

BERKSHIRE BANCORP INC /DE/
Form 10-Q
August 12, 2002

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 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

(State or other jurisdiction of
incorporation or organization)

160 Broadway, New York, New York

(Address of principal executive offices)

94-2563513

(I.R.S. Employer
Identification No.)

10038

(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.

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Yes X No
--- ---

As of August 9, 2002, there were 2,253,559 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)

| | June 30, 2002 | December 31, 2001 |
|---|------------------|----------------------|
| | ----- | ----- |
| ASSETS | | |
| Cash and due from banks | \$ 4,481 | \$ 7,170 |
| Interest bearing deposits | 257 | 213 |
| Federal funds sold | 4,000 | 3,000 |
| | ----- | ----- |
| Total cash and cash equivalents | 8,738 | 10,383 |
| Investment Securities: | | |
| Available-for-sale | 311,494 | 240,966 |
| Held-to-maturity | 1,157 | 1,613 |
| | ----- | ----- |
| Total investment securities | 312,651 | 242,579 |
| Loans, net of unearned income | 264,948 | 252,233 |
| Less: allowance for loan losses | (2,095) | (2,030) |
| | ----- | ----- |
| Net loans | 262,853 | 250,203 |
| Accrued interest receivable | 4,156 | 3,399 |
| Premises and equipment, net | 8,422 | 7,446 |
| Other assets | 2,216 | 4,110 |
| Goodwill, net of amortization of \$2,300 in 2001 | 18,549 | 18,438 |
| | ----- | ----- |
| Total assets | \$617,585 | \$536,558 |
| | ===== | ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Deposits: | | |
| Non-interest bearing | \$ 31,206 | \$ 30,163 |
| Interest bearing | 402,640 | 308,613 |
| | ----- | ----- |
| Total deposits | 433,846 | 338,776 |
| Securities sold under agreements to repurchase | 35,345 | 53,756 |
| Long term borrowings | 45,763 | 42,278 |
| Accrued interest payable | 3,306 | 2,406 |
| Other liabilities | 3,572 | 3,350 |
| | ----- | ----- |
| Total liabilities | 521,832 | 440,566 |
| | ----- | ----- |
| 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 -- | | |

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| | | | |
|--|------------------|-----------|-----------|
| June 30, 2002, | 2,266,090 shares | | |
| December 31, 2001, | 2,379,990 shares | 256 | 256 |
| Additional paid-in capital | | 89,896 | 89,914 |
| Retained earnings | | 13,311 | 11,053 |
| Accumulated other comprehensive income (loss), net | | 671 | (281) |
| Less: Common stock in treasury - at cost: | | | |
| June 30, 2002, | 300,005 shares | | |
| December 31, 2001, | 186,105 shares | (8,381) | (4,950) |
| | | ----- | ----- |
| Total stockholders' equity | | 95,753 | 95,992 |
| | | ----- | ----- |
| | | \$617,585 | \$536,558 |
| | | ===== | ===== |

The accompanying notes are an integral part of this statement.

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

| | For The Three Months Ended June 30, | | Si |
|--|---|---------|---------|
| | 2002 | 2001 | 2002 |
| | ----- | ----- | ----- |
| INTEREST INCOME | | | |
| Loans | \$4,670 | \$4,256 | \$ 9,21 |
| Investment securities | 3,325 | 2,354 | 6,07 |
| Federal funds sold and interest bearing deposits | 102 | 179 | 12 |
| | ----- | ----- | ----- |
| Total interest income | 8,097 | 6,789 | 15,41 |
| | ----- | ----- | ----- |
| INTEREST EXPENSE | | | |
| Deposits | 2,692 | 3,072 | 5,07 |
| Borrowings | 666 | 459 | 1,33 |
| | ----- | ----- | ----- |
| Total interest expense | 3,358 | 3,531 | 6,40 |
| | ----- | ----- | ----- |
| Net interest income | 4,739 | 3,258 | 9,00 |
| PROVISION FOR LOAN LOSSES | 107 | 37 | 15 |

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| | | | |
|---|---------|--------|---------|
| Net interest income after provision for loan losses | 4,632 | 3,221 | 8,84 |
| NON-INTEREST INCOME | | | |
| Service charges on deposits | 104 | 131 | 23 |
| Investment securities gains | 127 | 480 | 32 |
| Other income | 114 | 127 | 25 |
| Total non-interest income | 345 | 738 | 81 |
| NON-INTEREST EXPENSE | | | |
| Salaries and employee benefits | 1,295 | 1,079 | 2,60 |
| Net occupancy expense | 373 | 289 | 74 |
| Equipment expense | 74 | 66 | 13 |
| FDIC assessment | 15 | 8 | 3 |
| Data processing expense | 19 | 62 | 5 |
| Amortization of goodwill | -- | 262 | - |
| Other | 1,026 | 560 | 1,63 |
| Total non-interest expense | 2,802 | 2,326 | 5,20 |
| Income before provision for taxes | 2,175 | 1,633 | 4,46 |
| Provision for income taxes | 988 | 705 | 1,96 |
| Net income | \$1,187 | \$ 928 | \$ 2,49 |
| Net income per share: | | | |
| Basic | \$.51 | \$.37 | \$ 1.0 |
| Diluted | \$.51 | \$.37 | \$ 1.0 |

The accompanying notes are an integral part of this statement.

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

For The Six Months Ended June 30, 2002
(In Thousands)

| Common | Stock Par | Additional paid-in | Accumulated other comprehensive |
|--------|--------------|-----------------------|---------------------------------------|
|--------|--------------|-----------------------|---------------------------------------|

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| | Shares ----- | value ----- | capital ----- | (loss), net ----- |
|---|-----------------|----------------|-------------------|----------------------|
| Balance at December 31, 2001 | 2,566 | \$256 | \$89,914 | \$ (281) |
| Net income | | | | |
| Acquisition of treasury shares | | | | |
| Treasury shares issued for options exercised | | | (18) | |
| Other comprehensive income net of reclassification adjustment and taxes | | | | 952 |
| Comprehensive income | | | | |
| Cash dividends | ----- | ---- | ----- | ----- |
| Balance at June 30, 2002 (Unaudited) | 2,566 | \$256 ===== | \$89,896 ===== | \$ 671 ===== |

| | Comprehensive income ----- | Total stockholders' equity ----- |
|---|----------------------------------|---|
| Balance at December 31, 2001 | | \$95,992 |
| Net income | 2,493 | 2,493 |
| Acquisition of treasury shares | | (3,471) |
| Treasury shares issued for options exercised | | 22 |
| Other comprehensive income net of reclassification adjustment and taxes | 952 | 952 |
| Comprehensive income | \$ 3,445 ===== | |
| Cash dividends | | (235) |
| Balance at June 30, 2002 (Unaudited) | | \$95,753 ===== |

The accompanying notes are an integral part of this statement

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

| | For The Six Months En June 30, | |
|---|-----------------------------------|-----------|
| | 2002 | 2001 |
| | ----- | ----- |
| Cash flows from operating activities: | | |
| Net income | \$ 2,493 | \$ 1,100 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Realized gain on investment securities | (323) | |
| Depreciation and amortization | 155 | |
| Provision for loan losses | 157 | |
| (Increase) decrease in accrued interest receivable | (757) | |
| Decrease in other assets | 869 | |
| Increase (decrease) in accrued interest payable and other liabilities | 19 | |
| | ----- | ----- |
| Net cash provided by (used in) operating activities | 2,613 | (1,100) |
| | ----- | ----- |
| Cash flows from investing activities: | | |
| Cash paid for business acquired | -- | (20,000) |
| Cash of entity acquired | -- | 6,000 |
| Investment securities available for sale | | |
| | | |
| Purchases | (441,088) | (134,000) |
| Sales | 373,852 | 118,000 |
| Investment securities held to maturity | | |
| Purchases | -- | (141,000) |
| Sales and maturities | 456 | 160,000 |
| Net increase in loans | (12,807) | (22,000) |
| Acquisition of premises and equipment | (1,131) | (3,000) |
| | ----- | ----- |
| Net cash (used in) investing activities | (80,718) | (36,000) |
| | ----- | ----- |

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

| | For The Six Months En June 30, | |
|---|-----------------------------------|-----------|
| | 2002 | 2001 |
| | ----- | ----- |
| Cash flows from financing activities: | | |
| Net increase in non interest bearing deposits | 1,043 | 10,000 |
| Net increase in interest bearing deposits | 94,027 | 27,000 |
| (Decrease) in securities sold under agreements to repurchase | (18,411) | (12,000) |
| Proceeds from long term debt | 10,000 | 10,000 |
| Repayment of long term debt | (6,515) | (10,000) |
| Acquisition of treasury stock | (3,471) | (1,000) |
| Proceeds from exercise of common stock options | 22 | 1,000 |
| Dividends paid | (235) | 1,000 |
| | ----- | ----- |
| Net cash provided by financing activities | 76,460 | 13,000 |
| | ----- | ----- |
| Net decrease in cash | (1,645) | (21,000) |
| Cash - beginning of period | 10,383 | 36,000 |
| | ----- | ----- |
| Cash - end of period | \$ 8,738 | \$ 14,000 |
| | ===== | ===== |
| Supplemental cash flow information: | | |
| Cash used to pay interest | \$ 5,508 | \$ 4,000 |
| Cash used to pay taxes | \$ 2,822 | \$ 1,000 |

The accompanying notes are an integral part of this statement.

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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 June 30, 2002 and December 31, 2001 and the consolidated results of its operations for the three and six month periods ended June 30, 2002 and 2001, and its consolidated stockholders' equity for the six month period ended June 30, 2002, and its consolidated cash flows for the six month periods ended June 30, 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

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presents the calculation of earnings per share for the periods indicated:

| | For The Three Months Ended | | | |
|--|---------------------------------------|-------------------------|------------------------|-----------------------|
| | June 30, 2002 | | | June 30, 2001 |
| | Income (numerator) | Shares (denominator) | Per share amount | Income (numerator) |
| | (In thousands, except per share data) | | | |
| Basic earnings per share | | | | |
| Net income available to common stockholders | \$1,187 | 2,315 | \$.51 | \$ 928 |
| Effect of dilutive securities | | | | |
| Options | -- | 9 | -- | -- |
| Diluted earnings per share | | | | |
| Net income available to common stockholders plus assumed conversions | \$1,187 | 2,324 | \$.51 | \$ 928 |

Options to purchase 119,375 and 44,875 shares of common stock for \$30.00 to \$38.00 per share were outstanding during the three month periods ended June 30, 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.

| | For The Six Months Ended | | | |
|--|---------------------------------------|-------------------------|------------------------|-----------------------|
| | June 30, 2002 | | | June 30, 2001 |
| | Income (numerator) | Shares (denominator) | Per share amount | Income (numerator) |
| | (In thousands, except per share data) | | | |
| Basic earnings per share | | | | |
| Net income available to common stockholders | \$2,493 | 2,338 | \$1.07 | \$1,334 |
| Effect of dilutive securities | | | | |
| Options | -- | 10 | .01 | -- |
| Diluted earnings per share | | | | |
| Net income available to common stockholders plus assumed conversions | \$2,493 | 2,348 | \$1.06 | \$1,334 |

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Options to purchase 45,375 and 44,875 shares of common stock for \$31.75 to \$38.00 per share were outstanding during the six month periods ended June 30, 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.

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

NOTE 4. Investment Securities

The following tables summarize held to maturity and available-for-sale investment securities as of June 30, 2002 and December 31, 2001:

| | June 30, 2002 | | |
|---|-------------------|------------------------------|-------------------------------|
| | Amortized Cost | Gross unrealized gains | Gross unrealized losses |
| | (In thousands) | | |
| Held To Maturity Investment Securities | | | |
| U.S. Government Agencies | \$1,157 | \$ -- | \$ -- |
| | ----- | ----- | ----- |
| Totals | \$1,157 | \$ -- | \$ -- |
| | ===== | ===== | ===== |

| | December 31, 2001 | | |
|---|-------------------|------------------------------|-------------------------------|
| | Amortized Cost | Gross unrealized gains | Gross unrealized losses |
| | (In thousands) | | |
| Held To Maturity Investment Securities | | | |
| U.S. Government Agencies | \$1,613 | \$ 8 | \$ (23) |
| | ----- | ----- | ----- |
| Totals | \$1,613 | \$ 8 | \$ (23) |
| | ===== | ===== | ===== |

| | June 30, 2002 | | |
|--|-------------------|------------------------------|-------------------------------|
| | Amortized Cost | Gross unrealized gains | Gross unrealized losses |
| (In thousands) | | | |
| Available-For-Sale | | | |
| Investment Securities | | | |
| U.S. Treasury and Notes | \$ 30,175 | \$ 120 | \$ -- |
| U.S. Government Agencies | 210,734 | 1,536 | (293) |
| Mortgage-backed securities | 5,297 | 9 | (27) |
| Corporate notes | 39,320 | -- | (340) |
| Marketable equity securities and other | 24,865 | 187 | (89) |
| | ----- | ----- | ----- |
| Totals | \$310,391 | \$1,852 | \$ (749) |
| | ===== | ===== | ===== |

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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 |
| (In thousands) | | | |
| Available-For-Sale | | | |
| Investment securities | | | |
| U.S. Treasury and Notes | \$ 30,012 | \$ 34 | \$ (8) |
| U.S. Government Agencies | 170,610 | 589 | (1,043) |
| Mortgage-backed securities | 2,493 | 6 | -- |
| Corporate Notes | 751 | 1 | (113) |
| Marketable equity securities and other | 37,547 | 87 | -- |
| | ----- | ----- | ----- |
| Totals | \$241,413 | \$717 | \$ (1,164) |

=====

NOTE 5. Loan Portfolio

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

| | June 30, 2002 | | December |
|-----------------------------------|------------------------|------------|----------|
| | Amount | % of Total | Amount |
| | (Dollars in thousands) | | |
| Commercial and professional loans | \$ 21,205 | 8.0% | \$ 19,13 |
| Secured by real estate | | | |
| 1-4 family | 177,100 | 66.9 | 165,19 |
| Multi family | 9,398 | 3.5 | 11,18 |
| Non-residential (commercial) | 52,992 | 20.0 | 51,89 |
| Consumer | 4,253 | 1.6 | 4,68 |
| Other | -- | . | 14 |
| Total loans | 264,948 | 100.0% | 252,23 |
| Less: Allowance for loan losses | (2,095) | | (2,03 |
| Loans, net | \$262,853 | | \$250,20 |

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

NOTE 6. Deposits

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

| June 30, 2002 | | December 31, 2001 | |
|----------------|---------------|-------------------|---------------|
| Average Amount | Average Yield | Average Amount | Average Yield |

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| | ----- | ----- | ----- | ----- |
|----------------------|------------------------|-------|-----------|-------|
| | (Dollars in thousands) | | | |
| Demand deposits | \$ 29,395 | -- | \$ 21,857 | -- |
| NOW and money market | 46,094 | 1.92% | 51,026 | 2.64% |
| Savings deposits | 49,434 | 1.47 | 34,168 | 2.69 |
| Time deposits | 243,342 | 3.48 | 155,079 | 5.07 |
| | ----- | ----- | ----- | ----- |
| Total deposits | \$368,265 | 2.73% | \$262,130 | 3.89% |
| | ===== | ===== | ===== | ===== |

NOTE 7. Comprehensive Income

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

| | For The Six Months Ended | | | | |
|--|--------------------------|-----------------------|-------------------|-------------------|-----------------------|
| | June 30, 2002 | | | June 30, 2001 | |
| | Before tax amount | Tax (expense) benefit | Net of tax Amount | Before tax amount | Tax (expense) benefit |
| | ----- | ----- | ----- | ----- | ----- |
| | (In thousands) | | | | |
| Unrealized gains on investment securities: | | | | | |
| Unrealized holding gains arising during period | \$1,873 | \$(727) | \$1,146 | \$558 | \$(239) |
| Less reclassification | 323 | (129) | 194 | 480 | (192) |
| | ----- | ----- | ----- | ----- | ----- |
| adjustment for gains realized in net income | | | | | |
| Other comprehensive income, net | \$1,550 | \$(598) | \$ 952 | \$ 78 | \$(47) |
| | ===== | ===== | ===== | ===== | ===== |

Note 8. New Accounting Pronouncements

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") was adopted on January 1, 2002. 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 June 30, | |
|-------------------------------------|--|---------|
| | 2002 | 2001 |
| | ----- | ----- |
| | (In thousands, except per share amounts) | |
| Reported net income | \$1,187 | \$ 928 |
| Add back: goodwill amortization | | 262 |
| | ----- | ----- |
| Adjusted net income | \$1,187 | \$1,190 |
| | ===== | ===== |
| | | |
| Basic earnings per share: | | |
| Reported basic earnings per share | \$.51 | \$.37 |
| Goodwill amortization | | .10 |
| | ----- | ----- |
| Adjusted basic earnings per share | \$.51 | \$.47 |
| | ===== | ===== |
| | | |
| Diluted earnings per share: | | |
| Reported diluted earnings per share | \$.51 | \$.37 |
| Goodwill amortization | | .10 |
| | ----- | ----- |
| Adjusted diluted earnings per share | \$.51 | \$.47 |
| | ===== | ===== |

For The Six Months Ended
June 30,

| 2002 | 2001 |
|------|------|
|------|------|

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(In thousands, except per share amounts)

| | | |
|-------------------------------------|---------|---------|
| Reported net income | \$2,493 | \$1,334 |
| Add back: goodwill amortization | | 421 |
| | ----- | ----- |
| Adjusted net income | \$2,493 | \$1,755 |
| | ===== | ===== |
| | | |
| Basic earnings per share: | | |
| Reported basic earnings per share | \$ 1.07 | \$.60 |
| Goodwill amortization | | .19 |
| | ----- | ----- |
| Adjusted basic earnings per share | \$ 1.07 | \$.79 |
| | ===== | ===== |
| | | |
| Diluted earnings per share: | | |
| Reported diluted earnings per share | \$ 1.06 | \$.60 |
| Goodwill amortization | | .19 |
| | ----- | ----- |
| Adjusted diluted earnings per share | \$ 1.06 | \$.79 |
| | ===== | ===== |

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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.

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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 June 30, | | | |
|--|-------------------------------------|------------------------------|-----------------------|--------------------|
| | 2002 | | | |
| | Average Balance | Interest and Dividends | Average Yield/Rate | Average Balance |
| | (Dollars in Thousands) | | | |
| INTEREST-EARNING ASSETS: | | | | |
| Loans (1) | \$264,853 | \$4,670 | 7.05% | \$218,213 |
| Investment securities | 268,524 | 3,325 | 4.95 | 149,568 |
| Other (2) (5) | 5,515 | 102 | 7.40 | 15,250 |
| | ----- | ----- | ----- | ----- |
| Total interest-earning assets | 538,892 | 8,097 | 6.01 | 383,031 |
| | ----- | ----- | ----- | ----- |
| Noninterest-earning assets | 37,682 | | | 34,411 |
| | ----- | | | ----- |
| Total Assets | 576,574 | | | 417,442 |
| | ===== | | | ===== |
| INTEREST-BEARING LIABILITIES: | | | | |
| Interest bearing deposits | 108,990 | 382 | 1.40% | 99,657 |
| Time deposits | 268,390 | 2,310 | 3.44 | 166,117 |
| Other borrowings | 67,209 | 666 | 3.96 | 32,690 |
| | ----- | ----- | ----- | ----- |
| Total interest-bearing liabilities | 444,589 | 3,358 | 3.02 | 298,464 |
| | ----- | ----- | ----- | ----- |
| Demand deposits | 30,256 | | | 19,030 |
| Noninterest-bearing liabilities | 7,156 | | | 4,610 |
| Stockholders' equity (5) | 94,573 | | | 95,338 |
| | ----- | | | ----- |
| Total liabilities and stockholders' equity | 576,574 | | | 417,442 |
| | ===== | | | ===== |
| Net interest income | | 4,739 | | |
| | | ===== | | |
| Interest-rate spread (3) | | | 2.99% | |
| | | | ===== | |
| Net interest margin (4) | | | 3.52% | |
| | | | ===== | |

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| | | |
|--|---------------|---------------|
| Ratio of average interest-earning assets to average interest bearing liabilities | 1.21 ===== | 1.28 ===== |
|--|---------------|---------------|

-
- (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 Six Months Ended June 30,

| | 2002 | | | | |
|--------------------------------------|------------------------|--------------------|-----------------|--------------------|-----------------|
| Average Balance | Interest and Dividends | Average Yield/Rate | Average Balance | Average Yield/Rate | Average Balance |
| (Dollars in Thousands) | | | | | |
| INTEREST-EARNING ASSETS: | | | | | |
| Loans (1) | \$260,623 | \$ 9,213 | 7.07% | \$148,102 | \$ |
| Investment securities | 254,038 | 6,075 | 4.78 | 127,121 | |
| Other (2) (5) | 5,652 | 125 | 4.42 | 18,108 | |
| Total interest-earning assets | 520,313 | 15,413 | 5.92 | 293,331 | 1 |
| Noninterest-earning assets | 36,905 | | | 30,187 | |
| Total Assets | 557,218 | | | 323,518 | |
| | ===== | | | ===== | |
| INTEREST-BEARING LIABILITIES: | | | | | |
| Interest bearing deposits | 108,795 | 761 | 1.40% | 62,449 | |
| Time deposits | 243,342 | 4,309 | 3.54 | 123,211 | |
| Other borrowings | 73,689 | 1,338 | 3.63 | 24,399 | |

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| | | | | |
|--|---------|-------|-------|---------|
| Total interest-bearing liabilities | 425,826 | 6,408 | 3.01 | 210,059 |
| Demand deposits | 29,395 | | | 16,900 |
| Noninterest-bearing liabilities | 6,808 | | | 3,754 |
| Stockholders' equity (5) | 95,189 | | | 92,805 |
| Total liabilities and stockholders' equity | 557,218 | | | 323,518 |
| Net interest income | | 9,005 | | |
| Interest-rate spread (3) | | | 2.91% | |
| Net interest margin (4) | | | 3.46% | |
| Ratio of average interest-earning assets to average interest bearing liabilities | 1.22 | | | 1.39 |

-
- (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 Six Months Ended June 30, 2002 Compared to the Three and Six Months Ended June 30, 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

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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). 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 June 30, 2002 was \$1.19 million, or \$.51 per share, as compared to \$928,000, or \$.37 per share, for the three-month period ended June 30, 2001. Net income for the six-month period ended June 30, 2002 was \$2.49 million, or \$1.06 per share, as compared to \$1.33 million, or \$.60 per, for the six-month period ended June 30, 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 three and six months ended June 30, 2001 would have been \$1.19 million and \$1.76 million, or \$.47 per share and \$.79 per share, respectively. (See Note 8.)

The Company's net income is largely dependent on interest rate levels, the demand for the Company's loan and deposit products and the strategies employed to manage the risks inherent in the banking business. Interest rates, as measured by the prime rate, stabilized at 4.75% throughout the first six months of 2002. During 2001, in contrast, the prime rate declined from 9.00% at the beginning of the year to 4.75% at years' end.

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 June 30, 2002, net interest income increased by approximately \$1.48 million, or 45.46%, to \$4.74 million from \$3.26 million for the quarter ended June 30, 2001. The quarter over quarter increase in net interest income was the result of the growth in average interest-earning assets of \$155.86 million, partially offset by the growth in average interest-bearing liabilities of \$146.13 million, and the difference between the yield on assets compared to the cost of liabilities. The average yield on interest-earning assets fell to 6.01% from 7.09%, a decline of 108 basis points, or 15.23%, however, the average cost of interest-bearing liabilities fell to 3.02% from 4.73%, a decline of 171 basis points, or 36.15%. The interest-rate spread, the difference between the average yield on interest-earning assets and the average cost of interest bearing liabilities, improved by 63 basis points to 2.99% from 2.36%

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For the six-month period ended June 30, 2002, net interest income increased by approximately \$3.73 million, or 70.74%, to \$9.01 million from \$5.27 million for the six-month period ended June 30, 2001. The period over period increase in net interest income was the result of the growth in average interest-earning assets of \$226.98 million, partially offset by the growth in average interest-bearing liabilities of \$215.77 million, due in part to the inclusion of the assets and liabilities of GSB Financial as of April 1, 2001, and the difference between the yield on assets compared to the cost of liabilities. In the 2002 period, the average yield on interest-earning assets fell to 5.92% from 7.17% in 2001, a decline of 125 basis points, or 17.43%, however, the average cost of interest-bearing liabilities fell to 3.01% from 4.99%, a decline of 198 basis points, or 39.68%. The interest-rate spread improved by 73 basis points to 2.91% in 2002 from 2.18% in 2001.

Net Interest Margin. Net interest margin, or annualized net interest income as a percentage of average interest-earning assets, improved to 3.52% in the second quarter of 2002 from 3.40% in the second quarter of 2001, and declined to 3.46% in the six-month period of 2002 from 3.60% in the six-month period of 2001.

The Company strategically uses the prevailing interest rate environment to secure deposits and to borrow funds at what we believe to be attractive rates, and to invest such funds in loans and investment securities. The average amounts of loans and investment securities increased by approximately \$46.64 million and \$118.96 million, respectively, to \$264.85 million and \$268.52 million, respectively, in the quarter ended June 30, 2002, from \$218.21 million and \$149.57 million, respectively, in the year ago quarter. Time deposits and borrowings increased by approximately \$102.27 million and \$34.52 million, respectively, during the 2002 quarter to \$268.39 million and \$67.21 million, respectively, from \$166.12 million and \$32.69 million, respectively, during the 2001 quarter.

Interest Income. Total interest income for the quarter ended June 30, 2002 increased by approximately \$1.31 million, or 19.27%, to \$8.10 million from \$6.79 million for the quarter ended June 30, 2001. The increase was the result of a \$155.86 million increase in average interest-earning assets to \$538.89 million for the 2002 quarter from \$383.03 million for the 2001 quarter. Loans and investment securities increased by 99.88% and 79.53%, respectively, and contributed \$4.67 million and \$3.33 million, respectively, to interest income.

Total interest income for the six-month period ended June 30, 2002 increased by approximately \$4.90 million, or 46.55%, to \$15.41 million from \$10.52 million for the six-month period ended June 30, 2001. The average amounts of interest-earning assets increased by approximately \$226.98 million, or 77.38%, to \$520.31 million in 2002 from \$293.33 million in 2001, due in part to the acquisition of GSB Financial on March 30, 2001. Interest income on loans and investment securities increased by approximately \$3.26 million and \$1.99 million, respectively, to \$9.21 million and \$6.08 million from \$5.96 million and \$4.07 million in 2001.

The average yield on interest-earning assets declined to 6.01% and 5.92%, respectively, for the three and six months ended June 30, 2002, from 7.09% and 7.17%, respectively, for the three and six months ended June 30, 2001. During the first six months of 2002, the average yield on the Company's loan portfolio was 7.07% compared to 8.05% during the first six months of 2001. We expect this trend to continue as homeowners refinance their existing mortgage loans at today's lower rates. The average yield on investment securities has declined as well, to 4.78% in 2002 from 6.43% in 2001 as securities with above market rates are either called by the issuer or mature, and are replaced by securities with lower yields.

Interest Expense. Total interest expense for the quarter ended June 30, 2002 decreased by \$173,000, to \$3.36 million from \$3.53 million for the quarter ended June 30, 2001. The decrease is due to lower rates paid on interest-bearing liabilities, 3.02% in 2002 compared to 4.73% in 2001, offset by the overall increase of \$146.13 million in the average amount of interest-bearing liabilities to \$444.59 million in the 2002 quarter from \$298.46 million in the 2001 quarter.

Total interest expense for the six-month period ended June 30, 2002 increased by approximately \$1.17 million, or 22.22%, to \$6.41 million in the 2002 period from \$5.24 million in the 2001 period. The increase was the result of the 102.72% growth in the average amount of interest-bearing liabilities, to \$425.83 million in 2002 from \$210.06 million in 2001. Deposits increased by 89.67% to \$352.14 million in 2002 from \$185.66 million in 2001 partly as a result of the acquisition of GSB Financial. Borrowings increased by 202.02% to \$73.69 million in 2002 from \$24.40 million in 2001 as a result of our strategy of employing excess capital to fund the growth of our business. The increase in total interest expense was partially offset by the decline in the average rates paid on interest-bearing liabilities to 3.01% during the 2002 period from 4.99% during the 2001 period.

Non-Interest Income. Non-interest income consists primarily of realized gains on sales of marketable securities and service fee income. For the three months ended June 30, 2002, total non-interest income was \$345,000, compared to \$738,000 for the three months ended June 30, 2001. The decrease is primarily due to the decrease in gains on sales of investment securities.

For the six months ended June 30, 2002, total non-interest income was \$814,000, compared to \$906,000 in the year ago period. Service fee income increased to \$238,000 in 2002 from \$131,000 in 2001 as a result of the growth in deposits at the bank. Investment securities gains declined to \$323,000 from \$483,000 and other non-interest income declined to \$253,000 in 2002 from \$292,000 in 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 and six-month periods ended June 30, 2002 was \$2.80 million and \$5.20 million, respectively, compared to \$2.33 million and \$3.59 million, respectively for the same periods in 2001. The year to year increases are due primarily to increases in salaries and employee benefits and occupancy expenses resulting from the expansion of the business.

Provision for Income Tax. During the three and six-month periods ended June 30, 2002, the Company recorded income tax expense of \$988,000 and \$1.97 million, respectively, compared to income tax expense of \$705,000 and \$1.21 million, respectively, for the three and six-month periods ended June 30, 2001. The tax provisions for federal, state and local taxes recorded for 2002 and 2001 represent effective tax rates of 44.12% and 47.48%, respectively. The decrease

in the effective rate is primarily due to the elimination of the non-deductible amortization expense of goodwill.

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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.

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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

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rate repricing gaps for selected maturity periods:

| | | Berkshire Bancorp Inc. Interest Rate Sensitivity Gap at June (in thousands, except for percentage) | | | |
|--|--------|--|------------------------|----------------------|-----------------|
| | | 3 Months or Less | 3 Through 12 Months | 1 Through 3 Years | Over 3 Years |
| | | ----- | ----- | ----- | ----- |
| Federal funds sold | | \$ 4,000 | \$ -- | \$ -- | \$ -- |
| | (Rate) | 1.75% | -- | -- | -- |
| | | ----- | ----- | ----- | ----- |
| Interest bearing deposits in banks | | 257 | -- | -- | -- |
| | (Rate) | 1.08% | -- | -- | -- |
| | | ----- | ----- | ----- | ----- |
| Loans (1) (2) | | | | | |
| Adjustable rate loans | | 50,776 | 10,814 | 4,148 | 6,939 |
| | (Rate) | 6.27% | 6.19% | 7.93% | 7.75% |
| Fixed rate loans | | 150 | 2,322 | 8,956 | 180,843 |
| | (Rate) | 8.61% | 7.22% | 8.09% | 7.13% |
| | | ----- | ----- | ----- | ----- |
| Total loans | | 50,926 | 13,136 | 13,104 | 187,782 |
| | | ----- | ----- | ----- | ----- |
| Investments (3) (4) | | 62,665 | 1,282 | 48,140 | 198,224 |
| | (Rate) | 2.29% | 6.11% | 3.80% | 5.72% |
| | | ----- | ----- | ----- | ----- |
| Total rate-sensitive assets | | 117,848 | 14,418 | 61,244 | 386,006 |
| | | ----- | ----- | ----- | ----- |
| Deposit accounts (5) | | | | | |
| Savings and NOW | | 68,858 | -- | -- | -- |
| | (Rate) | 1.33% | -- | -- | -- |
| Money market | | 43,354 | -- | -- | -- |
| | (Rate) | 1.52% | -- | -- | -- |
| Time Deposits | | 125,874 | 153,410 | 11,052 | 92 |
| | (Rate) | 3.18% | 3.11% | 4.21% | 3.63% |
| | | ----- | ----- | ----- | ----- |
| Total deposit accounts | | 238,086 | 153,410 | 11,052 | 92 |
| Repurchase agreements | | 19,995 | 15,350 | -- | -- |
| | (Rate) | 1.78% | 1.82 | -- | -- |
| Other borrowings | | 500 | -- | -- | 45,263 |
| | (Rate) | 6.09% | -- | -- | 4.98% |
| | | ----- | ----- | ----- | ----- |
| Total rate-sensitive liabilities | | 258,581 | 168,760 | 11,052 | 45,355 |
| | | ----- | ----- | ----- | ----- |
| Interest rate caps | | 20,000 | -- | (10,000) | (10,000) |
| Gap (repricing differences) | | (160,733) | (154,342) | 60,192 | 350,651 |
| | | ===== | ===== | ===== | ===== |
| Cumulative Gap | | (160,733) | (315,075) | (254,883) | 95,768 |
| | | ===== | ===== | ===== | ===== |
| Cumulative Gap to Total Rate Sensitive Assets | | (27.74)% | (54.37)% | (43.98)% | 16.53% |
| | | ===== | ===== | ===== | ===== |

-
- (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.

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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 June 30, 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.

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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 June 30, 2002 and 2001, the Company did not have any non accrual or non performing loans or loans past due more than 90 days and still accruing interest. Based upon management's evaluations of the overall analysis of the Bank's allowance for loan losses and the year over year increase in total loans to \$264.95 million from \$232.77 million (including \$134.1 million acquired in the merger with GSB Financial), the provision for the six months ended June 30, 2002 was increased to \$2.10 million from \$1.86 million (including \$691,000 acquired in the merger with GSB Financial) 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

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the Company's allowance for loan losses during the periods indicated (dollars in thousands, except percentages):

| | Three Months Ended June 30, | | Six |
|--|--------------------------------|-----------|-----------|
| | 2002 | 2001 | 2002 |
| Average loans outstanding | \$264,853 | \$218,213 | \$260,623 |
| Allowance at beginning of period | 2,058 | 1,128 | 2,030 |
| Charge-offs: | | | |
| Commercial and other loans | 75 | 9 | 99 |
| Real estate loans | -- | -- | -- |
| Total loans charged-off | 75 | 9 | 99 |
| Recoveries: | | | |
| Commercial and other loans | 5 | 13 | 7 |
| Real estate loans | -- | -- | -- |
| Total loans recovered | 5 | 13 | 7 |
| Net recoveries (charge-offs) | (70) | 4 | (92) |
| Provision for loan losses charged to operating expenses | 107 | 37 | 157 |
| Acquisition of GSB Financial Corp | -- | 691 | -- |
| Allowance at end of period | 2,095 | 1,860 | 2,095 |
| Ratio of net recoveries (charge-offs) to average loans outstanding | .03% | .00% | .04% |
| Allowance as a percent of total loans | .79% | .80% | .79% |
| Total loans at end of period | \$264,948 | \$232,772 | \$264,948 |

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

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the loan is made. At June 30, 2002, the Company had total loans of \$264.95 million and an allowance for loan losses of \$2.10 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 six-month periods ended June 30, 2002, the Company sold approximately \$498,000 and \$1.05 million, respectively, of such loans and recorded in other income, gains of \$110,000 and \$128,000, respectively, on such sales.

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

| | June 30, 2002 | December 31, 2001 |
|-----------------------------------|------------------|----------------------|
| | Amount | Amount |
| | (in thousands) | |
| Commercial and professional loans | \$ 21,205 | \$ 19,130 |
| Secured by real estate | | |
| 1-4 family | 177,100 | 165,195 |
| Multi family | 9,398 | 11,186 |
| Non-residential (commercial) | 52,992 | 51,893 |
| Consumer | 4,253 | 4,698 |
| Other | -- | 140 |
| | ----- | ----- |
| Total loans | 264,948 | 252,233 |
| Less: Allowance for loan losses | (2,095) | (2,030) |
| | ----- | ----- |
| Loans, net | \$262,853 | \$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 June 30, 2002 and 2001, the Company did not have any non-accrual or non performing loans or loans past due more than 90 days and still accruing interest.

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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 June 30, 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 June 30, 2002 and December 31, 2001 (dollars in thousands):

| | Actual | | For capital adequacy purposes | |
|--|--------|-------|-------------------------------|--------|
| | Amount | Ratio | Amount | Ratio |
| June 30, 2002 | | | | |
| Total Capital (to Risk-Weighted Assets) | | | | |
| Company | 78,628 | 27.1% | 23,233 | >=8.0% |
| Bank | 50,584 | 18.7 | 21,665 | >=8.0% |
| Tier I Capital (to Risk-Weighted Assets) | | | | |
| Company | 76,533 | 26.4% | 11,616 | >=4.0% |
| Bank | 48,489 | 17.9 | 10,833 | >=4.0% |
| Tier I Capital (to Average Assets) | | | | |
| Company | 76,533 | 14.2% | 21,547 | >=4.0% |
| Bank | 48,489 | 8.7% | 22,306 | >=4.0% |

| | Actual | For capital adequacy purposes |
|--|--------|-------------------------------|
| | ----- | ----- |

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| | Amount ----- | Ratio ----- | Amount ----- | Ratio ----- |
|---|-----------------|----------------|-----------------|----------------|
| 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% |
| 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% |
| Tier I Capital (to Average Assets) Company | 77,837 | 20.5% | 15,194 | >=4.0% |
| Bank | 46,080 | 9.6% | 19,190 | >=4.0% |

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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 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. ("Berkshire"), liquidity means having cash available to fund operating expenses and to pay shareholder dividends, when and if declared by Berkshire's Board of Directors. The ability of Berkshire to fund its operations and to pay dividends is not dependent upon the receipt of dividends from The Berkshire Bank. At June 30, 2002, Berkshire had cash and cash equivalents of \$9.01 million and investment securities available for sale of \$5.51 million.

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

At June 30, 2002, the Company had outstanding commitments of approximately \$30.49 million. These commitments include \$9.66 million that mature or renew within one year, \$10.70 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 \$10.10 million that mature or renew after five years.

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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.

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PART II. OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders

The 2002 Annual Meeting of Stockholders was held on May 16, 2002.

Each of the five individuals nominated to serve as directors of the Company was elected:

| Director ----- | Shares For ----- | Shares Withheld ----- |
|-----------------------|---------------------|--------------------------|
| William L. Cohen | 2,171,520 | 44,355 |
| Thomas V. Guarino | 2,171,527 | 44,348 |
| Moses Marx | 2,171,508 | 44,367 |
| Steven Rosenberg | 2,717,522 | 44,353 |
| Randolph B. Stockwell | 2,171,527 | 44,348 |

Item 5. Other Information

Certification Reference

Item 6. Exhibits and Reports on Form 8-K

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a. Exhibits

| Exhibit Number ----- | Description ----- |
|----------------------------|--|
| 10.7 | Amendment No. 1 to Employment Agreement, dated as of June 3, 2002, by and between The Berkshire Bank and David Lukens. |

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

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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: August 12, 2002

By: /s/ Steven Rosenberg

Steven Rosenberg
President and Chief
Financial Officer

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EXHIBIT INDEX

| Exhibit Number ----- | Description ----- | Sequential Page Number ----- |
|----------------------------|--|------------------------------------|
| 10.7 | Amendment No. 1 to Employment Agreement, dated as of June 3, 2002, by and between The Berkshire Bank and David Lukens. | 31 |

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STATEMENT OF DIFFERENCES

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