BERKSHIRE BANCORP INC /DE/
Form 10-Q
August 14, 2001

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, 2001

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 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

As of August 10, 2001, there were 2,442,858 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, (ix) the Company's ability to integrate the operations of its newly acquired bank, 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, 2001
ASSETS	
Cash and due from banks	$ 4,624
Interest bearing deposits	1,856
Federal funds sold	8,500
Total cash and cash equivalents	14,980
Investment Securities:	
Available-for-sale	155,551
Held-to-maturity	2,219
Total investment securities	157,770
Loans, net of unearned income	232,772
Less: allowance for loan losses	(1,860)
Net loans	230,912
Accrued interest receivable	2,620
Premises and equipment, net	7,252
Prepaid expenses and other	4,209
Goodwill, net of amortization of $1,786 in 2001 and $1,365 in 2000	18,951
Total assets	$ 436,694
LIABILITIES AND STOCKHOLDERS' EQUITY	
Deposits:	
Non-interest bearing	$ 25,446
Interest bearing	278,044
Total deposits	303,490
Securities sold under agreements to repurchase	10,734
Long term borrowings	19,500
Accrued interest payable	2,574
Other liabilities	2,543
Total liabilities	338,841
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 --	
June 30, 2001, 2,481,258 shares	
December 31, 2000, 2,127,265 shares	256
Additional paid-in capital	89,935
Accumulated other comprehensive (loss), net	(54)
Retained earnings	9,428
Less: Common stock in treasury - at cost:	
June 30, 2001, 84,837 shares	

December 31, 2000, 610,470 shares	(1,712)
Total stockholders' equity	97,853
	$ 436,694

The accompanying notes are an integral part of this statement.

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

	For The Three Months Ended June 30,		Si
	2001	2000	2001
INTEREST INCOME			
Short-term interest-earning assets	$ 179	$ 432	$ 47
Securities and other investments	2,354	1,490	4,08
Loans	4,256	1,614	5,95
Total interest income	6,789	3,536	10,51
INTEREST EXPENSE			
Deposits	3,072	1,021	4,56
Borrowings	459	185	67
Total interest expense	3,531	1,206	5,24
Net interest income	3,258	2,330	5,27
PROVISION FOR LOAN LOSSES	37	--	4
Net interest income after provision for loan losses	3,221	2,330	5,22
NON-INTEREST INCOME			
Investment securities gains	480	--	48
Other income	258	116	42

Total non-interest income	738	116	90
NON-INTEREST EXPENSE			
Salaries and employee benefits	1,079	551	1,69
Net occupancy expense	289	109	47
Equipment expense	66	24	9
FDIC assessment	8	10	1
Data processing expense	62	5	6
Amortization of goodwill	262	135	42
Other	560	622	82
Total non-interest expense	2,326	1,456	3,59
Income before provision for taxes	1,633	990	2,54
Provision for income taxes	705	468	1,20
Net income	$ 928	$ 522	$ 1,33
Net income per share:			
Basic	$ .37	$ .24	$ .6
Diluted	$ .37	$ .24	$ .6

The accompanying notes are an integral part of this statement.

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

For The Six Months Ended June 30, 2001
(In Thousands)

	Common Shares	Stock Par value	Additional paid-in capital	Accumulated other comprehensive (loss), net	Accum-lated earnings (deficit)	Tr s
Balance at December 31, 2000	2,566	$256	$78,549	$(85)	$ 8,352	$
Net income					1,334	
Treasury shares issued for acquisition of GSB Financial Corp			11,386			

Acquisition of treasury shares						
Other comprehensive income net of reclassification adjustment and taxes				31		
Comprehensive income						
Cash dividends					(258)	
Balance at June 30, 2001 (Unaudited)	2,566	$256	$89,935	$(54)	$ 9,428	$

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)

Cash flows from operating activities:
Net income
Adjustments to reconcile net income to net cash provided by (used in) operating activities:
Gain on investment securities
Depreciation and amortization and other
Provision for loan losses
Changes in assets and liabilities:
(Increase) in accrued interest receivable
(Increase) decrease in prepaid expenses and other
Increase (decrease) in accrued interest payable and other liabilities

Net cash provided by (used in) operating activities

Cash flows from investing activities:
Investment in Madison Merchant Services, Inc.
Investment in The Berkshire Bank
Cash paid for business acquired
Cash of entity acquired
Investment securities available for sale
Purchases
Sales
Investment securities held to maturity
Purchases
Sales
Net increase in loans
Acquisition of premises and equipment

Net cash (used in) investing activities

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

Cash flows from financing activities:
Net increase (decrease) in non interest bearing deposits
Net increase (decrease) in interest bearing deposits
(Decrease) increase in securities sold under agreements to repurchase
Repayment of long term debt
Acquisition of treasury stock
Proceeds from exercise of common stock options
Dividends paid

Net cash provided by financing activities

Net decrease in cash
Cash - beginning of period

Cash - end of period

Supplemental cash flow information:
  Cash used to pay interest
  Cash used to pay taxes

The accompanying notes are an integral part of this statement.

BERKSHIRE BANCORP INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
June 30, 2001 and 2000

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, 2000 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, 2001 and December 31, 2000 and the consolidated results of its operations for the three and six month periods ended June 30, 2001 and 2000, and its consolidated stockholders' equity for the six month period ended June 30, 2001, and its consolidated cash flows for the six month periods ended June 30, 2001 and 2000.

NOTE 2. - Acquisitions

GSB Financial Corporation/Goshen Savings Bank. On March 30, 2001, Berkshire, through its wholly-owned subsidiaries, The Berkshire Bank and Greater American Finance Group, Inc., completed its merger with GSB Financial Corporation ("GSB Financial"). Under the terms of the merger, 978,032 shares of GSB Financial common stock were converted into 589,460 shares of Berkshire common stock, and 974,338 shares of GSB Financial common stock were purchased for $20.75 per share, totaling approximately $20.2 million. This transaction was accounted for under the purchase method of accounting. Goodwill of $7.5 million will be amortized over a 15 year period. The results of GSB Financial's operations have been included in the Company's balances commencing April 1, 2001.

NOTE 2. - (continued)

The following represents the unaudited pro forma results of operations of the Company as if the merger had occurred on the first date of the period indicated. This pro forma information should be read in conjunction with the related historical information and is not necessarily indicative of the results that would have been attained had the merger actually been consummated on the dates indicated, nor are they necessarily indicative of our future operating results.

	For The Six Months Ended June 30, 2001	For The Ye December
	(In thousands)	
Interest income	$ 13,599	$ 26
Interest expense	7,050	12
Net interest income	6,549	13
Provision for loan losses	297	
Non-interest income	1,011	15
Non-interest expense	4,654	8
Net income	$ 1,286	$ 12

NOTE 3. Earnings Per Share

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

For The Three Months Ended

	June 30, 2001			
	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	$ 928	2,502	$ .37	$ 522
Effect of dilutive securities				
Options	--	1	.--	--
Diluted earnings per share				
Net income available to common stockholders plus assumed conversions	$ 928	2,503	$ .37	$ 522

Options to purchase 123,871 and 44,875 shares of common stock for up to $38.00 per share were outstanding during the three month periods ended June 30, 2001 and 2000, respectively. These options were not included in the computation of diluted earnings per share because the option exercise price was greater than the average market price for the Company's common stock during this period.

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NOTE 3. (continued)

	For The Six Months Ended			
	June 30, 2001			
	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	$ 1,334	2,228	$ .60	$ 9,563
Effect of dilutive securities				
Options	--	1	.	--
Diluted earnings per share				
Net income available to common stockholders plus assumed conversions	$ 1,334	2,229	$ .60	$ 9,563

Options to purchase 123,871 and 44,875 shares of common stock for up to $38.00 per share were outstanding during the six month periods ended June 30, 2001 and 2000, 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.

NOTE 4. Investment Securities

The following tables summarize held to maturity and available-for-sale investment securities as of June 30, 2001 and December 31, 2000:

	June 30, 2001		
	Amortized Cost	Gross unrealized gains	Gross unrealized losses
		(In thousands)	
Held To Maturity Investment Securities			
U.S. Government Agencies	$ 1,719	$ 2	$ --
Corporate notes	500	--	(12)
Totals	$ 2,219	$ 2	$ (12)

	December 31, 2000		
	Amortized Cost	Gross unrealized gains	Gross unrealized losses
		(In thousands)	
Held To Maturity Investment Securities			

U.S. Government Agencies	$ 296	$ --	$ (2)
Corporate notes	20,455	--	(47)
Totals	$20,751	$ --	$ (49)

NOTE 4. (continued)

	June 30, 2001		
	Amortized Cost	Gross unrealized gains	Gross unrealized losses
	(In thousands)		
Available-For-Sale Investment Securities			
U.S. Treasury and U.S. Government Agencies	$147,847	$ --	$ (98)
Mortgage-backed securities	2,905	24	--
Corporate notes	1,072	--	(145)
Marketable equity securities and other	3,778	168	--
Totals	$155,602	$ 192	$ (243)

	December 31, 2000		
	Amortized Cost	Gross unrealized gains	Gross unrealized losses
	(In thousands)		

Available-For-Sale			
Investment securities			
U.S. Treasury and U.S. Government Agencies	$ 86,064	$ 76	$ (188)
Mortgage-backed securities	4,208	--	(9)
Corporate Notes	1,654	9	(350)
Marketable equity securities and other	4,813	150	(118)
Totals	$ 96,739	$ 235	$ (665)

NOTE 5. Loan Portfolio

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

	June 30, 2001		December 31,	
	Amount	% of Total	Amount	% T
Commercial and professional loans	$ 25,613	11.0%	$ 8,920	
Secured by real estate	202,808	87.1	65,409	
Consumer	3,951	1.7	794	
Other	400	0.2	500	
Total loans	232,772	100.0%	75,623	1
Less:				
Allowance for loan losses	(1,860)		(1,108)	
Loans, net	$230,912		$ 74,515	

NOTE 6. Deposits

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

	June 30, 2001 Average Amount	June 30, 2001 Average Yield	December 31, 2000 Average Amount	December 31, 2000 Average Yield
	(Dollars in thousands)			
Demand deposits	$ 16,900	--	$ 14,848	--
NOW and money market	40,922	3.18%	44,582	3.85%
Savings deposits	21,527	2.87	4,454	2.93
Time deposits	123,211	5.86	42,158	5.93
Total deposits	$202,560	4.51%	$106,042	4.08%

NOTE 7. Comprehensive Income

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

	For The Six Months Ended June 30, 2001 Before tax amount	Tax (expense) benefit	Net of tax Amount	June 3 Before tax amount	(
			(In thousands)		
Unrealized gains (losses) on investment securities:					
Unrealized holding gains (losses) arising during period	$ 558	$ (239)	$ 319	$(15,476)	$

Less reclassification adjustment for gains realized in net income	480	(192)	288	13,079	
Other comprehensive income (loss), net	$ 78	$ (47)	$ 31	$ (2,397)	$

Note 8. New Accounting Pronouncements

On June 29, 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141, Business Combinations, and SFAS No. 142, Goodwill and Intangible Assets. These statements are expected to result in significant modifications relative to the Company's accounting for goodwill and other intangible assets. SFAS No. 141 requires that all business combinations initiated after June 30, 2001 must be accounted for under the purchase method of accounting. SFAS No. 141 was effective upon issuance. SFAS No. 142 modifies the accounting for all purchased goodwill and intangible assets. SFAS No. 142 includes requirements to test goodwill and indefinite lived intangibles assets for impairment rather than amortize them. SFAS No. 142 will be effective for fiscal years beginning after December 31, 2001 and early adoption is not permitted except for business combinations entered into after June 30, 2001. Upon adoption of SFAS 142, on January 1, 2002, the Company will no longer amortize goodwill, thereby eliminating annual amortization expense of approximately $1.0 million.

On July 6, 2001, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) No. 102, Selected Loan Loss Allowance Methodology and Documentation Issues. SAB No. 102 provides guidance on the development, documentation, and application of a systematic methodology for determining the allowance for loans and leases in accordance with US GAAP. The adoption of SAB No. 102 is not expected to have a material impact on the Company's financial position or results of operations.

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

The following discussion and analysis is intended to provide a better understanding of the consolidated financial condition and results of operations of Berkshire Bancorp Inc. and subsidiaries (the "Company"). References to the Company herein shall be deemed to refer to the Company and its consolidated subsidiaries unless the context otherwise requires. References to 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 June 30,			
	2001			
	Average Balance	Interest and Dividends	Average Yield/Rate	Average Balance
	(Dollars in Thousands)			
INTEREST-EARNING ASSETS:				
Loans (1)	$218,213	$ 4,256	7.80%	$ 68,515
Investment securities	149,568	2,354	6.30	89,354
Other (2)(5)	15,250	179	4.67	29,841
Total interest-earning assets	383,031	6,789	7.09	187,710
Noninterest-earning assets	34,411			18,631
Total Assets	417,442			206,341
INTEREST-BEARING LIABILITIES:				
Interest bearing deposits	99,657	746	2.99%	63,110
Time deposits	166,117	2,326	5.60	29,480
Other borrowings	32,690	459	5.62	12,916
Total interest-bearing liabilities	298,464	3,531	4.73	105,506
Demand deposits	19,030			15,329
Noninterest-bearing liabilities	4,610			5,480
Stockholders' equity (5)	95,338			80,026
Total liabilities and stockholders' equity	417,442			206,341
Net interest income		3,258		

Interest-rate spread (3)			2.36	
Net interest margin (4)			3.40%	
Ratio of average interest-earning assets to average interest bearing liabilities	1.28			1.78

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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,			
	2001			
	Average Balance	Interest and Dividends	Average Yield/Rate	Average Balance
	(Dollars in Thousands)			
INTEREST-EARNING ASSETS:				
Loans (1)	$148,102	$ 5,958	8.05%	$ 67,243
Investment securities	127,121	4,086	6.43	84,841
Other (2)(5)	18,108	473	5.21	32,285
Total interest-earning assets	293,331	10,517	7.17	184,369
Noninterest-earning assets	30,187			18,770

Total Assets	323,518			203,139
	========			========
INTEREST-BEARING LIABILITIES:				
Intereearing deposits	62,449	957	3.06%	61,967
Time deposits	123,211	3,611	5.86	30,109
Other borrowings	24,399	675	5.53	7,531
	--------	--------	----	--------
Total interest-bearing liabilities	210,059	5,243	4.99	99,607
		--------	----	
Demand deposits	16,900			15,763
Noninterest-bearing liabilities	3,754			7,661
Stockholders' equity (5)	92,805			80,108
	--------			--------
Total liabilities and stockholders' equity	323,518			203,139
	========			========
Net interest income		5,274		
		========		
Interest-rate spread (3)			2.18	
			====	
Net interest margin (4)			3.60%	
			====	
Ratio of average interest-earning assets to average interest bearing ilities	1.39			1.85
	========			=========

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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.

Results of Operations

Results of Operations for the Three and Six Months Ended June 30, 2001 Compared to the Three and Six Months Ended June 30, 2000.

General. On March 30, 2001, Berkshire Bancorp Inc. ("Berkshire" or the "Company"), through its wholly-owned subsidiaries, The Berkshire Bank and Greater American Finance Group, Inc., completed its merger with GSB Financial Corporation ("GSB Financial") (see Note 2). This transaction was accounted for under the purchase method of accounting and, accordingly, the results of operation for the Company include only the results of operation of GSB Financial for the three month period from April 1 through June 30, 2001. The Company acquired total loans, assets and deposits of $134.06 million, $190.04 million and $127.86 million, respectively.

Net Income. Net income for the three-month period ended June 30, 2001 was $928,000, or $.37 per diluted share, as compared to $522,000, or $.24 per diluted share, for the three-month period ended June 30, 2000. Net income for the six-month period ended June 30, 2001 was $1.33 million, or $.60 per diluted share, as compared to $9.56 million, or $4.36 per diluted share, for the six-month period ended June 30, 2000.

Net income in 2000 was favorably impacted by the pretax gain of $13.08 million on sales of the common stock of Elottery, Inc.

The favorable impact on net income due to the pretax gains on the sales of the common stock of Elottery, Inc. of $13.08 million in 2000 is not representative of the Company's ongoing business. The Company acquired its shares of Elottery, Inc. common stock as described in the following paragraphs.

As more fully discussed in the Company's 2000 10-K, in December 1995, the Company sold its minority equity interest in Unistar Gaming Corp. ("UGC") to Elottery, Inc. (formerly Executone Information Systems, Inc., a Virginia corporation whose common stock trades on the NASDAQ National Market System, ("Elottery") (the "Elottery Common Stock"). The Company's investment in UGC was approximately $5.2 million.

In exchange for its interest in UGC, the Company received shares of Elottery Common Stock, all of which were sold in open market transactions during 1998, and shares of Elottery Series A and Series B Preferred Stock (the "Elottery Preferred Stock"). In 1997, the Company fully reserved the carrying value, approximately $2.1 million, of its shares of Elottery Preferred Stock and recorded a deferred tax asset of $925,000.

In March 1999, Elottery exercised its right to redeem and convert the Elottery Preferred Stock into Elottery Common Stock and on April 6, 1999, in exchange for its shares of Elottery Preferred Stock, the Company received 4,193,204 shares of Elottery Common Stock with a market value of approximately $17.7 million. At June 3, 2001 and December 31, 2000, the Company owned 130,000 shares of Elottery, Inc. Common Stock with a fair market value of approximately $46,000 and $65,000, respectively. The Company intends to sell its remaining shares of Elottery Common Stock as market conditions allow.

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. The declining interest rate environment that prevailed during the first six months of 2001 was in contrast with the increasing interest rate environment that existed during the first six months of 2000.

For the quarter ended June 30, 2001, net interest income increased by $930,000, or 39.91%, to $3.26 million, from $2.33 million for the first quarter of 2000. The increase was the result of the growth in average interest-earning assets of $195.32 million, partially offset by the growth in average interest-bearing liabilities of $192.96 million. The increases in average interest-earning assets and interest-bearing liabilities were primarily due to the acquisition of GSB Financial on March 31, 2001. Net interest rate spread declined to 2.36% for the 2001 quarter, from 2.97% for the 2000 quarter. The decline in net interest rate spread resulted from an increase in the average cost of interest-bearing liabilities to 4.73% in the 2001 quarter, from 4.57% in the 2000 quarter, and a decrease in the average yield on interest-earning assets to 7.09% for the 2001 quarter, from 7.54% for the 2000 quarter.

For the six months ended June 30, 2001, net interest income increased by $860,000, or 19.46%, to $5.27 million, from $4.42 million for the six months ended June 30, 2000. The increase was the result of the growth in average interest-earning assets of $108.96 million, partially offset by the growth in average interest-bearing liabilities of $110.45 million. The increases in average interest-earning assets and interest-bearing liabilities were primarily due to the acquisition of GSB Financial on March 31, 2001. Net interest rate spread declined to 2.18% for the 2001 six months, from 2.73% for the 2000 six months. The decline in net interest rate spread resulted from an increase in the average cost of interest-bearing liabilities to 4.99% in the 2001 period, from 4.48% in the 2000 period, and a decrease in the average yield on interest-earning assets to 7.17% for 2001, from 7.21% for 2000.

Net Interest Margin. Net interest margin, or annualized net interest income as a percentage of average interest-earning assets, was 3.40% for the three months ended June 30, 2001 as compared to 4.97% for the quarter ended June 30, 2000. The decrease in net interest margin was due to, (i) the increase in the average amounts and average rates paid on interest-bearing liabilities to $298.46 million and 4.73% in the 2001 quarter, from $105.51 million and 4.57% in the 2000 quarter and (ii) the decrease in the average yield on interest-earning assets to 7.09% in 2001 from 7.54% in 2000 due to the acquisition of GSB Financial whose loan portfolio is made up primarily of 1-4 family loans with annual yields less than previously earned by Berkshire. The decrease in net interest margin was partially offset by the increase in the average amounts interest-earning assets to $383.03 million in 2001 from $187.71 million in 2000.

For the six months ended June 30, 2001, net interest margin was 3.60% as compared to 4.79% for the six months ended June 30, 2000. The decrease in net interest margin was due to, (i) the increase in the average amounts and average rates paid on interest-bearing liabilities to $210.06 million and 4.99% in the 2001 period, from $99.61 million and 4.48% in the 2000 period and (ii) the decrease in the average yield on interest-earning assets to 7.17% in 2001 from 7.21% in 2000. The decrease in net interest margin was partially offset by the increase in the average amounts interest-earning assets to $293.33 million in 2001 from $184.37 million in 2000.

Interest Income. Total interest income for the three-month period ended June 30, 2001 increased $3.25 million, or 91.81%, to $6.79 million from $3.54 million for the three-month period ended June 30, 2000. The increase was the result of a $195.32 million increase in average interest-earning assets to $383.03 million for the quarter ended June 30, 2001, from $187.71 million for the quarter ended June 30, 2000 due to the acquisition of GSB Financial, partially offset by the decrease in the average yield of interest-earning assets to 7.09% in 2001, from 7.54% in 2000. The increase in average interest-earning assets was due to increases in the loan portfolio and investment securities.

Interest income on loans increased by $2.65 million to $4.26 million for the three months ended June 30, 2001, from $1.61 million for the three months ended June 30, 2000. The increase is due to an increase of $149.69 million in

average loans balances, partially offset by the decrease increase in the average yield on loans to 7.80% in the 2001 quarter from 9.42% in the 2000 quarter. Interest income on investment securities increased $860,000 to $2.35 million in the 2001 quarter, from $1.49 million in the 2000 quarter. The increase is due to an increase of $60.22 million in the average balance of investment securities, partially offset by a decrease in the average yield on investments to 6.30% in 2001, from 6.67% in 2000.

Total interest income for the six-month period ended June 30, 2001 increased $3.87 million, or 58.20%, to $10.52 million, from $6.65 million for the six-month period ended June 30, 2000. The increase was the result of a $195.32 million increase in average interest-earning assets to $293.33 million in the 2001 period from $184.37 million in the 2000 period, partially offset by the decrease in the average yield of interest-earning assets to 7.17% in 2001, from 7.21% in 2000. The increase in average interest-earning assets was due to increases in the loan portfolio and investment securities.

Interest income on loans increased by $2.92 million to $5.96 million for the six months ended June 30, 2001 from $3.04 million in 2000. The increase was due to an increase of $80.86 million in average loan balances, partially offset by the decrease in the average yield on loans to 8.05% in 2001 from 9.04% in 2000. Interest income on investment securities increased $1.18 million to $4.09 million in 2001 from $2.90 million in 2000. The increase is due to an increase of $42.28 million in the average balance of investment securities, partially offset by a decrease in the average yield on investments to 6.43% in 2001 from 6.85% in 2000.

Interest Expense. Total interest expense for the three-month period ended June 30, 2001 increased $2.32 million to $3.53 million from $1.21 million for the three-month period ended June 30, 2000. The increase was the result of a $192.95 million increase in average interest-bearing liabilities to $298.46 million for the quarter ended June 30, 2001, primarily from the acquisition of GSB Financial, from $105.51 million for the quarter ended June 30, 2000, and the increase in the average rate paid on interest-bearing liabilities to 4.73% in 2001 from 4.57% in 2000. The increase in interest-bearing liabilities, deposits and other borrowings, was attributable to our strategy of employing excess capital through growth. The increase in the overall costs of our interest-bearing liabilities is primarily due to attractive rates offered on time deposits in furthering our growth strategy.

Interest expense on interest-bearing deposits, money market and savings accounts, increased by $136,000 to $746,000 for the 2001 quarter from $610,000 for the 2000 quarter. The increase is due to higher average balances, partially offset by a decrease in average rates paid on interest-bearing deposits to 2.99% from 3.87%. Interest expense on time deposits increased by $1.92 million to $2.33 million for the 2001 quarter from $411,000 for the 2000 quarter. The increase is due to an increase of $136.64 million in the average balance of time deposits to $166.12 million for the 2001 quarter from $29.48 million for the 2000 quarter. Interest expense on borrowings increased to $459,000 in the 2001 quarter from $185,000 in the 2000 quarter due to higher average balances, partially offset by the lower average cost of borrowed funds.

Total interest expense for the six-month period ended June 30, 2001 increased $3.01 million to $5.24 million from $2.23 million for the six-month period ended June 30, 2000. The increase was the result of a $110.45 million increase in average interest-bearing liabilities to $210.06 million for the six months ended June 30, 2001 from $99.61 million for the six months ended June 30, 2000, and the increase in the average rate paid on interest-bearing liabilities to 4.99% in the 2001 period from 4.48% in the 2000 period.

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Interest expense on interest-bearing deposit accounts decreased by $253,000 to $957,000 for the 2001 six months from $1.21 million for the 2000 six months. The decrease is due to a decrease in average rates paid on interest-bearing deposits to 3.06% in 2001 from 3.89% in 2000, partially offset by higher average balances in the 2001 period. Interest expense on time deposits increased by $2.80 million to $3.61 million for the 2001 six months from $812,000 for the 2000 six months. The increase is due to an increase of $93.10 million in the average balance of time deposits to $123.21 million for the 2001 six months from $30.11 million for the 2000 six months and the increase in average rates paid to 5.86% in the 2001 period from 5.39% in the 2000 period. Interest expense on borrowings increased to $675,000 for the 2001 six months from $216,000 for the 2000 period due to higher average balances, partially offset by the lower average cost of borrowed funds.

Non-Interest Income. Non-interest income consists primarily of realized gains on sales of marketable securities and service fee income. For the three months ended June 30, 2001, total non-interest income was $738,000, compared to $116,000 in the year ago period. For the six months ended June 30, 2001, total non-interest income was $906,000, compared to $13.33 million, including $13.08 million of non-recurring realized gains on sales of marketable securities., in the year ago period.

Non-Interest Expense. Non-interest expense includes salaries and employee benefits, occupancy and equipment expenses, legal and professional fees, amortization of goodwill 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, 2001 was $2.33 million and $3.59 million, respectively, compared to $1.46 million and $2.59 million, respectively for the same periods in 2000. The year to year increases are due primarily to increases in salaries and employee benefits and occupancy expenses resulting from the expansion of the business.

Provision for Income Tax. During the six-month period ended June 30, 2001, the Company recorded income tax expense of $1.21 million, compared to income tax expense of $5.59 million for the six months ended June 30, 2000. The tax provisions for federal, state and local taxes recorded for 2001 and 2000 represent effective tax rates of 47.48% and 36.89%, respectively. The increase in the effective rate is due to tax advantageous investment securities sold by the Company.

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 June
(in thousands, except for percent

		3 Months or Less	3 Through 12 Months	1 Through 3 Years
Federal funds sold		$ 8,500	$ --	$ --
	(Rate)	4.07%	--	--
Interest bearing deposits in banks		1,856	--	--
	(Rate)	3.43%	--	--
Loans (1)(2)				
Adjustable rate loans		50,231	13,035	11,470
	(Rate)	7.21%	7.79%	8.66%
Fixed rate loans		290	3,716	7,421
	(Rate)	9.91%	8.87%	8.50%
Total loans		50,521	16,751	18,891
Investments (3)(4)		1,571	259	1,758
	(Rate)	5.74%	6.97%	5.27%
Total rate-sensitive assets		62,448	17,010	20,649
Deposit accounts (5)				
Savings and NOW		58,128	--	--
	(Rate)	2.41%	--	--
Money market		49,410	--	--
	(Rate)	3.54%	--	--
Time Deposits		87,885	76,884	5,540
	(Rate)	5.62%	4.93%	5.20%
Total deposit accounts		195,477	76,884	5,540
Repurchase agreements		10,734	--	--
	(Rate)	3.69%	--	--
Other borrowings		2,000	--	500
	(Rate)	6.09	--	6.09%
Total rate-sensitive liabilities		208,211	76,884	6,040
Interest rate caps		20,000	--	--
Gap (repricing differences)		(125,763)	(59,874)	14,609

Cumulative Gap	(125,763)	(185,637)	(171,028)
Cumulative Gap to Total Rate Sensitive Assets	(31.38)%	(46.31)%	(42.67)%

(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.

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

The allowance for loan watch list classified loans addresses those loans maintained on the Company's loan watch list, which are assigned a rating of substandard, doubtful, or loss. Substandard loans are those with a well-defined weakness or a weakness, which jeopardizes the repayment of the debt. A loan may be classified as substandard as a result of impairment of the borrower's financial condition and repayment capacity. Loans for which repayment plans have not been met or collateral equity margins do not protect the Company may also be classified as substandard. Doubtful loans have the characteristics of substandard loans with the added characteristic that collection or liquidation in full, on the basis of presently existing facts and conditions, is highly improbable. Although the possibility of loss is extremely high for doubtful loans, the classification of loss is deferred until pending factors, which might improve the loan, have been determined. Loans rated as doubtful in whole or in part are placed in nonaccrual status. Loans, which are classified as loss, are considered uncollectible and are charged to the allowance for loan losses. There were no loans classified as of March 31, 2001.

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, 2001 and 2000, the Company did not have any non accrual or non performing loans or any 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 $232.77 million (including $134.1 million acquired in the merger with GSB Financial) from $72.55 million, the provision for the six months ended June 30, 2001 was increased to $1.86 million (including $691,000 acquired in the merger with GSB Financial) from $1.03 million in the year ago period.

Management believes that the allowance for loan losses and nonperforming loans remained 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 (dollars in thousands, except percentages):

	Three Months Ended June 30,		Six M J
	2001	2000	2001
Average loans outstanding	$218,213	$ 68,515	$148,102
Allowance at beginning of period	1,128	1,018	1,108
Charge-offs:			
Commercial and other loans	9	--	9
Real estate loans	--	--	--
Total loans charged-off	9	--	9
Recoveries:			
Commercial and other loans	13	13	23
Real estate loans	--	--	--
Total loans recovered	13	13	23
Net recoveries	4	13	14
Provision for loan losses charged to operating expenses	37	--	47
Acquisition of GSB Financial Corp	691	--	691
Allowance at end of period	1,860	1,031	1,860
Ratio of net recoveries (charge-offs) to average loans outstanding	.00%	.02%	.09
Allowance as a percent of total loans	.80%	1.42%	.80
Total loans at end of period	$232,772	$ 72,550	$232,772

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 loans are either made to individuals or personally guaranteed by the principals of the business to which the loan is made. At June 30, 2001, the Company had total loans of $232.77 million and an allowance for loan losses of $1.86 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.

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

	June 30, 2001	December 3 2000
	Amount	Amount
	(in thousands)	
Commercial and professional loans	$ 25,613	$ 8,920
Secured by real estate	202,808	65,409
Consumer	3,951	794
Other	400	500
Total loans	232,772	75,623
Less:		
Allowance for loan losses	(1,860)	(1,108)
Loans, net	$230,912	$ 74,515

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, 2001 and 2000, the Company did not have any non accrual or non performing loans, or any loans past due more than 90 days and still accruing interest.

Quantitative measures established by regulation to ensure capital adequacy require the Company and The Berkshire Bank to maintain minimum amounts and ratios of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and Tier I capital (as defined) to average assets (as defined). As of June 30, 2001, 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.

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The following tables set forth the actual and required regulatory capital amounts and ratios of the Company and The Berkshire Bank as of June 30, 2001 and December 31, 2000 (dollars in thousands):

	Actual		For capital adequacy purposes	
	Amount	Ratio	Amount	Ratio
June 30, 2001				
Total Capital (to Risk-Weighted Assets)				
Company	80,708	39.1%	16,520	>=8.0% -
Bank	63,130	33.5%	15,095	>=8.0% -
Tier I Capital (to Risk-Weighted Assets)				
Company	78,848	38.2%	8,260	>=4.0% -
Bank	44,179	23.4	7,547	>=4.0% -
Tier I Capital (to Average Assets)				
Company	78,848	19.8%	16,698	>=4.0% -
Bank	44,179	11.7%	15,134	>=4.0% -

	Actual		For capital adequacy purposes	
	Amount	Ratio	Amount	Ratio
December 31, 2000				
Total Capital (to Risk-Weighted Assets)				
Company	$68,848	53.4%	$10,302	>=8.0% -
Bank	16,249	13.8%	9,397	>=8.0% -
Tier I Capital (to Risk-Weighted Assets)				
Company	67,740	52.6%	5,155	>=4.0% -
Bank	15,141	12.9%	4,699	>=4.0% -
Tier I Capital (to Average Assets)				
Company	67,740	35.0%	7,751	>=4.0% -
Bank	15,141	8.5%	7,151	>=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 the parent company, Berkshire Bancorp Inc. ("Berkshire"), liquidity means having cash available to fund operating expenses and to pay shareholder dividends, when and if declared by Berkshire's Board of Directors. The ability of Berkshire to fund its operations and to pay dividends is not dependent upon the receipt of dividends from The Berkshire Bank. At June 30, 2001, Berkshire had cash of $17.36 million and marketable securities of $6.39 million.

As more fully describe in Note 2, as of the close of business on March 30, 2001, GSB Financial was merged with and into the Company and Goshen Savings Bank was merged with and into The Berkshire Bank. The Company utilized approximately $20.2 million of its cash on hand to fund the cash component of the transaction.

Impact of Inflation and Changing Prices

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

PART II. OTHER INFORMATION

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

The 2001 Annual Meeting of Stockholders was held on May 17, 2001.

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

Director	Shares For	Shares Withh
William L. Cohen	1,485,219	1,
Thomas V. Guarino	1,485,217	1,
Moses Marx	1,485,219	1,
Steven Rosenberg	1,485,219	1,
Randolph B. Stockwell	1,485,219	1,

Item 6. Exhibits and Reports on Form 8-K

a. Exhibits
None

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

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 10, 2001 By: /s/ Steven Rosenberg

Steven Rosenberg
President and Chief
Financial Officer

STATEMENT OF DIFFERENCES

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