640 | | |
| | ----- | | | ----- | | |
| Total Assets | \$950,671 | | | \$745,983 | | |
| | ===== | | | ===== | | |
| INTEREST-BEARING LIABILITIES: | | | | | | |

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| | | | | | |
|--|-----------|--------|-------|-----------|--------|
| Interest bearing deposits | 265,234 | 2,704 | 1.36% | 177,569 | 1,833 |
| Time deposits | 316,817 | 4,590 | 1.93 | 322,109 | 5,879 |
| Other borrowings | 214,077 | 4,325 | 2.69 | 106,445 | 2,403 |
| | ----- | ----- | ---- | ----- | ----- |
| Total interest-bearing liabilities | 796,128 | 11,619 | 1.95 | 606,123 | 10,115 |
| | | ----- | ---- | | ----- |
| Demand deposits | 37,864 | | | 30,737 | |
| Noninterest-bearing liabilities | 13,007 | | | 8,265 | |
| Stockholders' equity (5) | 103,672 | | | 100,858 | |
| | ----- | | | ----- | |
| Total liabilities and stockholders' equity | \$950,671 | | | \$745,983 | |
| | ===== | | | ===== | |
| Net interest income | | 17,921 | | | 15,364 |
| | | ===== | | | ===== |
| Interest-rate spread (3) | | | 2.37% | | |
| | | | ===== | | |
| Net interest margin (4) | | | 2.62% | | |
| | | | ===== | | |
| Ratio of average interest-earning assets to average interest bearing liabilities | 1.14 | | | 1.17 | |
| | ===== | | | ===== | |

- (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 and Nine Months Ended September 30, 2004 Compared to the Three and Nine Months Ended September 30, 2003.

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"). The Bank is headquartered in Manhattan and has nine branch locations, five branches in New York City and four branches in Orange and Sullivan counties in New York.

Net Income. Net income for the three-month period ended September 30, 2004 was

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\$1.97 million, or \$.29 per share, as compared to \$1.41 million, or \$.21 per share, for the three-month period ended September 30, 2003. Net income for the nine-month period ended September 30, 2004 was \$5.40 million, or \$.79 per share, as compared to \$5.46 million, or \$.81 per share, for the nine-month period ended September 30, 2003.

Our net income is largely dependent on interest rate levels, the demand for our loan and deposit products and the strategies we employ to manage the interest rate risks inherent in the banking business. From June 2003 through June 2004, interest rates, as measured by the prime rate, remained constant at 4.00%. In July, August and September of 2004, inflation fighting actions taken by the Federal Reserve Board resulted in three 25 basis point increases in the prime rate to its current level of 4.75%, the first such increases in more than four years. During the remaining three months of our fiscal year ending December 31, 2004, we believe that the cost of attracting and retaining deposited funds will be an increasing expense in the highly competitive banking industry.

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 September 30, 2004, net interest income increased by \$884,000, or 16.71%, to \$6.17 million from \$5.29 million for the quarter ended September 30, 2003. The quarter over quarter increase in net interest income was the result of the 22.75% growth in average interest-earning assets to \$925.45 million from \$753.93 million, the difference between the yield on assets compared to the cost of liabilities, and the \$7.47 million, or 23.65% increase in non interest-bearing demand deposits to \$39.05 million from \$31.58 million. Partially offsetting these factors was the 26.74% increase in average interest-bearing liabilities to \$820.62 million in the 2004 quarter from \$647.48 million in the 2003 quarter.

For the quarter ended September 30, 2004, the average yield on the average balance of total interest-earning assets continued to trend lower, as it has for the past several years. The yield declined to 4.44% in the 2004 quarter from 4.57% in the 2003 quarter, a decline of 13 basis points or 2.84%. Following a similar pattern, the average cost of the average balance of interest-bearing liabilities fell to 2.00% from 2.06%, a decline of 6 basis points, or 2.91%. The interest rate spread, the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities, which has a direct impact on net interest income, declined by 7 basis points to 2.44% from 2.51%.

For the nine-month period ended September 30, 2004, net interest income increased by \$2.56 million, or 16.64%, to \$17.92 million from \$15.36 million for the nine-month period ended September 30, 2003. The period over period increase in net interest income was the result of the 28.46% growth in average interest-earning assets to \$911.21 million in the 2004 period from \$709.34 million in the 2003 period and the difference between the yield on assets compared to the cost

of liabilities. In the first nine months of fiscal year 2004, the average yield on average balances of total interest-earning assets declined by 47 basis

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points, or 9.81%, to 4.32% from 4.79% in the first nine months of fiscal year 2003. The average cost of the average balance of interest-bearing liabilities declined by 28 basis points, or 12.56%, to 1.95% in the 2004 period from 2.23% in the 2003 period. The interest rate spread declined by 19 basis points to 2.37% in 2004 from 2.56% in 2003. The increase in net interest income in 2004 compared to 2003 was partially offset by the 31.35% growth in the average balances of interest-bearing liabilities to \$796.13 million from \$606.12 million.

Net Interest Margin. Net interest margin, or annualized net interest income as a percentage of average interest-earning assets, declined by 14 basis points to 2.67% in the three months ended September 30, 2004 from 2.81% in the three months ended September 30, 2003, and declined by 27 basis points to 2.62% in the nine-month period of 2004 from 2.89% in the nine-month period of 2003. We seek to secure and retain customer deposits with competitive products and rates, and to make 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 loans, investment securities and short-term interest-earning assets which provided an average yield of 4.44% and 4.32%, respectively, in the three and nine months ended September 30, 2004, compared to 4.57% and 4.79%, respectively, in the three and nine months ended September 30, 2003.

For the three months ended September 30, 2004, total average interest-earnings assets were \$925.45 million compared to \$753.93 million for the three months ended September 30, 2003. In the third quarter of 2004, the average amounts of loans and investment securities increased by \$5.53 million and \$161.47 million, respectively, to \$289.48 million and \$628.53 million, respectively, from \$283.94 million and \$467.06 million, respectively, in the third quarter of 2003. The average yield on loans declined to 6.43% from 6.74%, and the average yield on investment securities increased to 3.56% in 2004 from 3.23% in 2003.

For the nine months ended September 30, 2004, total average interest-earning assets were \$911.21 million compared to \$709.34 million for the nine months ended September 30, 2003. The average amounts of loans and investment securities increased by \$14.06 million and \$188.12 million, respectively, to \$292.14 million and \$614.83 million, respectively. The average yield on loans and investment securities declined to 6.43% and 3.34%, respectively, during the 2004 period from 6.83% and 3.48%, respectively, during the 2003 period.

Interest Income. Total interest income for the quarter ended September 30, 2004 increased by \$1.66 million, or 19.20%, to \$10.28 million from \$8.62 million for the quarter ended September 30, 2003. The increase was primarily due to higher average balances and yields on investments securities, offset by the declining yields on the loan portfolio. The loan portfolio yielded 6.43% and contributed \$4.65 million, or 45.27% of total interest income in the 2004 quarter, compared to a yield of 6.74% on loans in the year ago quarter and interest income of \$4.79 million, or 55.52% of total interest income in the 2003 quarter. Investment securities yielded 3.56% and contributed \$5.60 million, or 54.51% of total interest income in the 2004 quarter, compared to a yield of 3.23% on investment securities and interest income of \$3.78 million, or 43.81% of total interest income in the 2003 quarter.

Total interest income for the nine-month period ended September 30, 2004 increased by \$4.06 million, or 15.94%, to \$29.54 million from \$25.48 million for the nine-month period ended September 30, 2003. The increase was due to higher average balances of loans and investments securities, offset by the declining yields on such interest-earning assets. The loan portfolio yielded 6.43% and contributed \$14.10 million, or 47.72% of total interest income during the nine-month period of 2004, compared to a yield of 6.83% on loans in the year ago nine

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months and interest income of \$14.25 million, or 55.93% of total interest income. Investment securities yielded 3.34% and contributed \$15.41 million, or 52.16% of

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total interest income during the nine-month period ended September 30, 2004, compared to a yield of 3.48% on investment securities and interest income of \$11.15 million, or 43.74% of total interest income during the nine-month period ended September 30, 2003.

Loans, which are inherently risky and therefore command a higher return than our conservative portfolio of investment securities, have declined as a percentage of total average interest-earning assets. During the first nine months of fiscal year 2004, the average balances of the Company's loan portfolio and investment securities represented 32.06% and 67.47%, respectively, of total average interest-earning assets, compared to 39.20% and 60.16%, respectively, during the first nine months of fiscal year 2003.

Interest Expense. Total interest expense for the quarter ended September 30, 2004 increased by \$771,000, or 23.14%, to \$4.10 million from \$3.33 million for the quarter ended September 30, 2003. The increase in total interest expense was primarily due to the \$173.15 million, or 26.74%, increase in the average balance of total interest-bearing liabilities, partially offset by the decline in the average rate paid on such balance, 2.00% in 2004 compared to 2.06% in 2003. The average amount of interest-bearing deposits, excluding time deposits, increased by \$66.21 million. Time deposits decreased by \$17.39 million and borrowed funds increased by \$124.33 million.

Total interest expense for the nine-month period ended September 30, 2004 increased by \$1.50 million, or 14.87%, to \$11.62 million in the 2004 period from \$10.12 million in the 2003 period. The increase in total interest expense was due to the 31.35% increase in average interest-bearing liabilities to \$796.13 million from \$606.12 million, substantially offset by the 12.56% decline in the average rates paid on such liabilities, 1.95% and 2.23%, respectively in 2004 and 2003. If interest rates trend higher, as is widely expected, our cost to attract and retain deposits, and our cost of borrowed funds will increase as well.

Non-Interest Income. Non-interest income consists primarily of realized gains on sales of marketable securities and service fee income. For the three and nine months ended September 30, 2004, total non-interest income decreased to \$455,000 and \$1.12 million, respectively, from \$480,000 and \$3.27 million for the three and six months ended September 30, 2003, respectively. In 2003, we recorded nine month gains of \$2.30 million on the sales and issuer redemptions of investment securities. In 2004, such gains amounted to \$315,000. Service charges on deposit accounts declined to \$380,000 in the nine months of 2004 from \$489,000 in the nine months of 2003. The decline is primarily due marketing efforts introducing new deposit products, which includes the waiver of such fees for a period of time to attract new customers.

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 and nine-month periods ended September 30, 2004 was \$3.13 million and \$9.26 million, respectively, compared

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to \$3.09 million and \$8.53 million, respectively, for the same periods in 2003. In July 2004, we settled a cancelled lease agreement for the Bank's former headquarters in an amount which was less than the full amount remaining on the lease, but \$175,000 more than we had accrued. This additional amount was recorded in other non-interest expense as of June 30, 2004 to reflect the amount paid.

Salaries and employee benefits increased by \$726,000, or 17.54%, to \$4.87 million in the nine months ended September 30, 2004 from \$4.14 million in the nine months ended September 30, 2003. The increase is due to the additional staffing of our two new Brooklyn branches which opened in April and June of 2003 and the addition of personnel in our internal control and compliance departments.

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Provision for Income Tax. During the three and nine-month periods ended September 30, 2004, the Company recorded income tax expense of \$1.49 million and \$4.25 million, respectively, compared to \$1.34 million and \$4.32 million, respectively, for the three and nine-month periods ended September 30, 2003. The tax provisions for federal, state and local taxes recorded for the first nine months of 2004 and 2003 represent effective tax rates of 44.04% and 44.90%, 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, 2003, the Company has purchased a total of 1,844,646 shares of its Common Stock. At September 30, 2004, there were 551,091 shares of Common Stock which may yet be purchased under our stock repurchase plan. The following table sets forth information with respect to such purchases during the periods indicated.

Fiscal Year 2004

| | Number of Shares Purchased | Average Price Paid Per Share |
|------------------|----------------------------------|------------------------------------|
| | ----- | ----- |
| January | 4,263 | \$16.33 |
| February - March | -- | -- |
| April - June | -- | -- |
| July - September | -- | -- |

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

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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 additional interest rate management strategy, the Bank borrows funds from the Federal Home Loan Bank, approximately \$86.2 million at September 30, 2004, at fixed rates for a period of one to five years.

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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 September 30, 2004 | | | | | | |
| (in thousands, except for percentages) | | | | | | |
| | | 3 Months or Less | 3 Through 12 Months | 1 Through 3 Years | Over 3 Years | Total |
| Federal funds sold | | 7,600 | -- | -- | -- | 7,600 |
| | (Rate) | 1.77% | | | | 1.77 |
| Interest bearing deposits in banks | | 1,204 | -- | -- | -- | 1,204 |
| | (Rate) | 0.81% | | | | 0.81% |
| Loans (1) (2) | | | | | | |
| Adjustable rate loans | | 46,522 | 17,895 | 7,924 | 16,474 | 88,815 |
| | (Rate) | 6.16% | 4.17% | 7.18% | 6.59% | 5.93% |
| Fixed rate loans | | 5,273 | 4,052 | 11,592 | 179,270 | 200,187 |
| | (Rate) | 7.33% | 5.62% | 6.67% | 6.31% | 6.34% |

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| | | | | | |
|---|-----------|-----------|-----------|----------|---------|
| Total loans | 51,795 | 21,947 | 19,516 | 195,744 | 289,002 |
| Investments (3) (4) | 34,100 | 16,051 | 182,989 | 406,050 | 639,190 |
| (Rate) | 2.76% | 2.30% | 2.86% | 4.30% | 3.76% |
| Total rate-sensitive assets | 87,099 | 37,998 | 202,505 | 601,794 | 929,396 |
| Deposit accounts (5) | | | | | |
| Savings and NOW | 254,786 | -- | -- | -- | 254,786 |
| (Rate) | 1.51% | | | | 1.51% |
| Money market | 25,740 | -- | -- | -- | 25,740 |
| (Rate) | 0.67% | | | | 0.67% |
| Time Deposits | 129,215 | 133,489 | 37,992 | 2,080 | 302,776 |
| (Rate) | 1.74% | 1.91% | 2.61% | 1.97% | 1.93% |
| Total deposit accounts | 409,741 | 133,489 | 37,992 | 2,080 | 583,302 |
| Repurchase Agreements | 72,790 | 31,825 | 38,000 | -- | 142,615 |
| (Rate) | 1.54% | 1.84% | 2.82% | | 1.95% |
| Other borrowings | -- | 1,000 | 37,260 | 63,405 | 101,665 |
| (Rate) | | 5.90% | 3.64% | 3.97% | 3.82% |
| Total rate-sensitive liabilities | 482,531 | 166,314 | 113,252 | 65,485 | 827,582 |
| Interest rate caps | 25,000 | (5,000) | (5,000) | (15,000) | |
| Gap (repricing differences) | (420,432) | (123,316) | 94,253 | 551,309 | 101,814 |
| Cumulative Gap | (420,432) | (543,748) | (449,495) | 101,814 | |
| Cumulative Gap to Total Rate Sensitive Assets | (45.24)% | (58.51)% | (48.36)% | 10.95% | |

-
- (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.

Provision for Loan Losses. The Company maintains an allowance for loan losses at

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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.

For the three and nine months ended September 30, 2004, the Company did not charge-off any loans, compared to charge-offs amounting to \$13,000 and \$15,000, respectively, for the three and nine months ended September 30, 2003.

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 September 30, 2004, the Company had a total of \$537,000 of non-accrual or non-performing loans, and no loans past due more than 90 days and still accruing interest. At September 30, 2003, the Company had a total of \$59,000 of non-accrual or non-performing loans, and no loans past due more than 90 days and still accruing interest. Based upon management's evaluations of the overall analysis of the Bank's allowance for loan losses, economic factors and the change in total loans to \$288.22 million from \$295.02 million, the provision for the nine months ended September 30, 2004 was increased to \$2.87 million from \$2.50 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 September 30, | | Nine Months Ended September 30, | |
|----------------------------------|-------------------------------------|-----------|------------------------------------|-----------|
| | 2004 | 2003 | 2004 | 2003 |
| Average loans outstanding | \$289,476 | \$283,944 | \$292,139 | \$278,077 |
| Allowance at beginning of period | 2,709 | 2,468 | 2,593 | 2,315 |
| Charge-offs: | | | | |
| Commercial and other loans | -- | -- | 1 | 2 |
| Real estate loans | -- | 13 | -- | 13 |
| Total loans charged-off | -- | 13 | 1 | 15 |
| Recoveries: | | | | |
| Commercial and other loans | 112 | 3 | 139 | 8 |
| Real estate loans | -- | -- | -- | -- |
| Total loans recovered | 112 | 3 | 139 | 8 |
| Net recoveries (charge-offs) | 112 | (10) | 139 | (7) |

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| | | | | |
|--|-----------|-----------|-----------|-----------|
| Provision for loan losses charged to operating expenses | 45 | 45 | 135 | 195 |
| | ----- | ----- | ----- | ----- |
| Allowance at end of period | 2,866 | 2,503 | 2,866 | 2,503 |
| | ----- | ----- | ----- | ----- |
| Ratio of net recoveries (charge-offs) to average loans outstanding | 0.00% | 0.00% | 0.00% | 0.00% |
| | ===== | ===== | ===== | ===== |
| Allowance as a percent of total loans | 0.99% | 0.85% | 0.99% | 0.85% |
| | ===== | ===== | ===== | ===== |
| Total loans at end of period | \$288,221 | \$295,019 | \$288,221 | \$295,019 |
| | ===== | ===== | ===== | ===== |

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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 September 30, 2004, the Company had total gross loans of \$282.89 million and an allowance for loan losses of \$2.87 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. For the three and nine-month periods ended September 30, 2004, the Company sold approximately \$579,000 and \$4.21 million, respectively, of such loans and recorded in other income, gains of \$12,000 and \$81,000, respectively, on such sales.

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

| | September 30, 2004 | December 31, 2003 |
|-----------------------------------|-----------------------|----------------------|
| | ----- | ----- |
| | Amount | Amount |
| | ----- | ----- |
| | (in thousands) | |
| Commercial and professional loans | \$ 16,925 | \$ 22,228 |
| Secured by real estate | | |
| 1-4 family | 158,531 | 169,589 |
| Multi family | 7,142 | 6,608 |
| Non-residential (commercial) | 104,393 | 94,956 |
| Consumer | 2,011 | 2,239 |
| | ----- | ----- |
| Total loans | 282,885 | 295,620 |
| Less: | | |
| Deferred loan fees | (781) | (864) |
| Allowance for loan losses | (2,866) | (2,593) |
| | ----- | ----- |

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| | | |
|------------|-----------|-----------|
| Loans, net | \$285,355 | \$292,163 |
| | ===== | ===== |

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 September 30, 2004 and 2003, the Company had no loans past due more than 90 days and still accruing interest.

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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 September 30, 2004, 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 September 30, 2004 and December 31, 2003 (dollars in thousands):

| | Actual | | For capital adequacy purposes | | To be well capitalized under prompt corrective action provision | |
|--|---------|-------|-------------------------------|--------|---|--------|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| September 30, 2004 | | | | | | |
| Total Capital (to Risk-Weighted Assets) | | | | | | |
| Company | 108,162 | 29.0% | 29,817 | >=8.0% | -- | N/A |
| Bank | 81,165 | 23.04 | 28,177 | >=8.0% | 35,221 | >=10.0 |
| Tier I Capital (to Risk-Weighted Assets) | | | | | | |
| Company | 105,296 | 28.3% | 14,908 | >=4.0% | -- | N/A |
| Bank | 78,299 | 22.2% | 14,089 | >=4.0% | 21,133 | >=6.0 |
| Tier I Capital (to Average Assets) | | | | | | |

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| Company | Actual | | For capital adequacy purposes | | To be well capitalized under prompt corrective action provision | |
|--|----------|-------|-------------------------------|--------|---|--------|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| Company | 105,296 | 11.1% | 37,285 | >=4.0% | -- | N/A |
| Bank | 78,299 | 8.4% | 37,118 | >=4.0% | 46,397 | >=5.0 |
| December 31, 2003 | | | | | | |
| Total Capital (to Risk-Weighted Assets) | | | | | | |
| Company | \$86,759 | 26.1% | \$26,630 | >=8.0% | -- | N/A |
| Bank | 60,675 | 19.1% | 25,417 | >=8.0% | 31,772 | >=10.0 |
| Tier I Capital (to Risk-Weighted Assets) | | | | | | |
| Company | 84,166 | 25.3% | 13,315 | >=4.0% | -- | N/A |
| Bank | 58,082 | 18.3% | 12,709 | >=4.0% | 19,063 | >=6.0 |
| Tier I Capital (to Average Assets) | | | | | | |
| Company | 84,166 | 10.7% | 31,410 | >=4.0% | -- | N/A |
| Bank | 58,082 | 7.0% | 33,391 | >=4.0% | 41,739 | >=5.0 |

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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, 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. 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 September 30, 2004, the Company, excluding the Bank, had cash and cash equivalents of \$7.57 million and investment securities available for sale of \$7.78 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 September 30, 2004, the Company had outstanding commitments of approximately \$16.59 million. These commitments include \$10.70 million that mature or renew within one year, \$3.62 million that mature or renew after one

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year and within three years, \$278,000 that mature or renew after three years and within five years and \$1.99 million that mature or renew after five years.

The Company currently has one unconsolidated subsidiary, Berkshire Capital Trust I, which was established in May 2004.

Impact of Inflation and Changing Prices

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

ITEM 4 - CONTROLS AND PROCEDURES

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").

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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.

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Conclusions. Based upon the Controls Evaluation, the CEO/CFO has concluded that, subject to the limitations noted above, 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 Securities and Exchange Commission's rules and forms. In accordance with SEC requirements, the CEO/CFO notes that during the fiscal quarter ended September 30, 2004, 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

a. 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: November 8, 2004

By: /s/ Steven Rosenberg

Steven Rosenberg
President and Chief
Financial Officer

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| 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 |

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STATEMENT OF DIFFERENCE

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