BERKSHIRE BANCORP INC /DE/
Form 10-Q
August 12, 2004

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 June 30, 2004

or

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

For the transition period from ________________ to ________________

Commission file number: 0-13649

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

Delaware (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 [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 August 10, 2004, there were 6,681,743 outstanding shares of the issuers Common Stock, $.10 par value.

BERKSHIRE BANCORP INC. AND SUBSIDIARIES

FORWARD-LOOKING STATEMENTS

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

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

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

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

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

	June 30, 2004	December 31, 2003
ASSETS		
Cash and due from banks	$ 10,078	$ 7,478
Interest bearing deposits	273	1,832
Federal funds sold	10,000	--
Total cash and cash equivalents	20,351	9,310
Investment Securities:		
Available-for-sale	617,844	569,137
Held-to-maturity	661	711
Total investment securities	618,505	569,848
Loans, net of unearned income	293,282	294,756
Less: allowance for loan losses	(2,709)	(2,593)
Net loans	290,573	292,163

Accrued interest receivable	6,125	5,298
Premises and equipment, net	8,572	8,665
Other assets	7,714	1,836
Goodwill, net	18,549	18,549
Total assets	$970,389	$905,669
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	$ 38,451	$ 38,422
Interest bearing	579,291	565,833
Total deposits	617,742	604,255
Securities sold under agreements to repurchase	144,221	114,391
Long term borrowings	86,245	77,745
Subordinated debt	15,464	--
Accrued interest payable	2,516	2,208
Other liabilities	3,488	3,580
Total liabilities	869,676	802,179
Stockholders' equity		
Preferred stock - $.10 Par value:		
2,000,000 shares authorized - none issued	--	--
Common stock - $.10 par value		
Authorized -- 10,000,000 shares		
Issued -- 7,698,285 shares		
Outstanding --		
June 30, 2004, 6,652,455 shares		
December 31, 2003, 6,614,094 shares	770	256
Additional paid-in capital	89,640	89,866
Retained earnings	25,316	22,960
Accumulated other comprehensive		
income (loss), net	(4,987)	775
Common stock in treasury - at cost:		
June 30, 2004, 1,045,830 shares		
December 31, 2003, 1,084,191 shares	(10,026)	(10,367)
Total stockholders' equity	100,713	103,490
	$970,389	$905,669

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	For The

	Three Months Ended June 30, 2004	Three Months Ended June 30, 2003	Six Months Ended June 30, 2004	Six Months Ended June 30, 2003
INTEREST INCOME				
Loans	$4,596	$4,707	$ 9,445	$ 9,464
Investment securities	5,021	3,758	9,807	7,368
Federal funds sold and interest bearing deposits	9	15	12	26
Total interest income	9,626	8,480	19,264	16,858
INTEREST EXPENSE				
Deposits	2,391	2,613	4,846	5,195
Short-term borrowings	582	127	1,079	276
Long-term borrowings	823	655	1,591	1,312
Total interest expense	3,796	3,395	7,516	6,783
Net interest income	5,830	5,085	11,748	10,075
PROVISION FOR LOAN LOSSES	45	45	90	150
Net interest income after provision for loan losses	5,785	5,040	11,658	9,925
NON-INTEREST INCOME				
Service charges on deposits	114	137	241	355
Investment securities gains	49	1,491	142	2,119
Other income	88	168	286	314
Total non-interest income	251	1,796	669	2,788
NON-INTEREST EXPENSE				
Salaries and employee benefits	1,528	1,395	3,195	2,726
Net occupancy expense	402	425	676	830
Equipment expense	82	102	168	211
FDIC assessment	24	19	46	38
Data processing expense	46	54	78	113
Other	1,090	732	1,971	1,521
Total non-interest expense	3,172	2,727	6,134	5,439
Income before provision for taxes	2,864	4,109	6,193	7,274
Provision for income taxes	1,383	1,801	2,761	3,224
Net income	$1,481	$2,308	$ 3,432	$ 4,050
Net income per share:				
Basic	$ .22	$ .35	$ .52	$ .61
Diluted	$ .22	$ .34	$ .50	$ .60

The accompanying notes are an integral part of these statements.

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

For The Six Months Ended June 30, 2004
(In Thousands)

	Common Shares	Stock Par value	Additional paid-in capital	Accumulated other comprehensive income, net	Retained earnings	Treasury stock
Balance at December 31, 2003	2,566	$ 256	$89,866	$ 775	$22,960	$(10,367)
Net income					3,432	
Exercise of stock options			7			410
Acquisition of treasury shares						(69)
Effect of reverse one-for-ten stock split	(2,309)	(230)	(233)			
Effect of thirty-for-one stock dividend	7,441	744			(744)	
Other comprehensive income net of reclassification adjustment and taxes				(5,762)		
Comprehensive loss						
Cash dividends					(332)	
Balance at June 30, 2004 (Unaudited)	7,698	$ 770	$89,640	$(4,987)	$25,316	$(10,026)

The accompanying notes are an integral part of this statement.

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

	For The Six Months Ended June 30,	
	2004	2003

Cash flows from operating activities:		
Net income	$ 3,432	$ 3,689
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Realized gain on investment securities	(142)	(2,119)
Net amortization of premiums of investment securities	1,698	633
Depreciation and amortization	286	325
Provision for loan losses	90	150
(Increase) in accrued interest receivable	(827)	(548)
(Increase) decrease in other assets	(5,878)	149
Increase (decrease) in accrued interest payable and other liabilities	216	(498)
Net cash provided by (used in) operating activities	(1,125)	1,781
Cash flows from investing activities:		
Investment securities available for sale		
Purchases	(655,272)	(1,208,382)
Sales, maturities and calls	599,255	1,117,982
Investment securities held to maturity		
Maturities	42	67
Net decrease in loans	1,500	4,135
Purchase of premises and equipment	(193)	(238)
Net cash (used in) investing activities	(54,668)	(86,436)

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

	For The Six Months Ended June 30,	
	2004	2003
Cash flows from financing activities:		
Net increase in non interest bearing deposits	29	1,378
Net increase in interest bearing deposits	13,458	78,246
Increase in securities sold under agreements to repurchase	29,830	8,621
Proceeds from long term debt	17,673	5,000
Repayment of long term debt	(8,500)	(4,794)
Proceeds from issuance of subordinated debentures	14,791	--
Acquisition of treasury stock	(69)	(978)

Proceeds from exercise of common stock options	417	13
Cash paid for fractional shares	(463)	--
Dividends paid	(332)	(265)
Net cash provided by financing activities	66,834	87,221
Net increase in cash	11,041	2,566
Cash - beginning of period	9,310	6,310
Cash - end of period	$20,351	$ 8,876
Supplemental disclosure of cash flow information:		
Cash used to pay interest	$ 7,208	$ 6,980
Cash used to pay taxes, net of refunds	$ 7,397	$ 2,512

The accompanying notes are an integral part of these statements.

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

NOTE 1. General

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

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

During interim periods, the Company follows the accounting policies set forth in its Annual Report on Form 10-K filed with the Securities and Exchange Commission. Readers are encouraged to refer to the Company's Form 10-K for the fiscal year ended December 31, 2003 when reviewing this Form 10-Q. Quarterly results reported herein are not necessarily indicative of results to be expected for other quarters.

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of normal recurring adjustments) considered necessary to present fairly the Company's consolidated financial position as of June 30, 2004 and December 31, 2003 and the consolidated results of our operations for the three and six month periods ended June 30, 2004 and 2003, and our consolidated stockholders' equity for the six month period ended June 30, 2004, and our consolidated cash flows for the six month periods ended June 30, 2004 and 2003. As discussed in Note 2 below, all weighted average share and per share information in 2003 has been retroactively restated.

NOTE 2. Stock Split and Stock Dividend

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

NOTE 3. Trust Preferred Securities

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

NOTE 3. - (continued)

Based on current interpretations of the banking regulators, the Debentures qualify under the risk-based capital guidelines of the Federal Reserve as Tier 1 capital, subject to certain limitations. The Debentures are callable by the Company, subject to any required regulatory approvals, at par, in whole or in part, at any time after five years from the date of issuance. The Company's obligations under the Debentures and related documents, taken together, constitute a full, irrevocable and unconditional guarantee on a subordinated basis by the Company of the obligations of BCTI under the preferred capital securities sold by BCTI to investors.

Management has determined that BCTI qualifies as a variable interest entity under FASB Interpretation 46 (FIN 46) Consolidation of Variable Interest Entities, as revised. BCTI issued mandatorily redeemable preferred stock to investors and loaned the proceeds to the Company. Had the transaction occurred in 2003, BCTI would have been included in the Company's consolidated balance sheet and statements of income as of and for the fiscal year ended December 31, 2003. Subsequent to the issuance of FIN 46 in January 2003, the FASB issued a revised interpretation, FIN 46(R) Consolidation of Variable Interest Entities, the provisions of which were to be applied to certain variable interest entities by March 31, 2004.

The Company adopted the provisions under the revised interpretation in the first quarter of 2004. Accordingly, the Company does not consolidate BCTI as of

June 30, 2004. FIN 46(R) precludes consideration of the call option embedded in the preferred stock when determining if the Company has the right to a majority of BCTI's expected residual returns. The deconsolidiation resulted in the Company's investment in the common stock of BCTI to be included in other assets as of June 30, 2004 and the corresponding increase in outstanding debt of $15.46 million. In addition, the income received on the Company's common stock investment in BCTI is included in other income. The adoption of FIN 46(R)) did not have a material impact on the financial position or results of operations of the Company. The Federal Reserve has issued proposed guidance on the regulatory capital treatment for the trust-preferred securities issued by BCTI as a result of the adoption of FIN 46(R). The proposed rule would retain the current maximum percentage of total capital permitted for Trust Preferred Securities at 25%, but would enact other changes to the rules governing Trust Preferred Securities that affect their use as part of the collection of entities known as "restricted core capital elements." The rule would take effect March 31, 2007; however, a three year transition period starting now and leading up to that date would allow bank holding companies to continue to count Trust Preferred Securities as Tier 1 Capital after applying FIN-46(R). Management has evaluated the effects of the proposed rule and does not anticipate a material impact on its capital ratios when the proposed rule is finalized.

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

NOTE 4. Earnings Per Share

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

	For The Three Months Ended				
	June 30, 2004			June 30, 2003	
	Income (numerator)	Shares (denominator)	Per share amount	Income (numerator)	Shares (denominato
	(In thousands, except per share data)				
Basic earnings per share					
Net income available to common stockholders	$1,481	6,631	$.22	$2,308	6,624
Effect of dilutive securities					
Options	--	201	--	--	84
Diluted earnings per share					
Net income available to common stockholders plus					

assumed conversions	$1,481	6,832	$.22	$2,308	6,708

Options to purchase 121,125 shares of common stock for $12.67 per share were outstanding during the three month period ended June 30, 2003. These options were not included in the computation of diluted earnings per share because the option exercise price was greater than the average market price for the Company's common stock during this period.

	For The Six Months Ended				
	June 30, 2004			June 30, 2003	
	Income (numerator)	Shares (denominator)	Per share amount	Income (numerator)	Shares (denominato
	(In thousands, except per share data)				
Basic earnings per share					
Net income available to common stockholders	$3,432	6,627	$.52	$4,050	6,645
Effect of dilutive securities					
Options	--	210	(.02)	--	72
Diluted earnings per share					
Net income available to common stockholders plus assumed conversions	$3,432	6,837	$.50	$4,050	6,717

Options to purchase 121,125 shares of common stock for $12.67 per share were outstanding during the six month periods ended June 30, 2003. These options were not included in the computation of diluted earnings per share because the option exercise price was greater than the average market price for the Company's common stock during this period.

NOTE 5. Investment Securities

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

	June 30, 2004	
	Gross	Gross

	Amortized Cost	unrealized gains	unrealized losses	Fair value
	(In thousands)			
Held To Maturity Investment Securities				
U.S. Government Agencies	$661	$13	$(1)	$673
Totals	$661	$13	$(1)	$673

	December 31, 2003			
	Amortized Cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(In thousands)			
Held To Maturity Investment Securities				
U.S. Government Agencies	$711	$4	$--	$715
Totals	$711	$4	$--	$715

	June 30, 2004			
	Amortized Cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(In thousands)			
Available-For-Sale Investment Securities				
U.S. Treasury and Notes	$ 34,820	$ --	$ (242)	$ 34,578
U.S. Government Agencies	465,480	42	(8,856)	456,666
Mortgage-backed securities	109,756	743	(480)	110,019
Corporate notes	5,756	544	(123)	6,177
Municipal Securities	1,596	162	--	1,758
Marketable equity securities and other	8,590	159	(103)	8,646
Totals	$625,998	$1,650	$(9,804)	$617,844

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

NOTE 5. - (continued)

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

NOTE 6. Loan Portfolio

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

	June 30, 2004		December 31, 2003	
	Amount	% of Total	Amount	% of Total
	(Dollars in thousands)			
Commercial and professional loans	$ 17,320	5.9%	$ 22,228	7.5%
Secured by real estate				
1-4 family	162,166	55.1	169,589	57.4
Multi family	9,714	3.3	6,608	2.2
Non-residential (commercial)	99,402	33.8	94,956	32.1
Consumer	5,484	1.9	2,239	0.8
Total loans	294,086	100.0%	295,620	100.0%
Deferred loan fees	(804)		(864)	
Allowance for loan losses	(2,709)		(2,593)	
Loans, net	$290,573		$292,163	

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

NOTE 7. Deposits

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

	June 30, 2004		December 31, 2003	
	Average Amount	Average Yield	Average Amount	Average Yield
	(Dollars in thousands)			
Demand deposits	$ 37,302	--	$ 32,592	--
NOW and money market	48,339	0.74%	58,723	1.02%
Savings deposits	213,066	1.49	143,094	1.95
Time deposits	320,533	1.93	333,112	2.26
Total deposits	$619,239	1.56%	$567,521	1.78%

NOTE 8. Comprehensive Income

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

	For The Six Months Ended				
	June 30, 2004			June 30, 2003	
	Before tax amount	Tax (expense) benefit	Net of tax Amount	Before tax amount	Tax (expense) benefit
	(In thousands)				
Unrealized gains (losses) on investment securities:					
Unrealized holding gains (losses) arising during period	$(9,745)	$3,898	$(5,847)	$2,420	$(968)
Less reclassification adjustment for gains realized in net income	142	(57)	85	1,486	(594)
Other comprehensive income, net	$(9,603)	$3,841	$(5,762)	$ 934	$(374)

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

NOTE 9. Accounting For Stock Based Compensation

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

		For The Three Months Ended June 30,	
		2004	2003
		(In thousands, except per share amounts)	
Net income	As Reported:	$1,481	$2,308
Less: Stock based compensation costs determined under fair value methods for all awards		--	--
	Pro Forma:	$1,481	$2,308
Basic earnings per share	As Reported:	$ .22	$ .35
	Pro Forma:	.22	.35
Diluted earnings per share	As Reported:	$ .22	$ .34
	Pro Forma:	.22	.34

For The
Six Months Ended
June 30,

		2004	2003
		(In thousands, except per share amounts)	
Net income	As Reported:	$3,432	$4,050
Less: Stock based compensation costs determined under fair value methods for all awards		--	--
	Pro Forma:	$3,432	$4,050
Basic earnings per share	As Reported:	$ .52	$ .61
	Pro Forma:	.50	.61
Diluted earnings per share	As Reported:	$ .52	$ .60
	Pro Forma:	.50	.60

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

NOTE 9. - (continued)

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

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

NOTE 10. Employee Benefit Plans

The Company has a Retirement Income Plan (the "Plan"), a noncontributory plan covering substantially all full-time, non-union United States employees of the Company. The following interim-period information is being provided in accordance with FASB Statement 132(R). (The dollar amounts in the following table are not in thousands.)

	For The Three Months Ended June 30,		For The Six Months Ended June 30,	
	2004	2003	2004	2003
Service cost	$ 62,640	$ 48,791	$118,640	$ 97,852
Interest cost	30,750	26,803	59,500	53,606
Expected return on plan assets	(37,550)	(30,871)	(75,050)	(61,742)
Amortization and Deferral:				
Transition amount	--	--	--	--
Prior service cost	4,625	4,593	9,125	9,186
(Gain)/loss	5,350	6,210	8,350	12,420
Net periodic pension cost	65,815	55,526	120,565	111,052

During the fiscal year ending December 31, 2004, we expect to contribute approximately $110,000 to the Plan. We are, however, evaluating the impact of the Pension Funding Equity Act enacted in April 2004 on our projected funding. We did not make any contributions, required or otherwise, to the Plan in the three and six months ended June 30, 2004.

NOTE 11. New Accounting Pronouncements

Loan Commitments Accounted for as Derivative Instruments

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

Other-Than-Temporary Impairment

In November 2003, the Emerging Issues Task Force (EITF) of the FASB issued EITF Abstract 03-1, The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments (EITF 03-1). The quantitative and qualitative disclosure provisions of EITF 03-1 were effective for years ending after December 15, 2003 and were included in the Company's 2003 Form 10-K. In March 2004, the EITF issued a Consensus on Issue 03-1 requiring that the provisions of EITF 03-1 be applied for reporting periods beginning after June 15, 2004 to investments accounted for under SFAS No. 115 and 124. EITF 03-1 establishes a three-step approach for determining whether an investment is considered impaired, whether that impairment is other-than-temporary, and the measurement of an impairment loss. The Company is in the process of determining the impact that this EITF will have on its financial statements.

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

The following discussion and analysis is intended to provide a better understanding of the consolidated financial condition and results of operations of Berkshire Bancorp Inc., a Delaware corporation. References herein to "Berkshire", the "Company" or "we" and similar pronouns, shall be deemed to refer to the Company and its consolidated subsidiaries unless the context otherwise requires. References to per share amounts refer to diluted shares. References to per share amounts for the three and six months ended June 30, 2003 have been revised to reflect the one-for-ten reverse stock split and thirty-for-one forward stock split in the form of a 3000% stock dividend which occurred on May 18, 2004 (see Note 2). References to Notes herein are references to the "Notes to Consolidated Financial Statements" of the Company located in Item 1 herein.

Critical Accounting Policies, Judgments and Estimates

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

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

With the adoption of SFAS No. 142 on January 1, 2002, the Company discontinued the amortization of goodwill resulting from acquisitions. Goodwill is now subject to impairment testing at least annually to determine whether write-downs of the recorded balances are necessary. The Company tests for impairment based on the goodwill maintained at each defined reporting unit. A fair value is determined for each reporting unit based on at least one of three various market valuation methodologies. If the fair values of the reporting units exceed their book values, no write-down of recorded goodwill is necessary. If the fair value of the reporting unit is less, an expense may be required on the Company's books to write down the related goodwill to the proper carrying value. As of December 31, 2003, the Company completed its transitional testing, 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.

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

	For The Three Months Ended June 30,					
	2004			2003		
	Average Balance	Interest and Dividends	Average Yield/Rate	Average Balance	Interest and Dividends	Y
	(Dollars in Thousands)					
INTEREST-EARNING ASSETS:						
Loans (1)	$293,528	$4,596	6.26%	$275,235	$4,707	
Investment securities	625,862	5,021	3.21	422,479	3,758	
Other (2)(5)	3,151	9	1.14	4,670	15	
Total interest-earning assets	922,541	9,626	4.17	702,384	8,480	
Noninterest-earning assets	37,352			37,508		
Total Assets	959,893			739,892		
INTEREST-BEARING LIABILITIES:						
Interest bearing deposits	263,615	852	1.29%	180,669	636	
Time deposits	320,985	1,539	1.92	321,928	1,977	
Other borrowings	225,964	1,405	2.49	99,295	782	
Total interest-bearing liabilities	810,654	3,796	1.87	601,892	3,395	
Demand deposits	37,406			29,826		
Noninterest-bearing liabilities	7,078			7,775		
Stockholders' equity (5)	104,755			100,399		

Total liabilities and stockholders' equity	959,893			739,892	
Net interest income		5,830			5,085
Interest-rate spread (3)			2.30%		
Net interest margin (4)			2.53%		
Ratio of average interest-earning assets to average interest bearing liabilities	1.14			1.17	

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(1) Includes nonaccrual loans.

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

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

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

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

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For The Six Months Ended June 30,

	2004			2003		
	Average Balance	Interest and Dividends	Average Yield/Rate	Average Balance	Interest and Dividends	Y
	(Dollars in Thousands)					
INTEREST-EARNING ASSETS:						
Loans (1)	$293,484	$ 9,445	6.44%	$275,090	$ 9,464	
Investment securities	607,911	9,807	3.23	406,193	7,368	
Other (2)(5)	2,621	12	0.92	5,383	26	
Total interest-earning assets	904,016	19,264	4.26	686,666	16,858	
Noninterest-earning assets	37,527			36,897		
Total Assets	941,543			723,563		

INTEREST-BEARING LIABILITIES:					
Interest bearing deposits	261,404	1,749	1.34%	162,780	1,112
Time deposits	320,533	3,097	1.93	319,698	4,083
Other borrowings	210,640	2,670	2.54	102,744	1,588
Total interest-bearing liabilities	792,577	7,516	1.90	585,222	6,783
Demand deposits	37,302			30,016	
Noninterest-bearing liabilities	7,215			8,454	
Stockholders' equity (5)	104,449			99,871	
Total liabilities and stockholders' equity	941,543			723,563	
Net interest income		11,748			10,075
Interest-rate spread (3)			2.36%		
Net interest margin (4)			2.60%		
Ratio of average interest-earning assets to average interest bearing liabilities	1.14			1.17	

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(1) Includes nonaccrual loans.

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

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

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

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

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Results of Operations

Results of Operations for the Three and Six Months Ended June 30, 2004 Compared to the Three and Six Months Ended June 30, 2003.

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

Net Income. Net income for the three-month period ended June 30, 2004 was $1.48 million, or $.22 per share, as compared to $2.31 million, or $.34 per share, for the three-month period ended June 30, 2003. Net income for the six-month period ended June 30, 2004 was $3.43 million, or $.50 per share, as compared to $4.05 million, or $.60 per share, for the six-month period ended June 30, 2003. The decline in net income in the three and six months of 2004 compared to the three and six months of 2003 is primarily due to the atypically large realized gains we recorded in our investment securities portfolio during the first six months of 2003.

Our net income is largely dependent on interest rate levels, the demand for our loan and deposit products and the strategies we employ to manage the interest rate risks inherent in the banking business. From June 2003 through June 2004, interest rates, as measured by the prime rate, remained constant at 4.00%. In July 2004, inflation fighting action taken by the Federal Reserve Board resulted in an increase in the prime rate to 4.25%, the first such increase in four years. During the next six months, we believe that the cost of attracting and retaining deposited funds will be an increasing expense in the highly competitive banking industry.

Net Interest Income. The Company's primary source of revenue is net interest income, or the difference between interest income on earning assets such as loans and investment securities, and interest expense on interest-bearing liabilities such as deposits and borrowings.

For the quarter ended June 30, 2004, net interest income increased by $745,000, or 14.65%, to $5.83 million from $5.09 million for the quarter ended June 30, 2003. The quarter over quarter increase in net interest income was the result of the 31.34% growth in average interest-earning assets to $922.54 million from $702.38 million, the difference between the yield on assets compared to the cost of liabilities, and the $7.58 million, or 25.41% increase in non interest-bearing demand deposits to $37.41 million from $29.83 million. Partially offsetting these factors was the 34.68% increase in average interest-bearing liabilities to $810.64 million in the 2004 quarter from $601.89 million in the 2003 quarter.

For the quarter ended June 30, 2004, the average yield on the average balance of total interest-earning assets continued to trend lower, as it has for the past several years. The yield eased to 4.17% in the 2004 quarter from 4.83% in the 2003 quarter, a decline of 66 basis points or 13.66%. Following a similar trend, the average cost of the average balance of interest-bearing liabilities fell to 1.87% from 2.26%, a decline of 39 basis points, or 17.26%. The interest-rate spread, the difference between the average yield on interest-earning assets and the average cost of interest bearing liabilities, which has a direct impact on net interest income, eased by 27 basis points to 2.30% from 2.57%.

For the six-month period ended June 30, 2004, net interest income increased by $1.67 million, or 16.61%, to $11.75 million from $10.08 million for the six-month period ended June 30, 2003. The period over period increase in net interest income was the result of the 31.65% growth in average interest-earning assets to $904.02 million in the 2004 period from $686.67 million in the 2003 period and the difference between the yield on assets compared to the cost of liabilities. In the first six months of 2004, the average yield on average balances of total interest-earning assets declined by 65 basis points, or 13.24%, to 4.26% from 4.91% in the first six months of 2003. The average cost of the average balance of interest-bearing liabilities declined by 42 basis points, or 18.10%, to 1.90% in the 2004 period from 2.32% in the 2003 period. The interest-rate spread eased by 23 basis points to 2.36% from 2.59%. The increase in net interest income in 2004 compared to 2003 was partially offset by the 35.43% growth in average interest-bearing liabilities to $792.58 million from $585.22 million.

Net Interest Margin. Net interest margin, or annualized net interest income as a percentage of average interest-earning assets, declined by 37 basis points to 2.53% in the second quarter of 2004 from 2.90% in the second quarter of 2003, and declined by 33 basis points to 2.60% in the six-month period of 2004 from 2.93% in the six-month period of 2003. We seek to secure and retain customer deposits with competitive products and rates, and to make strategic use of the prevailing interest rate environment to borrow funds at what we believe to be attractive rates. We invest such deposits and borrowed funds in a prudent mix of loans and investment securities which provided an average yield of 4.17% and 4.26%, respectively, in the three and six months ended June 30, 2004, compared to 4.83% and 4.91%, respectively, in the three and six months ended June 30, 2003.

For the three ended June 30, 2004, total average interest-earnings assets were $922.54 million compared to $702.38 million for the three months ended June 30, 2003. The average amounts of loans and investment securities increased by $18.29 million and $203.38 million, respectively, to $293.53 million and $625.86 million, respectively. The average yield on loans and investment securities declined to 6.26% and 3.21%, respectively, in the 2004 quarter from 6.84% and 3.56%, respectively, in the 2003 quarter.

For the six months ended June 30, 2004, total average interest-earning assets were $904.02 million compared to $686.67 million for the six months ended June 30, 2003. The average amounts of loans and investment securities increased by $18.39 million and $201.72 million, respectively, to $293.48 million and $607.91 million, respectively. The average yield on loans and investment securities declined to 6.44% and 3.23%, respectively, during the first six months of 2004 from 6.88% and 3.63%, respectively, during the first six months of 2003.

Interest Income. Total interest income for the quarter ended June 30, 2004 increased by $1.15 million, or 13.51%, to $9.63 million from $8.48 million for the quarter ended June 30, 2003. The increase was due to higher average balances of loans and investments securities, offset by the declining yields on such interest-earning assets. The loan portfolio yielded 6.26% and contributed $4.60 million, or 47.75% of total interest income in the 2004 quarter, compared to a yield of 6.84% on loans in the year ago quarter and interest income of $4.71 million, or 55.51% of total interest income in the 2003 quarter. Investment securities yielded 3.21% and contributed $5.02 million, or 52.16% of total interest income in the 2004 quarter, compared to a yield of 3.56% on investment securities and interest income of $3.76 million, or 44.32% of total interest income in the 2003 quarter.

Total interest income for the six-month period ended June 30, 2004 increased by $2.41 million, or 14.27%, to $19.26 million from $16.86 million for the six-month period ended June 30, 2003. The increase was due to higher average balances of loans and investments securities, offset by the declining yields on such interest-earning assets. The loan portfolio yielded 6.44% and contributed $9.45 million, or 49.03% of total interest income during the first six months of 2004, compared to a yield of 6.88% on loans in the year ago six months and interest income of $9.46 million, or 56.14% of total interest income. Investment securities yielded 3.23% and contributed $9.81 million, or 50.91% of total

interest income during the six-month period ended June 30, 2004, compared to a yield of 3.63% on investment securities and interest income of $7.37 million, or 43.71% of total interest income during the six-month period ended June 30, 2003.

Loans, which are inherently risky and therefore command a higher return than our conservative portfolio of investment securities, have declined as a percentage of total average interest-earning assets. During the first six months of 2004, the average balances of the Company's loan portfolio and investment securities represented 32.46% and 67.24%, respectively, of total average interest-earning assets, compared to 40.06% and 59.15%, respectively, during the first six months of 2003.

Interest Expense. Total interest expense in the quarter ended June 30, 2004 increased by $401,000 to $3.80 million from $3.40 million in the quarter ended June 30, 2003. The increase is due to the increase in interest bearing deposits, which increased to $263.62 million in the 2004 quarter from $180.67 in the 2003 quarter, and the $126.67 million increase in borrowings to $225.96 million in the 2004 quarter from $99.30 million in the 2003 quarter. The average rate paid on total interest bearing liabilities, including time deposits, declined by 39 basis points to 1.87% from 2.26%.

Total interest expense for the six-month period ended June 30, 2004 increased by $733,000, or 10.81%, to $7.52 million in the 2004 period from $6.78 million in the 2003 period. Total average interest-bearing liabilities increased by 35.43%, averaging $792.58 million and $585.22 million during the first six months of 2004 and 2003, respectively. The average cost of interest-bearing liabilities declined to 1.90% in 2004 from 2.32% in 2003. If interest rates rise, as is widely expected, our cost to attract and retain deposits and our cost of borrowed funds will increase as well.

Non-Interest Income. Non-interest income consists primarily of realized gains on sales of marketable securities and service fee income. For the three and six months ended June 30, 2004, non-interest income decreased to $251,000 and $669,000, respectively, from $1.80 million and $2.79 million for the three and six months ended June 30, 2003, respectively. In 2003, we recorded three and six month gains of $1.49 million and $2.12 million, respectively, on the sales and issuer redemptions of investment securities. Such gains amounted to $49,000 and $142,000 in the three and six months ended June 30, 2004, respectively.

Non-Interest Expense. Non-interest expense includes salaries and employee benefits, occupancy and equipment expenses, legal and professional fees and other operating expenses associated with the day-to-day operations of the Company. Total non-interest expense for the three and six-month periods ended June 30, 2004 was $3.17 million and $6.13 million, respectively, compared to $2.73 million and $5.44 million in the three and six month-periods ended June 30, 2003, respectively. In July 2004, we settled a cancelled lease for the Bank's former headquarters in an amount which was less than the full amount remaining on the lease. The Company recorded the remaining $175,000 to recognize the full settlement amount which was paid in August 2004. This additional amount was recorded in other non-interest expense for the three and six months ended June 30, 2004.

Provision for Income Tax. During the three and six-month periods ended June 30, 2004, the Company recorded income tax expense of $1.38 million and $2.76 million, respectively, compared to income tax expense of $1.80 million and $3.22 million, respectively, for the three and six-month periods ended June 30, 2003. The tax provisions for federal, state and local taxes recorded for the first six month of 2004 and 2003 represent effective tax rates of 44.58% and 44.32%, respectively.

Common Stock Repurchases

On May 15, 2003, The Company's Board of Directors authorized the purchase of up to an additional 450,000 shares of its Common Stock in the open market, from time to time, depending upon prevailing market conditions, thereby increasing the maximum number of shares which may be purchased by the Company from 1,950,000 shares of Common Stock to 2,400,000 shares of Common Stock. Since 1990 through December 31, 2003, the Company has purchased a total of 1,844,646 shares of its Common Stock. At June 30, 2004, there were 551,091 shares of Common Stock which may yet be purchased under our stock repurchase plan. The following table sets forth information with respect to such purchases during the periods indicated.

Fiscal Year 2004

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

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.

As additional interest rate management strategy, the Bank borrows funds from the Federal Home Loan Bank, approximately $86.7 million at June 30, 2004, at fixed rates for a period of one to five years.

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 June 30, 2004
(in thousands, except for percentages)

	3 Months or Less	3 Through 12 Months	1 Through 3 Years	Over 3 Years	Total
Federal funds sold	10,000	--	--	--	10,000
(Rate)	1.31%				1.31
Interest bearing deposits in banks	273	--	--	--	273
(Rate)	0.28%				0.28%
Loans (1)(2)					
Adjustable rate loans	49,376	18,063	9,102	15,321	91,862
(Rate)	5.30%	4.52%	7.13%	6.90%	5.59%
Fixed rate loans	3,804	5,933	13,053	179,434	202,224
(Rate)	8.54%	7.49%	6.61%	6.35%	6.44%
Total loans	53,180	23,996	22,155	194,755	294,086
Investments (3)(4)	90,522	101,044	156,478	270,461	618,505
(Rate)	4.39%	3.51%	2.85%	4.37%	3.85%
Total rate-sensitive assets	143,975	125,040	178,633	465,216	912,864
Deposit accounts (5)					
Savings and NOW	239,440	--	--	--	239,440
(Rate)	1.40%				1.40%
Money market	25,532	--	--	--	25,532
(Rate)	0.65%				0.65%

Time Deposits		127,363	155,794	29,095	2,067	314,319
	(Rate)	1.79%	1.93%	2.46%	1.98%	1.92%
Total deposit accounts		392,335	155,794	29,095	2,067	579,291
Repurchase Agreements		49,583	56,638	35,000	3,000	144,221
	(Rate)	1.26%	1.50%	2.77%	3.52%	1.77%
Other borrowings		--	--	38,193	63,516	101,709
	(Rate)			3.65%	3.94%	3.83%
Total rate-sensitive liabilities		441,918	212,432	102,288	68,583	825,221
Interest rate caps		25,000	(5,000)		(20,000)	
Gap (repricing differences)		(322,943)	(82,392)	76,345	416,633	87,643
Cumulative Gap		(322,943)	(405,335)	(328,990)	87,643	
Cumulative Gap to Total Rate Sensitive Assets		(35.38)%	(44.40)%	(36.04)%	9.60%	

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(1) Adjustable-rate loans are included in the period in which the interest rates are next scheduled to adjust rather than in the period in which the loans mature. Fixed-rate loans are scheduled according to their maturity dates.

(2) Includes nonaccrual loans.

(3) Investments are scheduled according to their respective repricing (variable rate loans) and maturity (fixed rate securities) dates.

(4) Investments are stated at book value.

(5) NOW accounts and savings accounts are regarded as readily accessible withdrawal accounts. The balances in such accounts have been allocated among maturity/repricing periods based upon The Berkshire Bank's historical experience. All other time accounts are scheduled according to their respective maturity dates.

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

The allowance for loan watch list classified loans addresses those loans maintained on the Company's loan watch list, which are assigned a rating of substandard, doubtful, or loss. Substandard loans are those with a well-defined weakness or a weakness, which jeopardizes the repayment of the debt. A loan may be classified as substandard as a result of impairment of the borrower's financial condition and repayment capacity. Loans for which repayment plans have not been met or collateral equity margins do not protect the Company may also be classified as substandard. Doubtful loans have the characteristics of substandard loans with the added characteristic that collection or liquidation in full, on the basis of presently existing facts and conditions, is highly improbable. Although the possibility of loss is extremely high for doubtful loans, the classification of loss is deferred until pending factors, which might improve the loan, have been determined. Loans rated as doubtful in whole or in part are placed in nonaccrual status. Loans, which are classified as loss, are considered uncollectible and are charged to the allowance for loan losses. There were no loans classified as loss as of June 30, 2004.

For the three and six months ended June 30, 2004, we charged-off loans of $1,000 and $1,000, respectively, and recovered loans of $4,000 and $27,000, respectively, which amounts were returned to the provision for loan loss reserves.

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 June 30, 2004 and 2003, we had a total of $450,000 and $277,000, respectively, of non accrual or non performing loans, and no loans past due more than 90 days and still accruing interest at either date. 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 $293.28 million from $272.12 million, the provision for the six months ended June 30, 2004 was increased to $2.71 million from $2.47 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 June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Average loans outstanding	$293,528	$275,235	$293,484	$275,090
Allowance at beginning of period	2,661	2,421	2,593	2,315
Charge-offs:				
Commercial and other loans	1	1	1	2
Real estate loans	--	--	--	--
Total loans charged-off	1	1	1	2
Recoveries:				
Commercial and other loans	4	3	27	5
Real estate loans	--	--	--	--
Total loans recovered	4	3	27	5
Net recoveries (charge-offs)	3	2	26	3
Provision for loan losses charged to operating expenses	45	45	90	150
Allowance at end of period	2,709	2,468	2,709	2,468
Ratio of net recoveries (charge-offs) to average loans outstanding	0.00%	0.00%	0.00%	0.00%
Allowance as a percent of total loans	0.92%	0.91%	0.92%	0.91%
Total loans at end of period	$293,282	$272,120	$293,282	$272,120

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 June 30, 2004, the Company had total gross loans of $294.09 million and an allowance for loan losses of $2.71 million. From time to time, the Bank may originate residential mortgage loans and then sell them on the secondary market, normally recognizing fee income in connection with the sale. For the three and six-month periods ended June 30, 2004, the Company sold approximately $665,000 and $4.29 million, respectively, of such loans and recorded in other income, gains of $7,000 and $69,000, respectively, on such sales.

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

	June 30, 2004	December 31, 2003
	Amount	Amount
	(in thousands)	
Commercial and professional loans	$ 17,320	$ 22,228
Secured by real estate		
1-4 family	162,166	169,589
Multi family	9,714	6,608
Non-residential (commercial)	99,402	94,956
Consumer	5,484	2,239
Total loans	294,086	295,620
Less:		
Deferred loan fees	(804)	(864)
Allowance for loan losses	(2,709)	(2,593)
Loans, net	$290,573	$292,163

It is the Bank's policy to discontinue accruing interest on a loan when it is 90 days past due or if management believes that continued interest accruals are unjustified. The Bank may continue interest accruals if a loan is more than 90 days past due if the Bank determines that the nature of the delinquency and the collateral are such that collection of the principal and interest on the loan in full is reasonably assured. When the accrual of interest is discontinued, all accrued but unpaid interest is charged against current period income. Once the accrual of interest is discontinued, the Bank records interest as and when received until the loan is restored to accruing status. If the Bank determines that collection of the loan in full is in reasonable doubt, then amounts received are recorded as a reduction of principal until the loan is returned to accruing status. At June 30, 2004 and 2003, the Company did not have any 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 Bank to maintain minimum amounts and ratios of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and Tier I capital (as defined) to average assets (as defined). As of June 30, 2004, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain certain Total risk-based, Tier I risk-based, and Tier I leverage ratios. There are no conditions or events since the notification that management believes have changed the Bank's category.

The following tables set forth the actual and required regulatory capital amounts and ratios of the Company and the Bank as of June 30, 2004 and December 31, 2003 (dollars in thousands):

	Actual		For capital adequacy purposes		To be well capitalized under prompt corrective action provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
June 30, 2004						
Total Capital (to Risk-Weighted Assets)						
Company	89,685	25.3%	28,357	>=8.0%	--	N/A
Bank	79,075	23.7%	26,644	>=8.0%	33,305	>=10.0%
Tier I Capital (to Risk-Weighted Assets)						
Company	86,976	24.5%	14,179	>=4.0%	--	N/A
Bank	76,366	22.9%	13,322	>=4.0%	19,983	>=6.0%
Tier I Capital (to Average Assets)						
Company	86,976	9.2%	36,920	>=4.0%	--	N/A
Bank	76,366	8.3%	37,596	>=4.0%	46,995	>=5.0%

	Actual		For capital adequacy purposes		To be well capitalized unde prompt correctiv action provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio

December 31, 2003						
Total Capital (to Risk-Weighted Assets)						
Company	$86,759	26.1%	$26,630	>=8.0%	--	N/A
Bank	60,675	19.1%	25,417	>=8.0%	31,772	>=10.0
Tier I Capital (to Risk-Weighted Assets)						
Company	84,166	25.3%	13,315	>=4.0%	--	N/A
Bank	58,082	18.3%	12,709	>=4.0%	19,063	>=6.0
Tier I Capital (to Average Assets)						
Company	84,166	10.7%	31,410	>=4.0%	--	N/A
Bank	58,082	7.0%	33,391	>=4.0%	41,739	>=5.0

The recent issuance of trust preferred securities improved the Company's capital ratios in the second quarter of 2004. The banking regulators have not issued any guidance that would change the regulatory capital treatment for the trust preferred securities that are now outstanding, based on the adoption of FIN46(R). However, as additional interpretations from the banking regulators become available, management will re-evaluate the potential impact to its Tier 1 capital calculation of such interpretations.

The Company is not under any agreement with regulatory authorities nor is the Company aware of any current recommendations by the regulatory authorities, which, if such recommendations were implemented, would have a material effect on liquidity, capital resources or operations of the Company.

Liquidity

The management of the Company's liquidity focuses on ensuring that sufficient funds are available to meet loan funding commitments, withdrawals from deposit accounts, the repayment of borrowed funds, and ensuring that the Bank and the Company comply with regulatory liquidity requirements. Liquidity needs of the Bank have historically been met by deposits, investments in federal funds sold, principal and interest payments on loans, and maturities of investment securities.

For the Company, liquidity means having cash available to fund operating expenses, to pay shareholder dividends, when and if declared by the Company's Board of Directors and to pay the interest on the Debentures issued in May 2004. The ability of the Company to meet all of its obligations, including the payment of dividends, is not dependent upon the receipt of dividends from the Bank. At June 30, 2004, the Company, excluding the Bank, had cash and cash equivalents of $6.13 million and investment securities available for sale of $8.78 million.

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

At June 30, 2004, the Company had outstanding commitments of approximately $19.62 million. These commitments include $13.31 million that mature or renew within one year, $3.75 million that mature or renew after one year and within three years, $482,000 that mature or renew after three years and within five years and $2.08 million that mature or renew after five years.

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

Impact of Inflation and Changing Prices

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

ITEM 4 - CONTROLS AND PROCEDURES

Evaluation of the Company's Disclosure Controls and Internal Control. As of the end of the period covered by this Quarterly Report on Form 10-Q, the Company evaluated the effectiveness of the design and operation of its "disclosure controls and procedures" as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934 ("Disclosure Controls"). This evaluation ("Controls Evaluation") was done under the supervision and with the participation of management, including the Chief Executive Officer ("CEO") who is also the Chief Financial Officer ("CFO").

Limitations on the Effectiveness of Controls. The Company's management, including the CEO/CFO, does not expect that its Disclosure Controls and/or its "internal control over financial reporting" as defined in Rule 13(a)-15(f) of the Securities Exchange Act of 1934 ("Internal Control") will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Conclusions. Based upon the Controls Evaluation, the CEO/CFO has concluded that, subject to the limitations noted above, the Disclosure Controls are effective in reaching a reasonable level of assurance that information required to be disclosed by the Company is recorded, processed, summarized and reported within the time period specified in the Securities and Exchange Commission's rules and forms. In accordance with SEC requirements, the CEO/CFO notes that during the fiscal quarter ended June 30, 2004, no changes in Internal Control have occurred that have materially affected or are reasonably likely to materially affect Internal Control.

PART II. OTHER INFORMATION

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

The 2004 Annual Meeting of Stockholders was held on May 18, 2004. Each of the five individuals nominated to serve as directors of the Company was elected:

Director	Shares For	Shares Withheld
William L. Cohen	1,466,093	3,196
Thomas V. Guarino	1,466,043	3,246
Moses Marx	1,467,161	2,128
Steven Rosenberg	1,467,271	2,018
Randolph B. Stockwell	1,466,103	3,186

At the Annual Meeting the stockholders also voted in favor of an amendment to the Company's Certificate of Incorporation effecting a one-for-ten reverse stock split of the Company's issued and outstanding shares of Common Stock. (See Note 2 of Notes to Consolidated Financial Statements for further information on the stock split and subsequent stock dividend).

The vote was as follows:

	Shares
For	1,461,729
Against	6,163
Abstain	1,397
Unvoted	0

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

a. Exhibits

b. Reports on Form 8-K

None

Exhibit Number	Description
3.1	Amendment to Certificate of Incorporation dated May 18, 2004.
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: August 11, 2004

By: /s/ Steven Rosenberg

Steven Rosenberg
President and Chief
Financial Officer

EXHIBIT INDEX

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STATEMENT OF DIFFERENCES

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