BERKSHIRE BANCORP INC /DE/
Form 10-Q
November 12, 2003

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2003

or

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

For the transition period from ________________ to ________________________

Commission file number: 0-13649

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

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

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

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ___ No X

As of November 7, 2003, there were 2,210,780 outstanding shares of the issuers Common Stock, $.10 par value.

BERKSHIRE BANCORP INC. AND SUBSIDIARIES

FORWARD-LOOKING STATEMENTS

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

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

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

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

INDEX

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

	September 30, 2003	December 31, 2002
ASSETS		
Cash and due from banks	$ 4,965	$ 6,183
Interest bearing deposits	282	127
Total cash and cash equivalents	5,247	6,310
Investment Securities:		
Available-for-sale	489,082	370,625
Held-to-maturity	733	833
Total investment securities	489,815	371,458
Loans, net of unearned income	295,019	275,497
Less: allowance for loan losses	(2,503)	(2,315)
Net loans	292,516	273,182
Accrued interest receivable	5,302	4,106
Premises and equipment, net	8,778	8,976
Other assets	2,728	1,157
Goodwill, net	18,549	18,549
Total assets	$ 822,935	$ 683,738
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	$ 34,780	$ 31,320
Interest bearing	541,971	442,498
Total deposits	576,751	473,818
Securities sold under agreements to repurchase	74,134	46,673
Long term borrowings	65,530	57,699
Accrued interest payable	2,267	3,348
Other liabilities	3,836	3,675
Total liabilities	722,518	585,213
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 -- September 30, 2003, 2,210,280 shares December 31, 2002, 2,237,976 shares	256	256
Additional paid-in capital	89,866	89,890
Retained earnings	21,152	16,145
Accumulated other comprehensive income (loss), net	(653)	1,480
Common stock in treasury - at cost: September 30, 2003, 355,815 shares December 31, 2002, 328,119 shares	(10,204)	(9,246)
Total stockholders' equity	100,417	98,525
	$ 822,935	$ 683,738

The accompanying notes are an integral part of these statements.

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

	For The Three Months Ended September 30,		For Nine Mont Septem
	2003	2002	2003
INTEREST INCOME			
Loans	$4,786	$4,730	$14,250
Investment securities	4,068	3,740	11,467
Federal funds sold and interest bearing deposits	58	25	84
Total interest income	8,912	8,495	25,801
INTEREST EXPENSE			
Deposits	2,517	2,762	7,712
Borrowings	815	802	2,403
Total interest expense	3,332	3,564	10,115
Net interest income	5,580	4,931	15,686
PROVISION FOR LOAN LOSSES	45	200	195
Net interest income after provision for loan losses	5,535	4,731	15,491
NON-INTEREST INCOME			
Service charges on deposits	134	112	489
Investment securities gains	183	681	1,669
Other income	163	5	477
Total non-interest income	480	798	2,635
NON-INTEREST EXPENSE			
Salaries and employee benefits	1,413	1,269	4,139
Net occupancy expense	432	501	1,262
Equipment expense	81	76	292
FDIC assessment	21	17	59
Data processing expense	35	108	148
Other	1,111	927	2,632

Total non-interest expense	3,093	2,898	8,532
Income before provision for taxes	2,922	2,631	9,594
Provision for income taxes	1,339	1,118	4,322
Net income	$1,583	$1,513	$ 5,272
Net income per share:			
Basic	$ .72	$ .67	$ 2.38
Diluted	$ .70	$ .67	$ 2.35

The accompanying notes are an integral part of these statements.

5

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

For The Nine Months Ended September 30, 2003
(In Thousands)

	Common Shares	Stock Par value	Additional paid-in capital	Accumulated other comprehensive income (loss) net	Accum-lated earnings
Balance at December 31, 2002	2,566	$256	$89,890	$ 1,480	$ 16,145
Net income					5,272
Treasury shares issued for options exercised			(24)		
Acquisition of treasury shares					
Other comprehensive income (loss) net of reclassification adjustment and taxes				(2,133)	
Comprehensive income					
Cash dividends					(265)
Balance at September 30, 2003 (Unaudited)	2,566	$256	$89,866	$ (653)	$ 21,152

Treasury	Comprehensive	Total stockholders'

	stock	income	equity
Balance at December 31, 2002	$(9,246)		$ 98,525
Net income		5,272	5,272
Treasury shares issued for options exercised	153		129
Acquisition of treasury shares	(1,111)		(1,111)
Other comprehensive income (loss) net of reclassification adjustment and taxes		(2,133)	(2,133)
Comprehensive income		$ 3,139	
Cash dividends			(265)
Balance at September 30, 2003 (Unaudited)	$(10,204)		$100,417

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 Nine Months Ended September 30, 2003	2002
Cash flows from operating activities:		
Net income	$ 5,272	$ 4,006
Adjustments to reconcile net income to net cash provided by operating activities:		
Realized gains on investment securities	(1,669)	(1,070)
Depreciation and amortization	465	280

Provision for loan losses	195	357
(Increase) in accrued interest receivable	(1,196)	(790)
(Increase) decrease in other assets	(1,511)	1,172
Increase (decrease) in accrued interest payable and other liabilities	(1,531)	2,310
Net cash provided by operating activities	25	6,265
Cash flows from investing activities:		
Investment securities available for sale		
Purchases	(1,604,999)	(1,048,313)
Sales	1,485,877	950,496
Investment securities held to maturity		
Sales and maturities	97	700
Net (increase) in loans	(18,774)	(21,879)
Purchase of premises and equipment	(267)	(1,507)
Net cash (used in) investing activities	(138,066)	(120,503)

7

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

	For The Nine Months Ended September 30,	
	2003	2002
Cash flows from financing activities:		
Net increase in non interest bearing deposits	3,460	2,148
Net increase in interest bearing deposits	99,473	115,151
Increase (decrease) in securities sold under agreements to repurchase	27,461	(7,056)
Proceeds from long term debt	7,831	7,113
Acquisition of treasury stock	(1,111)	(4,258)
Proceeds from exercise of common stock options	129	81
Dividends paid	(265)	(235)

Net cash provided by financing activities	136,978	112,944
Net (decrease) in cash	(1,063)	(1,294)
Cash - beginning of period	6,310	10,383
Cash - end of period	$ 5,247	$ 9,089
Supplemental cash flow information:		
Cash used to pay interest	$ 11,196	$ 9,095
Cash used to pay taxes, net of refunds	$ 3,621	$ 3,876

The accompanying notes are an integral part of these statements.

BERKSHIRE BANCORP INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
September 30, 2003 and 2002

NOTE 1. General

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

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

During interim periods, the Company follows the accounting policies set forth in its Annual Report on Form 10-K filed with the Securities and Exchange Commission. Readers are encouraged to refer to the Company's Form 10-K for the fiscal year ended December 31, 2002 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 September 30, 2003 and December 31, 2002 and the consolidated results of its operations for the three and nine month periods ended September 30, 2003 and 2002, and its consolidated stockholders' equity for the nine month period ended September 30, 2003, and its consolidated cash flows for the nine month periods ended September 30, 2003 and 2002.

NOTE 2. 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, 2003			Sept
	Income (numerator)	Shares (denominator)	Per share amount	Income (numerator)
	(In thousands, except per share dat			
Basic earnings per share Net income available to common stockholders	$ 1,583	2,209	$ .72	$ 1,513
Effect of dilutive securities options	--	40	.02	--
Diluted earnings per share Net income available to common stockholders plus assumed conversions	$ 1,583	2,249	$ .70	$ 1,513

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

Note 2. - (continued)

Options to purchase 45,375 shares of common stock for $31.75 to $38.00 per share were outstanding during the three month period ended September 30, 2002. 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 Nine Months Ended			
September 30, 2003			Sept
Income (numerator)	Shares (denominator)	Per share amount	Income (numerator)

(In thousands, except per share dat

Basic earnings per share				
Net income available to common stockholders	$ 5,272	2,216	$ 2.38	$ 4,006
Effect of dilutive securities options	--	31	.03	--
Diluted earnings per share				
Net income available to common stockholders plus assumed conversions	$ 5,272	2,247	$ 2.35	$ 4,006

Options to purchase 40,375 shares of common stock for $38.00 per share and 45,375 shares of common stock for $31.75 to $38.00 per share were outstanding during the nine month periods ended September 30, 2003 and 2002, 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.

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

NOTE 3. Investment Securities

The following tables summarize held to maturity and available-for-sale investment securities as of September 30, 2003 and December 31, 2002:

	September 30, 2003		
	Amortized Cost	Gross unrealized gains	Gross unrealized losses
		(In thousands)	
Held To Maturity Investment Securities			
U.S. Government Agencies	$ 733	$ 3	$ --
Totals	$ 733	$ 3	$ --

December 31, 2002

	Amortized Cost	Gross unrealized gains	Gross unrealized losses
	(In thousands)		
Held To Maturity Investment Securities			
U.S. Government Agencies	$ 833	$ 3	$ (1)
Totals	$ 833	$ 3	$ (1)

	September 30, 2003		
	Amortized Cost	Gross unrealized gains	Gross unrealized losses
	(In thousands)		
Available-For-Sale Investment Securities			
U.S. Treasury and Notes	$ 34,925	$ 11	$ (66)
U.S. Government Agencies	403,931	1,001	(4,124)
Mortgage-backed securities	35,359	1,548	(30)
Corporate notes	1,571	51	(123)
Marketable equity securities and other	14,932	247	(151)
Totals	$490,718	$ 2,858	$(4,494)

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

NOTE 3. - (continued)

	December 31, 2002		
	Amortized Cost	Gross unrealized gains	Gross unrealized losses

(In thousands)

Available-For-Sale Investment securities			
U.S. Treasury and Notes	$ 20,110	$ 103	$ --
U.S. Government Agencies	301,224	2,376	(3)
Mortgage-backed securities	6,256	6	--
Corporate Notes	3,878	495	(297)
Marketable equity securities and other	33,383	242	(148)
Totals	$367,851	$ 3,222	$ (448)

NOTE 4. Loan Portfolio

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

	September 30, 2003		December
	Amount	% of Total	Amoun
	(Dollars in thousands)		
Commercial and professional loans	$ 20,423	6.9%	$ 16,70
Secured by real estate			
1-4 family	174,018	58.8	180,73
Multi family	6,776	2.3	8,95
Non-residential (commercial)	92,108	31.1	65,80
Consumer	2,515	0.9	4,05
	--		
Total loans	295,840	100.0%	276,25
Deferred loan fees	(821)		(75
Allowance for loan losses	(2,503)		(2,31
Loans, net	$292,516		$273,18

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

NOTE 5. Deposits

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

	September 30, 2003		December 31, 2002	
	Average Amount	Average Yield	Average Amount	Average Yield
	(Dollars in thousands)			
Demand deposits	$ 30,737	--	$ 30,102	--
NOW and money market	58,016	0.81%	60,114	1.28%
Savings deposits	119,553	1.55	56,217	1.56
Time deposits	322,109	2.43	273,452	3.21
Total deposits	$530,415	1.94%	$419,885	2.48%

NOTE 6. 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, 2003			Septe
	Before tax amount	Tax (expense) benefit	Net of tax Amount	Before tax amount
	(In thousands)			
Unrealized (losses) gains on investment securities:				
Unrealized holding gains (losses) arising during period	$ (1,886)	$ 754	$ (1,132)	$ 1,310
Less reclassification adjustment for (losses) gains realized in net income	1,669	(668)	1,001	1,070
Other comprehensive (loss) income, net	$ (3,555)	$ 1,422	$ (2,133)	$ 240

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

NOTE 7. Accounting For Stock Based Compensation

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

		For The Three Months Ended September 30,	
		2003	2002
		(In thousands, except per share amounts)	
Net income	As Reported:	$ 1,583	$ 1,513
Less: Stock based compensation costs determined under fair value methods for all awards		--	--
	Pro Forma:	$ 1,583	$ 1,513
Basic earnings per share	As Reported:	$ .72	$ .67
	Pro Forma:	.72	.67
Diluted earnings per share	As Reported:	$ .70	$ .67
	Pro Forma:	.70	.67

		For The Nine Months Ended September 30,	
		2003	2002
		(In thousands, except per share amounts)	

Net income	As Reported:	$ 5,272	$ 4,006
Less: Stock based compensation costs determined under fair value methods for all awards		--	--
	Pro Forma:	$ 5,272	$ 4,006
Basic earnings per share	As Reported:	$ 2.38	$ 1.73
	Pro Forma:	2.38	1.73
Diluted earnings per share	As Reported:	$ 2.35	$ 1.73
	Pro Forma:	2.35	1.73

The Company did not grant options during the three and nine months ended September 30, 2003 and 2002.

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

NOTE 8. New Accounting Pronouncements

Accounting for Loans or Certain Debt Securities Acquired in a Transfer

In October 2003, the AICPA issued SOP 03-3 Accounting for Loans or Certain Debt Securities Acquired in a Transfer. SOP 03-3 applies to a loan with the evidence of deterioration of credit quality since origination acquired by completion of a transfer for which it is probable at acquisition, that the Company will be unable to collect all contractually required payments receivable. SOP 03-3 requires that the Company recognize the excess of all cash flows expected at acquisition over the investor's initial investment in the loan as interest income on a level-yield basis over the life of the loan as the accretable yield. The loan's contractual required payments receivable in excess of the amount of its cash flows excepted at acquisition (nonaccretable difference) should not be recognized as an adjustment to yield, a loss accrual or a valuation allowance for credit risk. SOP 03-3 is effective for loans acquired in fiscal years beginning after December 31, 2004. Early adoption is permitted. Management is currently evaluating the provisions of SOP 03-3.

Derivative Instruments and Hedging Activities

The Company adopted Statement of Financial Accounting Standard 149 (SFAS No. 149), Amendment of Statement 133 on Derivative Instruments and Hedging Activities, on July 1, 2003. SFAS No. 149 clarifies and amends SFAS No. 133 for implementation issues raised by constituents or includes the conclusions reached by the FASB on certain FASB Staff Implementation Issues. Statement 149 also amends SFAS No. 133 to require a lender to account for loan commitments related to mortgage loans that will be held for sale as derivatives. SFAS No. 149 is effective for contracts entered into or modified after September 30, 2003. The

Company periodically enters into commitments with its customers, which it intends to sell in the future. Management does not anticipate the adoption of SFAS No. 149 to have a material impact on the Company's financial position or results of operations.

Financial Instruments with Characteristics of both Liabilities and Equity

The FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity, on May 15, 2003. SFAS No. 150 changes the classification in the statement of financial position of certain common financial instruments from either equity or mezzanine presentation to liabilities and requires an issuer of those financial statements to recognize changes in fair value or redemption amount, as applicable, in earnings. SFAS No. 150 is effective for public companies for financial instruments entered into or modified after May 31, 2003 and is effective at the beginning of the first interim period beginning after June 15, 2003. Management does not anticipate the adoption of SFAS No. 150 to have a material impact on the Company's financial position or results of operations.

Off Balance Sheet Guarantees

The Company adopted FASB Interpretation 45 (FIN 45) Guarantor's Accounting and Disclosure Requirements for Guarantees, including Indirect Guarantees of Indebtedness of Others on January 1, 2003. FIN 45 requires a guarantor entity, at the inception of a guarantee covered by the measurement provisions of the interpretation, to record a liability for the fair value of the obligation undertaken in issuing the guarantee. The Company has financial and performance letters of credit. Financial letters of credit require the Company to make payment if the customer's financial condition deteriorates, as defined in the agreements. Performance letters of credit require the Company to make payments

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

Note 8. - (continued)

if the customer fails to perform certain non-financial contractual obligations. The Company previously did not record an initial liability, other than the fees received for these letters of credit, when guaranteeing obligations unless it became probable that the Company would have to perform under the guarantee. FIN 45 applies prospectively to letters of credit the Company issues or modifies subsequent to December 31, 2002.

The Company defines the initial fair value of these letters of credit as the fee received from the customer. The maximum potential undiscounted amount of future payments of these letters of credit as of September 30, 2003 are $19.94 million and they expire through 2008. Amounts due under these letters of credit would be reduced by any proceeds that the Company would be able to obtain in liquidating the collateral for the loans, which varies depending on the customer.

Variable Interest Entities

In January 2003, the FASB issued FASB Interpretation 46 (FIN 46), Consolidation of Variable Interest Entities. FIN 46 clarifies the application of Accounting Research Bulletin 51, Consolidated Financial Statements, for certain entities that do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties or in which equity investors do not have the characteristics of a controlling financial interest ("variable interest entities"). Variable interest entities within the scope of FIN 46 will be required to be consolidated by their primary beneficiary. The primary beneficiary of a variable interest entity is determined to be the party that absorbs a majority of the entity's expected losses, receives a majority of its expected returns, or both. The Company has not acquired any variable interest entities after February 1, 2003 through September 30, 2003. The Company is in process of determining what impact, if any, the adoption of the provisions of FIN 46 will have on entities held prior to the issuance of FIN 46 on its financial condition or results of operations. The adoption of FIN 46 did not have a material impact on the consolidated financial position or results of operations.

Note 9. Critical Accounting Policies, Judgments and Estimates

The accounting and reporting policies of the Company conform with accounting principles generally accepted in the United States of America and general practices within the financial services industry. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and the assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ from those estimates.

The Company considers that the determination of the allowance for loan losses involves a higher degree of judgment and complexity than any of its other significant accounting policies. The allowance for loan losses is calculated with the objective of maintaining a reserve level believed by management to be sufficient to absorb estimated credit losses. Management's determination of the adequacy of the allowance is based on periodic evaluations of the loan portfolio and other relevant factors. However, this evaluation is inherently subjective as it requires material estimates, including, among others, expected default probabilities, loss given default, the amounts and timing of expected future cash flows on impaired loans, mortgages, and general amounts for historical loss experience. The process also considers economic conditions, uncertainties in estimating losses and inherent risks in the loan portfolio. All of these factors may be susceptible to significant change. To the extent actual outcomes differ

Note 9. - (continued)

from management estimates, additional provisions for loan losses may be required that would adversely impact earnings in future periods.

With the adoption of SFAS No. 142 on January 1, 2002, the Company discontinued the amortization of goodwill resulting from acquisitions. Goodwill is now subject to impairment testing at least annually to determine whether write-downs of the recorded balances are necessary. The Company tests for impairment based on the goodwill maintained at each defined reporting unit. A fair value is determined for each reporting unit based on at least one of three various market valuation methodologies. If the fair values of the reporting units exceed their book values, no write-down of recorded goodwill is necessary. If the fair value of the reporting unit is less, an expense may be required on the Company's books to write down the related goodwill to the proper carrying value. As of December 31, 2002, the Company completed its transitional 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.

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

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

For The Three Months Ended September 30,				
2003			2002	
Average Balance	Interest and Dividends	Average Yield/Rate	Average Balance	Intere and Dividen
(Dollars in Thousands)				

INTEREST-EARNING ASSETS:					
Loans (1)	$283,944	$4,786	6.74%	$269,938	$4,730
Investment securities	467,063	4,068	3.48	333,326	3,740
Other (2)(5)	2,925	58	7.93	5,453	25
Total interest-earning assets	753,932	8,912	4.73	608,717	8,495
Noninterest-earning assets	35,949			35,844	
Total Assets	$789,881			$644,561	
INTEREST-BEARING LIABILITIES:					
Interest bearing deposits	206,632	716	1.39%	119,932	431
Time deposits	326,852	1,801	1.84	299,609	2,331
Other borrowings	113,993	815	2.87	89,423	802
Total interest-bearing liabilities	647,477	3,332	2.06	508,964	3,564
Demand deposits	31,579			32,060	
Noninterest-bearing liabilities	6,792			7,965	
Stockholders' equity (5)	104,033			95,572	
Total liabilities and stockholders' equity	$789,881			$644,561	
Net interest income		5,580			4,931
Interest-rate spread (3)			2.67%		
Net interest margin (4)			2.96%		
Ratio of average interest-earning assets to average interest bearing liabilities	1.16			1.20	

----

(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.

	For The Nine Months Ended September 30,					
	2003			2002		
	Average Balance	Interest and Dividends	Average Yield/Rate	Average Balance	Interest and Dividends	A Yi
	(Dollars in Thousands)					
INTEREST-EARNING ASSETS:						
Loans (1)	$278,077	$14,250	6.83%	$263,756	$13,943	
Investment securities	426,708	11,467	3.58	280,756	9,815	
Other (2)(5)	4,558	84	2.46	5,671	71	
Total interest-earning assets	709,343	25,801	4.85	550,183	23,829	
Noninterest-earning assets	36,640			36,460		
Total Assets	$745,983			$586,643		
INTEREST-BEARING LIABILITIES:						
Interest bearing deposits	177,569	1,833	1.38%	112,538	1,192	
Time deposits	322,109	5,879	2.43	262,304	6,561	
Other borrowings	106,445	2,403	3.01	78,992	2,140	
Total interest-bearing liabilities	606,123	10,115	2.23	453,834	9,893	
Demand deposits	30,737			30,287		
Noninterest-bearing liabilities	8,265			7,194		
Stockholders' equity (5)	100,858			95,328		
Total liabilities and stockholders' equity	$745,983			$586,643		
Net interest income		15,686			13,936	
Interest-rate spread (3)			2.62%			
Net interest margin (4)			2.95%			
Ratio of average interest-earning assets to average interest bearing liabilities	1.17			1.21		

----

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

Results of Operations

Results of Operations for the Three and Nine Months Ended September 30, 2003 Compared to the Three and Nine Months Ended September 30, 2002.

General. Berkshire Bancorp Inc., a bank holding company registered under the Bank Holding Company Act of 1956 has one wholly-owned banking subsidiary, The Berkshire Bank, a New York State chartered commercial bank (the "Bank"). The Bank is headquartered in Manhattan and has nine branch locations, five branches in New York City and four branches in Orange and Sullivan counties.

Net Income. Net income for the three-month period ended September 30, 2003 was $1.58 million, or $.70 per share, as compared to $1.51 million, or $.67 per share, for the three-month period ended September 30, 2002. Net income for the nine-month period ended September 30, 2002 was $5.27 million, or $2.35 per share, as compared to $4.01 million, or $1.73 per share, for the nine-month period ended September 30, 2002.

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 September 30, 2003, net interest income increased by $649,000, or 13.16%, to $5.58 million from $4.93 million for the quarter ended September 30, 2002. The quarter over quarter increase in net interest income was the result of the 23.86% growth in average interest-earning assets of $145.22 million, partially offset by the 27.21% growth in average interest-bearing liabilities of $138.52 million, and the difference between the yield on assets compared to the cost of liabilities. The average yield on interest-earning assets fell to 4.73% from 5.58%, a decline of 85 basis points, or 15.23%, while the average cost of interest-bearing liabilities fell to 2.06% from 2.80%, a decline of 74 basis points, or 26.43% The interest-rate spread, the difference between the average yield on interest-earning assets and the average cost of interest bearing liabilities, eased by 11 basis points to 2.67% from 2.78%

For the nine-month period ended September 30, 2003, net interest income increased by $1.75 million, or 12.56%, to $15.69 million from $13.94 million for the nine-month period ended September 30, 2002. The period over period increase in net interest income was the result of the 28.93% growth in average interest-earning assets of $159.16 million, partially offset by the 33.56% growth in average interest-bearing liabilities of $152.29 million, and the difference between the yield on assets compared to the cost of liabilities. In the 2003 period, the average yield on interest-earning assets fell to 4.85% from 5.77% in 2002, a decline of 92 basis points, or 15.94%, however, the average cost of interest-bearing liabilities fell to 2.23% from 2.91%, a decline of 68 basis points, or 23.37% The interest-rate spread eased by 24 basis points to 2.62% in 2003 from 2.86% in 2002.

Interest rates, as measured by the prime rate, stabilized at 4.75% throughout the first ten months of 2002, easing to 4.25% in November of 2002, and remaining at the 4.25% level until June 25, 2003 when the rate was lowered to 4.00%. With interest rates stabilizing at historic lows, 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 matured or have been called by the issuer have been replaced with securities carrying somewhat lower yields and longer maturities. Rates paid on deposit accounts may continue to decline as well, albeit at a slower pace due to competition for deposits in the market place.

Net Interest Margin. Net interest margin, or annualized net interest income as a percentage of average interest-earning assets, declined to 2.96% in the third fiscal quarter of 2003 from 3.24% in the third fiscal quarter of 2002, and declined to 2.95% in the nine-month period of 2003 from 3.38% in the nine-month period of 2002.

The Company makes strategic use of the prevailing interest rate environment to secure and retain deposits, and to borrow funds at what we believe to be attractive rates, and to invest such funds in a prudent mix of loans and investment securities. The average amounts of loans and investment securities increased by $14.01 million and $133.74 million, respectively, to $283.94 million and $467.06 million, respectively, in the quarter ended September 30, 2003, from $269.94 million and $333.33 million, respectively, in the quarter ended September 30, 2002. The average amounts of interest bearing deposits and time deposits increased by $86.70 million and $27.24 million, respectively, to $206.63 million and $326.85 million, respectively, from $119.93 million and $299.61 million, respectively, in the year ago quarter. Borrowed funds increased by $24.57 million to $113.99 million in the 2003 quarter from $89.42 million in the 2002 quarter.

During the nine months ended September 30, 2003, the average amounts of loans and investments securities was $278.08 million and $426.71 million, espectively, compared to $263.76 million and $280.76 million, respectively, during the nine months ended September 30, 2002. Interest bearing deposits and time deposits averaged $177.57 million and $322.11 million in 2003, respectively, compared to $112.54 million and $262.30 million, respectively in 2002. Borrowed funds averaged $106.45 million and $78.99 million in 2003 and 2002, respectively.

Interest Income. Total interest income for the quarter ended September 30, 2003 increased by $417,000, or 4.91%, to $8.91 million from $8.50 million for the quarter ended September 30, 2002. The increase was the result of a 23.86%

increase in the average amount of total interest-earning assets to $753.93 million in 2003 from $608.72 million in 2002. Average loans and investment securities increased by 5.19% and 40.12%, respectively, and contributed $4.79 million and $4.07 million, respectively, to interest income during the quarter ended September 30, 2003.

Total interest income for the nine-month period ended September 30, 2003 increased by $1.97 million, or 8.28%, to $25.80 million from $23.83 million for the nine-month period ended September 30, 2002. The increase was the result of a 28.93% increase in the average amount of total interest-earning assets to $709.34 million in 2003 from $550.18 million in 2002. Average loans and investment securities increased by 5.43% and 51.99%, respectively, and contributed $14.25 million and $11.47 million, respectively, to interest income during the nine months ended September 30, 2003.

The average yield on total interest-earning assets was 4.73% and 4.85%, respectively, during the three and nine months ended September 30, 2003, compared to 5.58% and 5.77%, respectively, for the three and nine months ended September 30, 2002. During the first nine months of 2003, the average yield on the Company's loan portfolio and investment securities was 6.83% and 3.58%, respectively, compared to 7.05% and 4.66%, respectively, during the first nine months of 2002.

Interest Expense. Total interest expense for the quarter ended September 30, 2003 decreased to $3.33 million from $3.56 million for the quarter ended September 30, 2002. The decrease in interest expense was due primarily to the 74 basis point decline in average rates paid on interest-bearing liabilities to 2.06% in 2003 from 2.80% in 2002, partially offset by the increase in the average amounts of such liabilities. Total interest-bearing liabilities increased by 27.21%, averaging $647.48 million in the 2003 quarter compared to $508.96 million in the 2002 quarter. Average time deposits and other interest-bearing deposits

increased in the 2003 quarter to $326.85 million and $206.63 million, respectively, from $299.61 million and $119.93 million, respectively, in the 2002 quarter. The average amount of borrowed funds increased as well, to $113.99 million in the 2003 quarter from $89.42 million in the 2002 quarter.

Total interest expense for the nine-month period ended September 30, 2003 increased by $222,000, or 2.24%, to $10.12 million in the 2003 period from $9.89 million in the 2002 period. The increase in interest expense was due to the 33.56% increase in interest-bearing liabilities, substantially offset by the decline in the average rates paid on such liabilities. Total interest-bearing liabilities averaged $606.12 million in the 2003 period from $453.83 million in the 2002 period. Average time deposits and other interest-bearing deposits increased in the 2003 period to $322.11 million and $177.57 million, respectively, from $262.30 million and $112.54 million, respectively, in the 2002 period. The cost of such deposits, coupled with the cost of borrowed funds, $106.45 million and $78.99 million in 2003 and 2002, respectively, decreased to 2.23% in 2003 from 2.91% in 2002.

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 September 30, 2003, total non-interest income decreased by $318,000, to $480,000 from $798,000 for the three months ended September 30, 2002. The decrease is largely due to the $498,000 decrease in gains on sales of investment securities.

For the nine months ended September 30, 2003 and 2002, total non-interest income was $2.64 million and $1.61 million, respectively. The increase of $1.02 million was largely due to the $599,000 increase in the gains realized on the sales and issuer redemptions of investment securities and the $285,000 increase in various items included in other income.

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, 2003 was $3.09 million and $8.53 million, respectively, compared to $2.90 million and $8.10 million, respectively for the same periods in 2002.

Provision for Income Tax. During the three and nine-month periods ended September 30, 2003, the Company recorded income tax expense of $1.34 million and $4.32 million, respectively, compared to income tax expense of $1.12 million and $3.09 million, respectively, for the three and nine-month periods ended September 30, 2002. The tax provisions for federal, state and local taxes recorded for the first nine months of 2003 and 2002 represent effective tax rates of 45.05% and 43.51%, respectively.

ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

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

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

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

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

Berkshire Bancorp Inc.
Interest Rate Sensitivity Gap at September 30, 2003
(in thousands, except for percentages)

		3 Months or Less	3 Through 12 Months	1 Through 3 Years	Over 3 Years
Federal funds sold		$ --	$ --	$ --	$ --
	(Rate)	--%	--	--	--
Interest bearing deposits in banks		282	--	--	--
	(Rate)	0.27%	--	--	--
Loans (1)(2)					
Adjustable rate loans		42,286	11,252	13,931	8,793
	(Rate)	5.92%	4.33%	5.66%	7.35%
Fixed rate loans		1,798	3,158	6,334	208,288
	(Rate)	7.95%	7.56%	7.00%	6.50%
Total loans		44,084	14,410	20,265	217,081
Investments (3)(4)		11,446	--	36,369	442,000
	(Rate)	0.81%	--%	1.61%	4.13%
Total rate-sensitive assets		55,812	14,410	56,634	659,081
Deposit accounts (5)					
Savings and NOW		182,758	--	--	--
	(Rate)	1.42%	--	--	--
Money market		33,030	--	--	--
	(Rate)	0.83%	--	--	--
Time Deposits		141,687	174,168	8,325	2,003
	(Rate)	2.13%	1.99%	2.28%	1.98%
Total deposit accounts		357,475	174,168	8,325	2,003
Repurchase agreements		37,172	25,962	8,000	3,000

	(Rate)	1.03%	1.23%	2.98%	3.52%
Other borrowings		--	--	4,144	61,386
	(Rate)	--%	--	5.10%	4.22%
Total rate-sensitive liabilities		394,647	200,130	20,469	66,389
Interest rate caps		30,000	(5,000)	(5,000)	(20,000)
Gap (repricing differences)		(368,835)	(180,720)	41,165	612,692
Cumulative Gap		(368,835)	(549,555)	(508,390)	104,302
Cumulative Gap to Total Rate Sensitive Assets		(46.93)%	(69.92)%	(64.69)%	13.27%

----

(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.

24

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 loss as of September 30, 2003.

For the three and nine months ended September 30, 2003, the Company charged-off loans amounting to $13,000 and $15,000, respectively, compared to $82,000 and $181,000, respectively, for the three and nine months ended September 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.

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

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

At September 30, 2003, the Company had a total of $59,000 of non-accrual or non-performing loans, and no loans past due more than 90 days and still accruing interest. At September 30, 2002, there were $249,000 of non-accrual loans and $62,000 of 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 $295.02 million from $273.94 million, the provision for the nine months ended September 30, 2003 was increased to $2.50 million from $2.22 million in the year ago period.

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

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

	Three Months Ended September 30,		Nine Mo Septe
	2003	2002	2003
Average loans outstanding	$283,944	$269,938	$278,077
Allowance at beginning of period	2,468	2,095	2,315
Charge-offs:			
Commercial and other loans	--	82	2
Real estate loans	13	--	13
Total loans charged-off	13	82	15
Recoveries:			
Commercial and other loans	3	4	8
Real estate loans	--	--	--
Total loans recovered	3	4	8
Net recoveries (charge-offs)	(10)	(78)	(7)
Provision for loan losses charged to operating expenses	45	200	195
Allowance at end of period	2,503	2,217	2,503
Ratio of net recoveries (charge-offs) to average loans outstanding	0.00%	0.00%	0.00%
Allowance as a percent of total loans	0.85%	0.81%	0.85%
Total loans at end of period	$295,019	$273,942	$295,019

Loan Portfolio.

Loan Portfolio Composition. The Company's loans consist primarily of mortgage loans secured by residential and non-residential properties as well as commercial loans which are either unsecured or secured by personal property collateral. Most of the Company's commercial loans are either made to individuals or personally guaranteed by the principals of the business to which the loan is made. At September 30, 2003, the Company had total gross loans of $295.84 million and an allowance for loan losses of $2.50 million. From time to time, the Bank may originate residential mortgage loans and then sell them on the secondary market, normally recognizing fee income in connection with the sale. For the three and nine-month periods ended September 30, 2003, the Company sold approximately $1.84 million and $2.51 million, respectively, of such loans and recorded in other income, gains of $34,000 and $52,000, respectively, on such sales.

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

	September 30, 2003	December 31, 2002
	Amount	Amount
	(in thousands)	
Commercial and professional loans	$ 20,423	$ 16,704
Secured by real estate		
1-4 family	174,018	180,730
Multi family	6,776	8,958
Non-residential (commercial)	92,108	65,809
Consumer	2,515	4,051
Total loans	295,840	276,252
Less:		
Deferred loan fees	(821)	(755)
Allowance for loan losses	(2,503)	(2,315)
Loans, net	$292,516	$273,182

It is the Bank's policy to discontinue accruing interest on a loan when it is 90 days past due or if management believes that continued interest accruals are unjustified. The Bank may continue interest accruals if a loan is more than 90 days past due if the Bank determines that the nature of the delinquency and the collateral are such that collection of the principal and interest on the loan in full is reasonably assured. When the accrual of interest is discontinued, all accrued but unpaid interest is charged against current period income. Once the accrual of interest is discontinued, the Bank records interest as and when received until the loan is restored to accruing status. If the Bank determines that collection of the loan in full is in reasonable doubt, then amounts received are recorded as a reduction of principal until the loan is returned to accruing status. At September 30, 2003 and 2002, the Company had $-0- and $62,000 of loans past due more than 90 days and still accruing interest.

Capital Adequacy

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 September 30, 2003, 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 September 30, 2003 and December 31, 2002 (dollars in thousands):

	Actual		For capital adequacy purposes		ca pr ac
	Amount	Ratio	Amount	Ratio	
September 30, 2003					
Total Capital (to Risk-Weighted Assets)					
Company	85,024	26.7%	25,503	>=8.0%	
Bank	58,743	19.4%	24,204	>=8.0%	
Tier I Capital (to Risk-Weighted Assets)					
Company	82,521	25.9%	12,752	>=4.0%	
Bank	56,240	18.6%	12,102	>=4.0%	
Tier I Capital (to Average Assets)					
Company	82,521	11.1%	29,839	>=4.0%	
Bank	56,240	7.3%	30,921	>=4.0%	

	Actual		For capital adequacy purposes		ca pr ac
	Amount	Ratio	Amount	Ratio	
December 31, 2002					
Total Capital (to Risk-Weighted Assets)					
Company	$80,811	12.3%	$23,801	>=8.0%	
Bank	53,687	19.4%	22,193	>=8.0%	
Tier I Capital (to Risk-Weighted Assets)					
Company	78,496	26.4%	11,900	>=4.0%	
Bank	51,372	18.5%	11,096	>=4.0%	
Tier I Capital (to Average Assets)					
Company	78,496	27.2%	25,468	>=4.0%	
Bank	51,372	7.8%	26,210	>=4.0%	

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 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 September 30, 2003, Berkshire had cash and cash equivalents of $11.05 million and investment securities available for sale of $4.40 million.

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

At September 30, 2003, the Company had outstanding commitments of approximately $49.42 million. These commitments include $15.78 million that mature or renew within one year, $9.95 million that mature or renew after one year and within three years, $21.12 million that mature or renew after three years and within five years and $2.58 million that mature or renew after five years.

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

Impact of Inflation and Changing Prices

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

ITEM 4 - CONTROLS AND PROCEDURES

An evaluation was carried out under the supervision and with the participation of the Company's management, including the Chief Executive Officer ("CEO"), who is also the Chief Financial Officer ("CFO"), of the effectiveness of our disclosure controls and procedures as of the end of the quarter ended September 30, 2003. Based on that evaluation, the CEO/CFO has concluded that the Company's disclosure controls and procedures are effective at the reasonable assurance level to timely alert him of information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934. In addition, during the quarter ended September 30, 2003, there were no changes in the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

a. Exhibits

Exhibit Number	Description
31	Certification of Principal Executive and Financial Officer pursuant to Section 302 Of The Sarbanes-Oxley Act of 2002.
32	Certification of Principal Executive and Financial Officer pursuant to Section 906 Of The Sarbanes-Oxley Act of 2002.

SIGNATURES

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

BERKSHIRE BANCORP INC.
(Registrant)

Date: November 10, 2003

By: /s/ Steven Rosenberg

Steven Rosenberg
President and Chief
Financial Officer

EXHIBIT INDEX

Exhibit Number	Description	Sequentia Page Numb
31	Certification of Principal Executive and Financial Officer pursuant to Section 302 Of The Sarbanes-Oxley Act of 2002.	33
32	Certification of Principal Executive and Financial Officer pursuant to Section 906 Of The Sarbanes-Oxley Act of 2002.	34

STATEMENT OF DIFFERENCES

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