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BERKSHIRE BANCORP INC /DE/
Form 10-Q
November 02, 2006

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2006

or

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

For the transition period from _____ to _____

Commission file number: 0-13649

BERKSHIRE BANCORP INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

94-2563513

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

160 Broadway, New York, New York

(Address of principal executive offices)

10038

(Zip Code)

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

N/A

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

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

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

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒

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

As of November 1, 2006, there were 6,898,556 outstanding shares of the issuers Common Stock, \$.10 par value.

BERKSHIRE BANCORP INC. AND SUBSIDIARIES

FORWARD-LOOKING STATEMENTS

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

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

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

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, 2006
ASSETS	
Cash and due from banks	\$ 9,366
Interest bearing deposits	4,312
Federal funds sold	--
Total cash and cash equivalents	13,678
Investment Securities:	
Available-for-sale	508,540
Held-to-maturity, fair value of \$441 in 2006 and \$573 in 2005	440
Total investment securities	508,980
Loans, net of unearned income	353,167
Less: allowance for loan losses	(3,373)
Net loans	349,794
Accrued interest receivable	6,143
Premises and equipment, net	9,520
Goodwill, net	18,549
Other assets	8,102
Total assets	\$ 914,766
	=====
LIABILITIES AND STOCKHOLDERS' EQUITY	
Deposits:	
Non-interest bearing	\$ 48,553
Interest bearing	609,149
Total deposits	657,702
Securities sold under agreements to repurchase	50,357
Long term borrowings	58,748
Subordinated debt	22,681
Accrued interest payable	7,382
Other liabilities	4,314

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Total liabilities	801,184

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, 2006, 6,898,556 shares	
December 31, 2005, 6,890,556 shares	770
Additional paid-in capital	90,600
Retained earnings	36,228
Accumulated other comprehensive loss, net	(6,350)
Treasury Stock	
September 30, 2006, 799,729 shares	(7,666)
December 31, 2005, 807,729 shares	-----
	113,582
Total stockholders' equity	-----
	\$ 914,766
	=====

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 Three Months Ended September 30,		Nine Se
	2006	2005	2006
	-----	-----	-----
INTEREST INCOME			
Loans	\$ 6,059	\$ 4,738	\$ 17,14
Investment securities	5,989	6,452	18,39
Federal funds sold and interest bearing deposits	93	60	25
	-----	-----	-----
Total interest income	12,141	11,250	35,79
	-----	-----	-----
INTEREST EXPENSE			
Deposits	5,831	3,730	16,03

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Short-term borrowings	583	849	1,577
Long-term borrowings	1,095	1,300	3,450
	-----	-----	-----
Total interest expense	7,509	5,879	21,060
	-----	-----	-----
Net interest income	4,632	5,371	14,730
PROVISION FOR LOAN LOSSES	45	45	130
	-----	-----	-----
Net interest income after provision for loan losses	4,587	5,326	14,599
	-----	-----	-----
NON-INTEREST INCOME			
Service charges on deposits	148	158	430
Investment securities gains	--	--	740
Other income	211	142	540
	-----	-----	-----
Total non-interest income	359	300	1,710
	-----	-----	-----
NON-INTEREST EXPENSE			
Salaries and employee benefits	2,149	1,996	6,320
Net occupancy expense	489	433	1,450
Equipment expense	112	99	310
FDIC assessment	22	70	60
Data processing expense	90	51	270
Other	538	572	1,750
	-----	-----	-----
Total non-interest expense	3,400	3,221	10,190
	-----	-----	-----
Income before provision for taxes	1,546	2,405	6,120
Provision for income taxes	689	1,108	2,850
	-----	-----	-----
Net income	\$ 857	\$ 1,297	\$ 3,270
	=====	=====	=====
Net income per share:			
Basic	\$.12	\$.19	\$.40
	=====	=====	=====
Diluted	\$.12	\$.19	\$.40
	=====	=====	=====
Number of shares used to compute net income per share:			
Basic	6,899	6,817	6,899
	=====	=====	=====
Diluted	6,984	6,926	6,984
	=====	=====	=====

The accompanying notes are an integral part of these statements.

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For The Nine Months Ended September 30, 2006 and 2005
(In Thousands)
(unaudited)

	Common Shares -----	Stock Par value -----	Additional paid-in capital -----	Accumulated other comprehensive (loss), net -----	Retained earnings -----	Treasur stock -----
Balance at January 1, 2006	7,698	\$770	\$90,594	\$ (8,415)	\$ 33,504	\$ (7,74
Net income					3,273	
Exercise of stock options			6			7
Other comprehensive income net of reclassification adjustment and taxes				2,065		
Comprehensive income (loss)						
Cash dividends					(549)	
Balance at September 30, 2006 (Unaudited)	7,698 =====	\$770 =====	\$90,600 =====	\$ (6,350) =====	\$ 36,228 =====	\$ (7,66 =====
Balance at January 1, 2005	7,698	\$770	\$89,543	\$ (2,602)	\$ 28,983	\$ (9,07
Net income					4,346	
Exercise of stock options			741			1,17
Other comprehensive (loss) net of reclassification adjustment and taxes				(3,540)		
Comprehensive income						
Cash dividends					(471)	
Balance at September 30, 2005 (Unaudited)	7,698 =====	\$770 =====	\$90,284 =====	\$ (6,142) =====	\$ 32,858 =====	\$ (7,89 =====

The accompanying notes are an integral part of this statement.

	For The N Se
	----- 2006 ----
Cash flows from operating activities:	
Net income	\$ 3,27
Adjustments to reconcile net income to net cash provided by operating activities:	
Realized gains on investment securities	(74
Net (accretion) of premiums of investment securities	(48
Depreciation and amortization	54
Provision for loan losses	13
Decrease (increase) in accrued interest receivable	64
Decrease (increase) in other assets	1,59
Increase in accrued interest payable and other liabilities	2,14

Net cash provided by operating activities	7,10

Cash flows from investing activities:	
Investment securities available for sale	
Purchases	(306,99
Sales, maturities and calls	401,15
Investment securities held to maturity	
Maturities	12
Net (increase) decrease in loans	(43,96
Acquisition of premises and equipment	(1,46

Net cash provided by investing activities	48,85

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

	For
	----- 200 ----
Cash flows from financing activities:	
Net (decrease) increase in non interest bearing deposits	(1,71

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Net (decrease) increase in interest bearing deposits	(20,84
(Decrease) in securities sold under agreements to repurchase	(22,68
Proceeds from long term debt	-
Repayment of long term debt	(24,45
Proceeds from issuance of subordinated debentures	8
Proceeds from exercise of common stock options	8
Dividends paid	(54

Net cash (used in) financing activities	(70,16

Net (decrease) increase in cash and cash equivalents	(14,20
Cash and cash equivalents - beginning of period	27,88

Cash and cash equivalents - end of period	\$ 13,67
	=====
Supplemental disclosure of cash flow information:	
Cash used to pay interest	\$ 19,41
Cash used to pay taxes, net of refunds	\$ 3,87

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, 2006 and 2005

NOTE 1. General

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

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

We have prepared the accompanying financial statements pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC") for interim financial reporting. These consolidated financial statements are unaudited and, in our opinion, include all adjustments, consisting of normal

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

NOTE 2. Trust Preferred Securities.

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

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

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

Note 2. - (continued)

Based on current interpretations of the banking regulators, the 2004 Debentures and 2005 Debentures (collectively, the "Debentures") qualify under the risk-based capital guidelines of the Federal Reserve as Tier 1 capital, subject to certain limitations. The Debentures are callable by the Company, subject to any required regulatory approvals, at par, in whole or in part, at any time after five years from the date of issuance. The Company's obligations under the Debentures and related documents, taken together, constitute a full, irrevocable and unconditional guarantee on a subordinated basis by the Company of the obligations of BCTI and BCTII under the preferred capital securities sold by BCTI and BCTII to investors. FIN46(R) precludes consideration of the call option embedded in the preferred capital securities when determining if the Company has the right to a majority of BCTI and BCTII expected residual returns.

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Accordingly, BCTI and BCTII are not included in the consolidated balance sheet of the Company.

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

NOTE 3. Earnings Per Share

Basic earnings per share is calculated by dividing income available to common stockholders by the weighted average common shares outstanding, excluding stock options from the calculation. In calculating diluted earnings per share, the dilutive effect of stock options is calculated using the average market price for the Company's common stock during the period. The following table presents the calculation of earnings per share for the periods indicated:

	For The Three Months Ended			
	September 30, 2006			Sept
	Income (numerator)	Shares (denominator)	Per share amount	Income (numerator)
	-----	-----	-----	-----
(In thousands, except per share d				
Basic earnings per share				
Net income available to common stockholders	\$ 857	6,899	\$.12	\$1,297
Effect of dilutive securities options	--	85	--	--
	-----	-----	-----	-----
Diluted earnings per share				
Net income available to common stockholders plus assumed conversions	\$ 857	6,984	\$.12	\$1,297
	=====	=====	=====	=====

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

NOTE 3. - (continued)

	For The Nine Months Ended			
	September 30, 2006			Sept
	Income (numerator)	Shares (denominator)	Per share amount	Income (numerator)
	(In thousands, except per share d			
Basic earnings per share				
Net income available to common stockholders	\$3,273	6,895	\$.47	\$4,346
Effect of dilutive securities options	--	88	--	--
Diluted earnings per share				
Net income available to common stockholders plus assumed conversions	\$3,273	6,983	\$.47	\$4,346
	=====	=====	=====	=====

NOTE 4. Investment Securities

The following tables summarize held to maturity and available-for-sale investment securities as of September 30, 2006 and December 31, 2005:

	September 30, 2006		
	Amortized Cost	Gross unrealized gains	Gross unrealized losses
	-----	-----	-----
	(In thousands)		
Held To Maturity			
Investment Securities			
U.S. Government Agencies	\$ 440	\$ 2	\$ 1
	-----	---	---
Totals	\$ 440	\$ 2	\$ 1
	=====	===	===

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

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

NOTE 4. - (continued)

	September 30, 2006		
	Amortized Cost	Gross unrealized gains	Gross unrealized losses
	(In thousands)		
Available-For-Sale Investment Securities			
U.S. Treasury and Notes	\$ --	\$ --	\$ --
U.S. Government Agencies	344,074	8	(6,889)
Mortgage-backed securities	71,570	54	(2,181)
Corporate notes	32,496	155	(1,265)
Municipal Securities	1,973	1,035	--
Marketable equity securities and other	67,370	202	(62)
	-----	-----	-----
Totals	\$517,483	\$ 1,454	\$ (10,397)
	=====	=====	=====

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

Financial Accounting Standards Board ("FASB") Staff Position No. FAS 115-1 and FAS 124-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" (the "FSP"), was issued on November 3, 2005 and addresses the determination of when an investment is considered impaired; whether the impairment is other than temporary; and how to measure an impairment loss. The FSP also addresses accounting considerations subsequent to the recognition of an other-than-temporary impairment on a debt security, and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. The FSP replaces the impairment guidance in EITF Issue No. 03-1 with references to existing authoritative literature concerning other-than-temporary determinations (principally Statement of Financial Accounting Standards ("SFAS") No. 115 and SEC Staff Accounting Bulletin 59). Under the FSP, impairment losses must be recognized in earnings equal to the entire difference between the security's cost and its fair value at the financial statement date, without considering partial recoveries subsequent to that date.

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

NOTE 4. - (continued)

The FSP also requires that an investor recognize an other-than-temporary impairment loss when a decision to sell a security has been made and the investor does not expect the fair value of the security to fully recover prior to the expected time of sale. Application of the guidance in FSP FAS 115-1 and FAS 124-1 is applicable to reporting periods beginning after December 15, 2005. The company adopted FSP 115-1 and FAS 124-1 in the first

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quarter of fiscal year 2006, the adoption of which did not have an impact on its operating results and financial condition.

Our available-for-sale portfolio is carried at estimated fair value, with any unrealized gains or losses, net of taxes, reported as accumulated other comprehensive income or loss in stockholders' equity. Our held-to-maturity portfolio, consisting of debt securities for which we have a positive intent and ability to hold to maturity, is carried at amortized cost. We conduct a periodic review and evaluation of the securities portfolio to determine if the value of any security has declined below its cost or amortized cost, and whether such decline is other-than-temporary.

The company has investments in debt and equity securities that have unrealized losses, but an other-than-temporary impairment has not been recognized in its financial statements. Based upon management's review of the available information including the changes in interest rates during the period, current market conditions, applicable industry and company information specific to each investment, the creditworthiness of the issuer, and the Company's ability to hold the investment to maturity, such unrealized losses are not considered to be other-than-temporary.

NOTE 5. Loan Portfolio

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

	September 30, 2006		December
	Amount	% of Total	Amount
	-----	-----	-----
	(Dollars in thousands)		
Commercial and professional loans	\$ 54,080	15.3%	\$ 33,370
Secured by real estate			
1-4 family	142,513	40.2	139,931
Multi family	3,940	1.1	2,874
Non-residential (commercial)	150,971	42.6	132,142
Consumer	2,840	0.8	2,018
	-----	-----	-----
Total loans	354,344	100.0%	310,335
		=====	
Deferred loan fees	(1,177)		(1,105)
Allowance for loan losses	(3,373)		(3,266)
	-----		-----
Loans, net	\$349,794		\$305,964
	=====		=====

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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:

	September 30, 2006		December 31, 2005	
	Average Amount	Average Yield	Average Amount	Average Yield
	-----	-----	-----	-----
	(Dollars in thousands)			
Demand deposits	\$ 47,535	--	\$ 44,739	--
NOW and money market	37,137	0.61%	42,756	0.56%
Savings deposits	171,408	2.80	221,374	1.99
Time deposits	408,203	4.00	338,834	2.82
	-----	-----	-----	-----
Total deposits	\$664,283	3.22%	\$647,703	2.19%
	=====	=====	=====	=====

NOTE 7. 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, 2006		September 30, 2005	
	Before tax amount	Tax (expense) benefit	Net of tax Amount	Before tax amount
	-----	-----	-----	-----
	(In thousands)			
Unrealized gains (losses) on investment securities:				
Unrealized holding gains (losses) arising during period	\$4,165	\$ (1,654)	\$ (2,511)	\$ (5,586)
Less reclassification adjustment for gains realized in net income	743	(297)	446	5
	-----	-----	-----	-----
Other comprehensive income (loss), net	\$3,422	\$ (1,357)	\$2,065	\$ (5,581)
	=====	=====	=====	=====

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

NOTE 8. Accounting For Stock Based Compensation

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

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

At September 30, 2006, the Company has one stock-based employee compensation plan. Prior to the adoption of SFAS 123(R), the Company accounted for that plan under the recognition and measurement principles of APB 25 and related interpretations. Stock-based employee compensation costs were not reflected in net income, as all options granted under the plan had an exercise price equal to the market value of the underlying common stock on the date of the grant. The Company did not grant stock options during the nine-month period ended September 30, 2006 or during the fiscal year ended December 31, 2005. We have no plans to grant significant stock options, if any, during the last three months of 2006. Therefore, we do not expect the implementation of FAS 123(R) to affect our financial position or results of operations in the near future.

NOTE 9. Employee Benefit Plans

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

	For The Three Months Ended September 30,		For The Nine Months E September 3
	2006	2005	2006
Service cost	\$ 90,357	\$ 79,381	\$ 262,714
Interest cost	37,531	35,425	112,062

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Expected return on plan assets	(37,710)	(38,940)	(113,420)
Amortization and Deferral:			
Transition amount	--	--	--
Prior service cost	4,457	4,593	13,914
(Gain)/loss	15,429	11,228	44,858
Net periodic pension cost	110,063	91,687	320,126

During the fiscal year ending December 31, 2006, we expect to contribute approximately \$333,000 to the Plan. We contributed \$56,000, \$221,000 and \$56,000 in April, July and October 2006, respectively. During fiscal year 2005, we contributed approximately \$112,000 to the Plan.

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

NOTE 10. New Accounting Pronouncements

In September 2006 the FASB issued SFAS No. 157, "Fair Value Measurements." The Statement is effective for all financial statements issued for fiscal years beginning after November 15, 2007. The Statement defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Adoption of SFAS No. 157 is not expected to have a material impact on the Company's results of operations or financial condition.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans." The Statement requires an employer that is a business entity and sponsors one or more single-employer defined benefit plans to: (1) recognize the funded status of a benefit plan - measured as the difference between plan assets at fair value and the benefit obligation - in its statement of financial position, with the corresponding credit or charge, net of taxes, upon initial adoption to Other Comprehensive Income; (2) recognized as a component of other comprehensive income, net of tax, the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost pursuant to SFAS No. 87, "Employers' Accounting for Pensions", or SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions"; (3) measure defined benefit plan assets and obligations as of the date of the employer's fiscal year end; and (4) expand disclosures in the notes to the financial statements about certain effects on net periodic benefit cost. The Statement also amends SFAS No. 132 (revised 2003), "Employers' Disclosures about Pensions and Other Postretirement Benefits", and SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans for Termination Benefits". An employer who has publicly traded equity securities, such as the Company, is required to initially recognize the funded status of a defined benefit postretirement plan and to provide the required disclosures as of the end of its fiscal year ending after December 15, 2006. For the Company, this is for the year ended December 31, 2006. The requirement to measure plan assets and benefit obligations as of the date of the employer's fiscal year end is effective for fiscal years ending after December 15, 2008. Based upon the

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advice of our consultants, management believes that the adoption of this statement for the year ended December 31, 2006 will have no significant effect on Other Comprehensive Income and stockholders' equity.

On July 13, 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN No. 48"): an interpretation of FASB No. 109. FIN No. 48 clarifies the accounting for uncertainty involved in the recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN No. 48 is effective for fiscal years beginning after December 15, 2006. The application of FIN No. 48 is not expected to have an impact on the Company's financial condition or results of operations.

In March 2006, the FASB issued SFAS No. 156, "Accounting for Servicing of Financial Assets—an amendment of FASB Statement No. 140." This statement requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset, and that the servicing assets and servicing liabilities be initially measured at fair value. The statement also permits an entity to choose a subsequent measurement method for each class of separately recognized servicing assets and servicing liabilities. SFAS No. 156 is effective as of the beginning of the fiscal year that begins after September 15, 2006. The application of SFAS No. 156 is not expected to have a material impact on the Company's financial condition or results of operations.

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

NOTE 10. - (continued)

In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments." The Statement amends SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" and SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." The Statement also resolves issues addressed in SFAS No. 133 Implementation Issue No. D1, "Application of Statement 133 to Beneficial Interest in Securitized Financial Assets." SFAS No. 155 permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS No. 133, establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, and clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives. The Statement eliminates the interim guidance in SFAS No. 133 Implementation Issue No. D1, which provided that beneficial interests in securitized financial assets are not subject to the provisions of SFAS No. 133. In October 2006, the FASB recommended a narrow scope exception for asset backed securities, including mortgage-backed securities, created from pools of loans containing embedded call features, that (a) only contain an embedded derivative that is tied to the prepayment risk of the underlying prepayable financial assets, and (b) the investor does not control the right to accelerate the settlement. The Statement is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. Since the Statement is effective for purchases made by the Company after

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December 31, 2006, management is unable, at this time, to determine the impact of this statement.

In September 2006, the SEC staff issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements." SAB 108 was issued to provide consistency between how registrants quantify financial statement misstatements. Historically, there have been two widely-used methods for quantifying the effects of financial statement misstatements. These methods are referred to as the "roll-over" and "iron curtain" method. The roll-over method quantifies the amount by which the current year income statement is misstated. Exclusive reliance on an income statement approach can result in the accumulation of errors on the balance sheet that may not have been material to any individual income statement, but which may misstate one or more balance sheet accounts. The iron curtain method quantifies the error as the cumulative amount by which the current year balance sheet is misstated. Exclusive reliance on a balance sheet approach can result in disregarding the effects of errors in the current year income statement that results from the correction of an error existing in previously issued financial statements. We currently use the roll-over method for quantifying identified financial statement misstatements.

SAB 108 established an approach that requires quantification of financial statement misstatements based on the effects of the misstatement on each of the Company's financial statements and the related financial statement disclosures. This approach is commonly referred to as the "dual approach" because it requires quantification of errors under both the roll-over and iron curtain methods. SAB 108 allows registrants to initially apply the dual approach either by (1) retroactively adjusting prior financial statements as if the dual approach had always been used or by (2) recording the cumulative effect of initially applying the dual approach as adjustments to the carrying values of assets and liabilities as of January 1, 2006 with an offsetting adjustment recorded to the opening balance of retained earnings. Use of this "cumulative effect" transition

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

NOTE 10. - (continued)

method requires detailed disclosure of the nature and amount of each individual error being corrected through the cumulative adjustment and how and when it arose. SAB 108 is effective for fiscal years ending after November 15, 2006. The Company does not expect the adoption of SAB 108 will have a material effect on the Company's results of operations or financial condition as management is not aware of any prior year misstatements in the Company's financial statements.

Internal Control Over Financial Reporting

The current objective of the Bank's Internal Control Program is to allow management to comply with FDICIA requirements and with Section 302 of the Sarbanes-Oxley Act of 2002 (the "Act"). Section 302 of the Act requires the CEO and CFO of the Company to (i) certify that the annual and quarterly reports

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filed with the Securities and Exchange Commission are accurate and (ii) acknowledge that they are responsible for establishing, maintaining and periodically evaluating the effectiveness of the disclosure controls and procedures. Section 404 of the Act requires management to report on internal control over financial reporting. Presently, the SEC requires the Company to first comply with Section 404 by the year ending December 31, 2007.

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

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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., a Delaware corporation. References herein to "Berkshire", the "Company" or "we" and similar pronouns, shall be deemed to refer to Berkshire Bancorp Inc. and its consolidated subsidiaries unless the context otherwise requires. References herein to per share amounts refer to diluted shares. References to Notes herein are references to the "Notes to Consolidated Financial Statements" of the Company located in Item 1 herein.

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

Critical Accounting Policies, Judgments and Estimates

The accounting and reporting policies of the Company conform with accounting principles generally accepted in the United States of America and general practices within the banking 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

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experience. The process also considers economic conditions, uncertainties in estimating losses and inherent risks in the loan portfolio. All of these factors may be susceptible to significant change. To the extent actual outcomes differ from management estimates, additional provisions for loan losses may be required that would adversely impact earnings in future periods.

With the adoption of Statement of Financial Accounting Standards ("SFAS") No. 142 ("SFAS No. 142") on January 1, 2002, the Company discontinued the amortization of goodwill resulting from acquisitions. Goodwill is now subject to impairment testing at least annually to determine whether write-downs of the recorded balances are necessary. The Company tests for impairment based on the goodwill maintained at the Bank. A fair value is determined for each reporting unit based on at least one of three various market valuation methodologies. If the fair values of the reporting units exceed their book values, no write-down of recorded goodwill is necessary. If the fair value of the reporting unit is less, an expense may be required on the Company's books to write down the related goodwill to the proper carrying value. As of December 31, 2005, the Company completed its annual testing, which determined that no impairment 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 Sept			
	2006			
	Average Balance	Interest and Dividends	Average Yield/Rate	Average Balance
	-----	-----	-----	-----
	(Dollars in Thousands)			
INTEREST-EARNING ASSETS:				
Loans (1)	\$330,117	\$ 6,059	7.34%	\$284,282
Investment securities	528,760	5,989	4.53	646,601
Other (2) (5)	8,484	93	4.38	7,982
	-----	-----	-----	-----

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Total interest-earning assets	867,361	12,141	5.60	938,865
Noninterest-earning assets	49,339		-----	44,063
Total Assets	\$916,700			\$982,928
	=====			=====
INTEREST-BEARING LIABILITIES:				
Interest bearing deposits	200,264	1,406	2.81%	239,469
Time deposits	400,173	4,425	4.42	353,417
Other borrowings	144,697	1,678	4.64	225,670
	-----	-----	-----	-----
Total interest-bearing liabilities	745,134	7,509	4.03	818,556
		-----	-----	
Demand deposits	47,176			44,419
Noninterest-bearing liabilities	15,570			8,182
Stockholders' equity (5)	108,820			111,771
	-----			-----
Total liabilities and stockholders' equity	\$916,700			\$982,928
	=====			=====
Net interest income		\$ 4,632		
		=====		
Interest-rate spread (3)			1.57%	
			=====	
Net interest margin (4)			2.14%	
			=====	
Ratio of average interest-earning assets to average interest bearing liabilities	1.16			1.15
	=====			=====

-
- (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,			
	2006			
	Average Balance	Interest and Dividends	Average Yield/Rate	Average Balance
			(Dollars in Thousands)	
INTEREST-EARNING ASSETS:				
Loans (1)	\$ 317,612	\$ 17,148	7.20%	\$ 286,888
Investment securities	564,102	18,393	4.35	661,744
Other (2) (5)	8,404	251	3.98	11,158
Total interest-earning assets	890,118	35,792	5.36	959,790
Noninterest-earning assets	47,491			43,915
Total Assets	\$ 937,609			\$1,003,705
INTEREST-BEARING LIABILITIES:				
Interest bearing deposits	208,545	3,772	2.41%	280,068
Time deposits	408,203	12,259	4.00	319,140
Other borrowings	151,635	5,030	4.42	242,904
Total interest-bearing liabilities	768,383	21,061	3.65	842,112
Demand deposits	47,535			45,155
Noninterest-bearing liabilities	12,120			7,308
Stockholders' equity (5)	109,571			109,130
Total liabilities and stockholders' equity	\$ 937,609			\$1,003,705
Net interest income		\$ 14,731		
Interest-rate spread (3)			1.71%	
Net interest margin (4)			2.21%	
Ratio of average interest-earning assets to average interest bearing liabilities	1.16			1.14

(1) Includes nonaccrual loans.

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

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- (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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Results of Operations

Results of Operations for the Three and Nine Months Ended September 30, 2006
Compared to the Three and Nine Months Ended September 30, 2005.

General. Berkshire Bancorp Inc., a bank holding company registered under the Bank Holding Company Act of 1956, has one wholly-owned banking subsidiary, The Berkshire Bank, a New York State chartered commercial bank. The Bank is headquartered in Manhattan and has eleven branch locations; six branches in New York City, four branches in Orange and Sullivan counties New York, and one branch in Ridgefield, New Jersey which opened in May 2006.

Net Income. Net income for the three-month period ended September 30, 2006 was \$857,000, or \$.xx per share, as compared to \$1.30 million, or \$.19 per share, for the three-month period ended September 30, 2005. Net income for the nine-month period ended September 30, 2006 was \$3.27 million, or \$.xx per share, as compared to \$4.35 million, or \$.63 per share, for the nine-month period ended September 30, 2005.

The Company's net income is largely dependent on interest rate levels, the demand for the Company's loan and deposit products and the strategies employed to manage the interest rate and other risks inherent in the banking business. From September 2003 through June 30, 2004, interest rates, as measured by the prime rate, remained constant at 4.00%. On July 1, 2004, inflation fighting actions taken by the Federal Reserve Board resulted in a 25 basis point increase in the prime rate to 4.25%, the first such increase in more than four years. Similar 25 basis point moves taken by the Federal Reserve Board during 2004, 2005 and 2006 have moved the prime rate to its present level of 8.25%. The difference between the yield on short-term, 3-month U.S. Treasury Notes, and long-term, 10-year U.S. Treasury Bonds, referred to as the yield curve is at historic lows.

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, 2006, net interest income decreased by \$739,000 to \$4.63 million from \$5.37 million for the quarter ended September 30, 2005. The quarter over quarter decrease in net interest income was the result of the 116 basis point increase in the average rate paid on the average

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amount of interest-bearing liabilities to 4.03% in the 2006 quarter from 2.87% in the 2005 quarter and the smaller, 81 basis point increase in the average yield earned on the average amount of interest-earning assets, and the \$71.50 million decrease in the average amount of interest-earning assets to \$867.36 million in the 2006 quarter from \$938.87 million in the 2005 quarter. Partially offsetting these factors was the \$73.42 million decrease in the average amount of interest-bearing liabilities to \$745.13 million in 2006 from \$818.56 million in 2005. The interest-rate spread, the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities, narrowed by 35 basis points to 1.57% in the 2006 quarter from 1.92% in the 2005 quarter.

For the nine-month period ended September 30, 2006, net interest income decreased by \$2.59 million to \$14.73 million from \$17.32 million for the nine-month period ended September 30, 2005. The period over period decrease in net interest income was the result of the 107 basis point increase in the average rate paid on the average amount of interest-bearing liabilities to 3.65% in the 2006 period from 2.58% in the 2005 period, and the smaller, 69 basis point increase in the average yield earned on the average amount of interest-earning assets, and the \$69.67 million decrease in the average amount of interest-earning assets to \$890.12 million in the 2006 period from \$959.79 million in the 2005 period. Partially offsetting these factors was the \$73.73 million decrease in the average amount of interest-bearing liabilities to \$768.38 million in the 2006

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period from \$842.11 million in the 2005 period. The interest-rate spread narrowed by 38 basis points to 1.71% in the 2006 period from 2.09% in the 2005 period.

If interest rates remain at current levels or increase slowly over time, we expect to see only moderate pressure on the Company's interest-rate spread and net interest income. Investment securities in our portfolio that have been sold, matured or called by the issuer during fiscal 2005 and 2006 have been replaced with securities carrying somewhat lower yields and, by design, shorter maturities to hedge against a rising interest rate environment. Rates paid on deposit accounts are likely to increase in a rising rate environment due to competition for deposits in the market place. The cost of borrowed funds with floating rather than fixed interest rates have and will continue to increase as well.

We have scaled back our use of borrowed funds and the size of our investment portfolio during fiscal 2006, a period in which short-term rates have, at times, exceeded the rates available on long-term investments.

Net Interest Margin. Net interest margin, or annualized net interest income as a percentage of average interest-earning assets, declined by 15 basis points to 2.14% in the third quarter of 2006 from 2.29% in the third quarter of 2005, and declined by 20 basis points to 2.21% in the nine-month period of 2006 from 2.41% in the nine-month period of 2005. 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 typically invest such deposits and borrowed funds in a prudent mix of

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fixed and adjustable rate loans, investment securities and short-term interest-earning assets which provided an aggregate average yield of 5.60% and 5.36% in the three and nine months ended September 30, 2006, respectively, compared to an aggregate average yield of 4.79% and 4.67% in the three and nine months ended September 30, 2005, respectively.

The increased yield on interest-earning assets is the result of the rising interest rate environment discussed above which triggers the upward rate adjustment in our portfolio of adjustable rate loans and investment securities, and the increase in our loan portfolio as a percentage of our total interest-earning assets. The decrease in net interest margin is the result of the more rapid rise in the cost of interest-bearing liabilities.

For the three months ended September 30, 2006, the average amounts of loans increased by \$45.84 million to \$330.12 million from \$284.28 million for the three months ended September 30, 2005. The average yield on such loans increased by 67 basis points to 7.34% in the 2006 quarter from 6.67% in the 2005 quarter. In the 2006 quarter, the average amount of investment securities decreased by \$117.84 million, to \$528.76 million from \$646.60 million in the 2005 quarter and the average yield on investment securities increased to 4.53% during the three months ended September 30, 2006 from 3.99% during the three months ended September 30, 2005.

For the nine month period ended September 30, 2006, the average amounts of loans increased by \$30.72 million to \$317.61 million from \$286.89 million for the nine month period ended September 30, 2005. The average yield on such loans increased by 56 basis points to 7.20% in the first nine months of 2006 from 6.64% in the first nine months of 2005. In the 2006 period, the average amount of investment securities and other interest-earning assets decreased by \$97.64 million and \$2.75 million, respectively, to \$564.10 million and \$8.40 million, respectively, from \$661.74 million and \$11.16 million, respectively, in the 2005 period. The average yield on investment securities and other interest-earning assets increased to 4.35% and 3.98%, respectively, during the nine months ended September 30, 2006, from 3.85% and 2.53%, respectively, during the nine months ended September 30, 2005.

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Interest Income. Total interest income for the quarter ended September 30, 2006 increased by \$891,000, or 7.92%, to \$12.14 million from \$11.25 million for the quarter ended September 30, 2005. The increase in total interest income was due to higher average balances and average yields in our loan portfolio and higher average yields on total interest-earning assets. Loans and investment securities contributed \$6.06 million and \$5.99 million, respectively, of interest income in the 2006 quarter compared to \$4.74 million and \$6.45 million, respectively in the 2005 quarter.

Total interest income for the nine months ended September 30, 2006 increased by \$2.20 million, or 6.54%, to \$35.79 million from \$33.60 million for the nine months ended September 30, 2005. The increase in total interest income was due to higher average balances and average yields in our loan portfolio and higher average yields on total interest-earning assets. Loans and investment securities contributed \$17.15 million and \$18.39 million, respectively, of interest income in the 2006 period compared to \$14.28 million and \$19.10 million, respectively in the 2005 period.

----- Three Months Ended September 30, -----				
2006			2005	
-----			-----	
	Interest Income	% of Total	Interest Income	% of Total
(In thousands, except percentages)				
Loans	\$ 6,059	49.91%	\$ 4,738	42.12%
Investment Securities	5,989	49.33	6,452	57.35
Other	93	0.76	60	0.53

Total Interest Income	\$12,141	100.00%	\$ 11,250	100.00%

----- Nine Months Ended September 30, -----				
2006			2005	
-----			-----	
	Interest Income	% of Total	Interest Income	% of Total
(In thousands, except percentages)				
Loans	\$17,148	47.91%	\$14,279	42.50%
Investment Securities	18,393	51.39	19,104	56.87
Other	251	0.70	212	0.63

Total Interest Income	\$35,792	100.00%	\$33,595	100.00%

Loans, which are inherently risky and therefore command a higher return than our conservative portfolio of investment securities, have increased as a percentage of total average interest-earning assets. During the three and nine months ended September 30, 2006, the average amount of our loan portfolio represented 38.06% and 35.68%, respectively, of total interest-earning assets compared to 30.28% and 29.89%, respectively, for the three and nine months ended September 30, 2005. The average amount of investment securities have decreased to 60.96% and 63.37% of total interest-earning assets during the three and nine months of 2006, respectively, compared to 68.87% and 68.95%, respectively, during the three and nine months ended September 30, 2005. While we actively seek to originate new loans with qualified borrowers who meet the Bank's underwriting standards, our strategy has been to maintain those standards, sacrificing some current income to avoid possible large future losses in the loan portfolio.

	Three Months Ended September 30,			
	2006		2005	
	Average Amount	% of Total (In thousands, except percentages)	Average Amount	
Loans	\$330,117	38.06%	\$284,282	
Investment Securities	528,760	60.96	646,601	
Other	8,484	0.98	7,982	
Total Interest-Earning Assets	\$867,361	100.00%	\$938,865	1

	Nine Months Ended September 30,			
	2006		2005	
	Average Amount	% of Total (In thousands, except percentages)	Average Amount	
Loans	\$317,612	35.68%	\$286,888	
Investment Securities	564,102	63.37	661,744	
Other	8,404	0.95	11,158	
Total Interest-Earning Assets	\$890,118	100.00%	\$959,790	1

Interest Expense. Total interest expense for the quarter ended September 30, 2006 increased by \$1.63 million, or 27.72%, to \$7.51 million from \$5.88 million for the quarter ended September 30, 2005. The increase in interest expense was due primarily to the increase in the average rates paid on such liabilities, 4.03% and 2.87% in the 2006 and 2005 quarters, respectively, partially offset by the \$73.42 million decline in the average amount of interest-bearing liabilities. If interest rates move higher, interest expense is likely to increase as we price our deposit products to meet the competition and the adjustable rates paid on other borrowings increase as well. In May 2004 and April 2005, we sold \$15.46 million and \$7.22 million, respectively, of floating rate junior subordinated debentures (the "Debentures") and used the net proceeds to augment the Bank's capital to allow for business expansion. The additional interest expense on these Debentures, which is included in other borrowings was, approximately \$444,000 and \$354,000 during the three months ended September 30, 2006 and 2005, respectively.

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	Three Months Ended September 30,			
	2006		2005	
	Interest Expense	% of Total (In thousands, except percentages)	Interest Expense	% of Total
Interest-Bearing Deposits	\$1,406	18.72%	\$1,109	18.86
Time Deposits	4,425	58.93	2,621	44.59
Other Borrowings	1,678	22.35	2,149	36.55
Total Interest Expense	\$7,509	100.00%	\$5,879	100.00

Total interest expense for the nine-month period ended September 30, 2006 increased by \$4.78 million, or 29.38%, to \$21.06 million from \$16.28 million for the nine-month period ended September 30, 2005. The increase in interest expense was due primarily to the increase in the average rates paid on such liabilities, 3.65% and 2.58% in the 2006 and 2005 periods, respectively, partially offset by the \$73.73 million decline in the average amount of interest-bearing liabilities. The interest expense on the Debentures, which is included in other borrowings, was approximately \$1.30 million and \$903,000 during the 2006 and 2005 nine-month periods, respectively.

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	Nine Months Ended September 30,			
	2006		2005	
	Interest Expense	% of Total (In thousands, except percentages)	Interest Expense	% of Total
Interest-Bearing Deposits	\$ 3,772	17.91%	\$ 3,615	22.2
Time Deposits	12,259	58.21	6,230	38.2
Other Borrowings	5,030	23.88	6,433	39.5
Total Interest Expense	\$21,061	100.00%	\$16,278	100.0

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, 2006, non-interest income amounted to \$359,000 and \$1.72 million, respectively, compared to non-interest income of \$300,000 and \$854,000 for the three and nine months ended September 30, 2005, respectively.

----- Three Months Ended September 30, -----				
2006			2005	
-----			-----	
	Non-Interest Income	% of Total	Non-Interest Income	
(In thousands, except percentages)				
Service Charges on Deposits	\$ 148	41.23%	\$ 158	
Investment Securities gains	--	--	--	
Other	211	58.77	142	
	-----	-----	-----	-----
Total Non-Interest Income	\$ 359	100.00%	\$ 300	1

----- Nine Months Ended September 30, -----				
2006			2005	
-----			-----	
	Non-Interest Income	% of Total	Non-Interest Income	
(In thousands, except percentages)				
Service Charges on Deposits	\$ 434	25.28	\$ 436	
Investment Securities gains	743	43.27	5	
Other	540	31.45	413	
	-----	-----	-----	-----
Total Non-Interest Income	\$ 1,717	100.00%	\$ 854	1

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, 2006 was \$3.40 million and \$10.19 million, respectively, compared to \$3.22 million and \$9.79 million for the three and nine month-periods ended September 30, 2005, respectively. The increases in the 2006 periods are primarily due to the expansion of our business. We have added space and staff to maintain and enhance customer service levels and to insure our compliance with various regulatory matters.

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	Three Months Ended September 30,		
	2006		2005
	Non-Interest Expense	% of Total	Non-Interest Expense
	(In thousands, except percentages)		
Salaries and Employee Benefits	\$ 2,149	63.21%	\$ 1,996
Net Occupancy Expense	489	14.38	433
Equipment Expense	112	3.29	99
FDIC Assessment	22	0.65	70
Data Processing Expense	90	2.65	51
Other	538	15.82	572
Total Non-Interest Expense	\$ 3,400	100.00%	\$ 3,221

	Nine Months Ended September 30,		
	2006		2005
	Non-Interest Expense	% of Total	Non-Interest Expense
	(In thousands, except percentages)		
Salaries and Employee Benefits	\$ 6,326	62.08%	\$ 5,972
Net Occupancy Expense	1,455	14.28	1,291
Equipment Expense	316	3.10	293
FDIC Assessment	65	0.64	206
Data Processing Expense	271	2.66	144
Other	1,757	17.24	1,886
Total Non-Interest Expense	\$10,190	100.00%	\$ 9,792

Provision for Income Tax. During the three and nine-month periods ended September 30, 2006, the Company recorded income tax expense of \$689,000 and \$2.85 million, respectively, compared to income tax expense of \$1.11 million and \$3.90 million, respectively, for the three and nine-month periods ended September 30, 2005. The tax provisions for federal, state and local taxes recorded for the first nine months of 2006 and 2005 represent effective tax rates of 46.55% and 47.28%, respectively.

Common Stock Repurchases

On May 15, 2003, The Company's Board of Directors authorized the purchase of up to an additional 450,000 shares of its Common Stock in the open market, from time to time, depending upon prevailing market conditions, thereby increasing the maximum number of shares which may be purchased by the Company from 1,950,000 shares of Common Stock to 2,400,000 shares of Common Stock. Since 1990 through December 31, 2004, the Company has purchased a total of 1,844,646 shares of its Common Stock. At September 30, 2006, there were 551,091 shares of Common Stock which may yet be purchased under our stock repurchase plan. We have not repurchased shares of the Company's Common Stock during the nine months

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ended September 30, 2006 or in the fiscal year ended December 31, 2005.

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Risk Factors.

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

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

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

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

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

providing various services. The banking business in our current primary market area is very competitive, and the level of competition we face may increase further, which may limit our asset growth and profitability.

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

Deterioration in local, regional, national or global economic conditions could result in, among other things, an increase in loan delinquencies, a decrease in property values, a change in housing turnover rate or a reduction in the level of bank deposits. Particularly, a weakening of the real estate or employment market in our primary market areas could result in an increase in the number of borrowers who default on their loans and a reduction in the value of

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the collateral securing their loans, which in turn could have an adverse effect on our profitability. Substantially all of our real estate loans are collateralized by properties located in these market areas, and substantially all of our loans are made to borrowers who live in and conduct business in these market areas. Any material economic deterioration in these market areas could have an adverse impact on our profitability.

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

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

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

We are subject to extensive state and federal regulation, supervision, and legislation which govern almost all aspects of our operations. These laws may change from time to time and are primarily intended for the protection of customers, depositors, and the deposit insurance funds. The impact of any changes to these laws may negatively impact our ability to expand our services and to increase the value of our business. Regulatory authorities have extensive discretion in the exercise of their supervisory and enforcement powers. They may, among other things, impose restrictions on the operation of a banking institution, the classification of assets by such institution and such

institution's allowance for loan losses. Regulatory and law enforcement authorities also have wide discretion and extensive enforcement powers under various consumer protection, civil rights and other laws, including the Gramm-Leach-Bliley Act, the Bank Secrecy Act, the Truth-in-Lending Act, the Equal Credit Opportunity Act, the Fair Housing Act and the Real Estate Settlement Procedures Act. These laws also permit private individual and class action lawsuits and provide for the recovery of attorneys fees in certain instances. Any changes to these laws or any applicable accounting principles may negatively impact our results of operations and financial condition. While we cannot predict what effect any presently contemplated or future changes in the laws or regulations or their interpretations would have, these changes could be materially adverse to our investors and stockholders.

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

We maintain an allowance for loan losses. The allowance for loan losses is maintained at a level believed adequate by management to absorb losses inherent in the loan portfolio. In conjunction with an internal loan review function that operates independently of the lending function, management monitors the loan portfolio to identify risks on a timely basis so that an appropriate allowance can be maintained. Based on an evaluation of the loan portfolio, management

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presents a periodic review of the loan loss reserve to the board of directors of the Bank, indicating any changes in the reserve since the last review and any recommendations as to adjustments in the reserve. In making its evaluation, in addition to the factors discussed below, management considers the results of recent regulatory examinations, which typically include a review of the allowance for loan losses as an integral part of the examination process.

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

In addition, a portion of the allowance is established for losses inherent in the loan portfolio which have not been identified by the more quantitative processes described above. This determination inherently involves a higher degree of subjectivity, and considers risk factors that may not have yet manifested themselves in historical loss experience. Those factors include changes in levels and trends of charge-offs, delinquencies, and nonaccrual loans, trends in volume and terms of loans, changes in underwriting standards and practices, portfolio mix, tenure of loan officers and management, entrance into new geographic markets, changes in credit concentrations, and national and local economic trends and conditions. While the allowance for loan losses is maintained at a level believed to be adequate by management for estimated losses

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in the loan portfolio, determination of the allowance is inherently subjective, as it requires estimates, all of which may be susceptible to significant change. Changes in these estimates may impact the provisions charged to expense in future periods. Federal and state regulatory authorities, as an integral part of their examination process, review our loans and allowance for loan losses. We cannot assure you that we will not increase the allowance for loan losses or the regulators will not require us to increase this allowance. Either of these occurrences could negatively impact Berkshire Bancorp's results of operations.

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

Under our amended and restated certificate of incorporation, we have authorized 2,000,000 shares of preferred stock, which the board of directors may issue with terms, rights, preferences and designations as the board of directors may determine and without any vote of the shareholders, unless otherwise required by law. Issuing the preferred stock, depending upon the rights, preferences and designations set by the board of directors, may delay, deter, or prevent a change in control of the Company.

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

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

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

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

ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Interest Rate Risk. Fluctuations in market interest rates can have a material effect on the Company's net interest income because the yields earned on loans and investments may not adjust to market rates of interest with the same

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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