BERKSHIRE BANCORP INC /DE/
Form 10-Q
May 06, 2005

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 March 31, 2005

or

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

For the transition period from ________________ to ________________

Commission file number: 0-13649

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

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

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

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

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

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

As of May 6, 2005, there were 6,759,675 outstanding shares of the issuers Common Stock, $.10 par value.

BERKSHIRE BANCORP INC. AND SUBSIDIARIES

FORWARD-LOOKING STATEMENTS

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

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

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

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

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

	March 31, 2005	December 31, 2004
ASSETS		
Cash and due from banks	$ 6,455	$ 9,511
Interest bearing deposits	1,267	372
Federal funds sold	9,000	7,500
Total cash and cash equivalents	16,722	17,383
Investment Securities:		
Available-for-sale	675,221	630,968
Held-to-maturity, fair value of $620 in 2005 and $633 in 2004	607	624
Total investment securities	675,828	631,592
Loans, net of unearned income	284,772	286,979
Less: allowance for loan losses	(3,022)	(2,927)
Net loans	281,750	284,052
Accrued interest receivable	6,087	6,014
Premises and equipment, net	8,661	8,677
Goodwill, net	18,549	18,549
Other assets	8,732	6,382
Total assets	$1,016,329	$ 972,649
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	$ 43,073	$ 42,191
Interest bearing	606,392	577,697
Total deposits	649,465	619,888
Securities sold under agreements to repurchase	136,248	127,747
Long term borrowings	103,897	95,605
Subordinated debt	15,464	15,464
Accrued interest payable	2,896	2,516
Other liabilities	3,385	3,810
Total liabilities	911,355	865,030
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 --		
March 31, 2005, 6,759,675 shares		
December 31, 2004, 6,748,675 shares	770	770

Additional paid-in capital	89,969	89,543
Retained earnings	30,681	28,983
Accumulated other comprehensive loss, net	(7,448)	(2,602)
Treasury Stock		
March 31, 2005, 938,610 shares		
December 31, 2004, 946,610 shares	(8,998)	(9,075)
Total stockholders' equity	104,974	107,619
	$1,016,329	$ 972,649

The accompanying notes are an integral part of these statements

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

	For The Three Months Ended March 31,	
	2005	2004
INTEREST INCOME		
Loans	$ 4,694	$ 4,849
Investment securities	6,179	4,786
Federal funds sold and interest bearing deposits	94	3
Total interest income	10,967	9,638
INTEREST EXPENSE		
Deposits	2,891	2,455
Short-term borrowings	765	497
Long-term borrowings	1,158	768
Total interest expense	4,814	3,720
Net interest income	6,153	5,918
PROVISION FOR LOAN LOSSES	45	45
Net interest income after provision for loan losses	6,108	5,873
NON-INTEREST INCOME		

Service charges on deposit accounts	133	127
Investment securities gains	6	93
Other income	130	198
Total non-interest income	269	418
NON-INTEREST EXPENSE		
Salaries and employee benefits	1,955	1,667
Net occupancy expense	381	274
Equipment expense	99	86
FDIC assessment	69	22
Data processing expense	44	32
Other	645	881
Total non-interest expense	3,193	2,962
Income before provision for taxes	3,184	3,329
Provision for income taxes	1,486	1,378
Net income	$ 1,698	$ 1,951
Net income per share:		
Basic	$ .25	$ .29
Diluted	$ .25	$ .28

The accompanying notes are an integral part of these statements.

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

For The Three Months Ended March 31, 2005
(In Thousands)

	Common Shares	Stock Par value	Additional paid-in capital	Accumulated other comprehensive (loss) net	Retained earnings	Treasury stock
Balance at December 31, 2004	7,698	$770	$89,543	$(2,602)	$28,983	$(9,075)
Net income					1,698	
Exercise of stock options			426			77
Other comprehensive (loss) net of reclassification adjustment and taxes				(4,846)		

Comprehensive income						
Balance at March 31, 2005	7,698	$770	$89,969	$(7,448)	$30,681	$(8,998)
(Unaudited)						

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 Three Months Ended March 31,	
	2005	2004
Cash flows from operating activities:		
Net income	$ 1,698	$ 1,951
Adjustments to reconcile net income to net cash provided by operating activities:		
Realized gains on investment securities	(6)	(93)
Net amortization of premiums of investment securities	40	813
Depreciation and amortization	156	145
Provision for loan losses	45	45
(Increase) in accrued interest receivable	(73)	(482)
(Increase) decrease in other assets	(2,350)	845
Increase (decrease) in accrued interest payable and other liabilities	365	(599)
Net cash (used in) provided by operating activities	(125)	2,625
Cash flows from investing activities:		
Investment securities available for sale		
Purchases	(191,294)	(407,636)
Sales, maturities and calls	142,161	366,836
Investment securities held to maturity		
Maturities	17	21
Net decrease (increase) in loans	2,257	(557)
Acquisition of premises and equipment	(140)	(33)
Net cash (used in) investing activities	(46,999)	(41,369)

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

	For The Three Months Ended March 31, 2005	2004
Cash flows from financing activities:		
Net increase (decrease) in non interest bearing deposits	882	(51)
Net increase in interest bearing deposits	28,695	18,315
Increase in securities sold under agreements to repurchase	8,501	15,085
Proceeds from long term debt	15,000	1,947
Repayment of long term debt	(6,708)	--
Proceeds from exercise of common stock options	93	65
Acquisition of treasury stock	--	(69)
Net cash provided by financing activities	46,463	35,292
Net (decrease) in cash	(661)	(3,452)
Cash -- beginning of period	17,383	9,310
Cash -- end of period	$ 16,722	$ 5,858
Supplemental disclosures of cash flow information:		
Cash used to pay interest	$ 4,434	$ 3,774
Cash used to pay taxes, net of refunds	$ 1,507	$ 945

The accompanying notes are an integral part of these statements.

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BERKSHIRE BANCORP INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
March 31, 2005 and 2004

NOTE 1. General

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

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

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 (the "SEC"). Readers are encouraged to refer to the Company's Form 10-K for the fiscal year ended December 31, 2004 when reviewing this Form 10-Q. Quarterly results reported herein are not necessarily indicative of results to be expected for other quarters or a full fiscal year.

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 March 31, 2005 and December 31, 2004 and the consolidated results of its operations for the three month periods ended March 31, 2005 and 2004, and its consolidated stockholders' equity for the three month period ended March 31, 2005, and its consolidated cash flows for the three month periods ended March 31, 2005 and 2004. As discussed in Note 2 below, all weighted share and per share information in 2004 has been retroactively restated to reflect the stock split and stock dividend.

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 stock dividend in Common Stock (the "Stock Dividend) which became effective immediately. The Company paid 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 "2004 Debentures") issued by the Company. The 2004 Debentures, the sole assets of BCTI, mature on July 23, 2034 and bear interest at a floating rate, three month LIBOR plus 2.70%.

NOTE 3. - (continued)

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

Based on current interpretations of the banking regulators, the 2004 Debentures and 2005 Debentures (collectively, the "Debentures") qualify under the risk-based capital guidelines of the Federal Reserve as Tier 1 capital, subject to certain limitations. The Debentures are callable by the Company, subject to any required regulatory approvals, at par, in whole or in part, at any time after five years from the date of issuance. The Company's obligations under the Debentures and related documents, taken together, constitute a full, irrevocable and unconditional guarantee on a subordinated basis by the Company of the obligations of BCTI and BCTII under the preferred capital securities sold by BCTI and BCTII to investors. FIN46(R) precludes consideration of the call option embedded in the preferred capital securities when determining if the Company has the right to a majority of BCTI and BCTII expected residual returns. Accordingly, BCTI is not and BCTII will not be included in the consolidated balance sheet of the Company.

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

NOTE 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			
	March 31, 2005			Marc
	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	$1,698	6,754	$.25	$1,951
Effect of dilutive securities Options	--	175	--	--
Diluted earnings per share				
Net income available to common stockholders plus assumed conversions	$1,698	6,929	$.25	$1,951

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

NOTE 5. Investment Securities

The following tables summarize held to maturity and available-for-sale investment securities as of March 31, 2005 and December 31, 2004:

	March 31, 2005			
	Amortized Cost	Gross unrealized gains	Gross unrealized losses	Fair value

	Amortized Cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(In thousands)			
Held To Maturity Investment Securities				
U.S. Government Agencies	$607	$14	$(1)	$620
Totals	$607	$14	$(1)	$620

	December 31, 2004			
	Amortized Cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(In thousands)			
Held To Maturity Investment Securities				
U.S. Government Agencies	$ 624	$10	$(1)	$633
Totals	$ 624	$10	$(1)	$633

	March 31, 2005		
	Amortized Cost	Gross unrealized gains	Gross unrealized losses
	(In thousands)		
Available-For-Sale Investment Securities			
U.S. Treasury and Notes	$ 24,921	$ --	$ (257)
U.S. Government Agencies	510,807	--	(8,991)
Mortgage-backed securities	106,021	311	(1,410)
Corporate notes	35,975	13	(1,072)
Municipal Securities	1,973	138	(63)
Marketable equity securities and other	6,684	235	(64)
Totals	$686,381	$697	$(11,857)

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

Note 5. - (continued)

	December 31, 2004		
	Amortized Cost	Gross unrealized gains	Gross unrealized losses
	(In thousands)		
Available-For-Sale Investment securities			
U.S. Treasury and Notes	$ 24,896	$ --	$ (174)
U.S. Government Agencies	471,018	97	(3,844)
Mortgage-backed securities	109,822	504	(996)
Corporate Notes	21,089	692	(154)
Municipal securities	1,307	134	--
Marketable equity securities and other	6,363	279	(65)
Totals	$634,495	$1,706	$(5,233)

NOTE 6. Loan Portfolio

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

	March 31, 2005		December
	Amount	% of Total	Amoun
	(Dollars in thousands)		
Commercial and professional loans	$ 18,201	6.4%	$ 16,49

Secured by real estate			
1-4 family	152,687	53.5	155,07
Multi family	3,807	1.3	4,60
Non-residential (commercial)	108,974	38.2	109,59
Consumer	1,859	0.6	1,98
Total loans	285,528	100.0%	287,76
Deferred loan fees	(756)		(78
Allowance for loan losses	(3,022)		(2,92
Loans, net	$281,750		$284,05

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:

	March 31, 2005		December 31, 2004	
	Average Amount	Average Yield	Average Amount	Average Yield
	(Dollars in thousands)			
Demand deposits	$ 43,708	--	$ 38,896	--
NOW and money market	44,355	0.50%	47,677	0.65%
Savings deposits	277,340	1.73	224,542	1.55
Time deposits	296,497	2.21	309,968	1.96
Total deposits	$661,900	1.76%	$621,083	1.58%

NOTE 8. Comprehensive Income (Loss)

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

	For The Three Months Ended				
	March 31, 2005			March 31, 2	
	Before tax amount	Tax (expense) benefit	Net of tax Amount	Before tax amount	Tax (expense) benefit
	(In thousands)				
Unrealized (losses) gains on investment securities:					
Unrealized holding gains (losses) arising during period	$ (7,627)	$2,785	$(4,842)	$4,440	$(1,739)
Less reclassification adjustment for gains realized in net income	6	(2)	4	93	(37)
Other comprehensive (loss) income, net	$ (7,633)	$2,787	$(4,846)	$4,347	$(1,702)

NOTE 9. Accounting For Stock Based Compensation

In December 2004, the Financial Accounting Standards Board (the "FASB") issued Statement No. 123 (Revised), Share-based Payment, ("FAS 123(R)"). FAS 123(R) requires that the compensation cost relating to share-based payment transactions be recognized in financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued. We will be required to apply FAS 123(R) in the first quarter of 2006. The scope of FAS 123(R) includes a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights and employee share purchase plans. FAS 123(R) revises FASB Statement 123, Accounting for Stock-Based Compensation ("FAS 123"), and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees.

Note 9. - (continued)

At March 31, 2005, 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.

The fair value of each option is estimated on the date of grant using the Black-Scholes options-pricing model using weighted-average assumptions for expected volatility, risk-free interest and expected life of the option. All stock options outstanding are vested. The Company did not grant stock options during the three months ended March 31, 2005 and 2004.

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).

	For The Three Months Ended March 31,	
	2005	2004
Service cost	$ 66,000	$ 56,000
Interest cost	28,000	28,750
Expected return on plan assets	(34,000)	(37,500)
Amortization and Deferral:		
Transition amount	--	--
Prior service cost	4,593	4,500
(Gain)/loss	6,407	3,000
Net periodic pension cost	71,000	54,750

During the fiscal year ending December 31, 2005, we expect to contribute approximately $112,000 to the Plan. We did not make any contributions, required or otherwise, to the Plan in the three months ended March 31, 2005 and 2004.

NOTE 11. New Accounting Pronouncements

Stock-Based Compensation

In December 2004, the Financial Accounting Standards Board (the "FASB") issued Statement No. 123 (Revised), Share-based Payment, ("FAS 123(R)"). FAS 123(R) requires that the compensation cost relating to share-based payment transactions be recognized in financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued. In accordance with recent guidance from the Securities and Exchange Commission, the Company will be required to apply FAS 123(R) on January 1, 2006.

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

Note 11. - (continued)

The scope of FAS 123(R) includes a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights and employee share purchase plans. FAS 123(R) revises FASB Statement 123, Accounting for Stock-Based Compensation ("FAS 123"), and supersedes the Accounting Principles Board (the "APB") Opinion No. 25, Accounting for Stock Issued to Employees ("APB Opinion No. 25").

FAS 123(R) provides two methods for companies to transition to the new standard requiring the expensing of options. Companies may elect to (i) restate results for prior quarters in the fiscal year of adoption of FAS 123(R) to reflect the FAS 123 proforma compensation costs, or (ii) restate results for prior periods, whether annual or quarterly, to reflect the FAS 123 proforma compensation costs. We are in the process of determining which transition approach to use and the effect, if any, such transition approach will have on our financial statements.

Internal Control Over Financial Reporting

The current objective of the Bank's Internal Control Program is to allow management to comply with FDICIA requirements and with Section 302 of the Sarbanes-Oxley Act of 2002 (the "Act"). Section 302 of the Act requires the CEO and CFO of the Company to (i) certify that the annual and quarterly reports filed with the Securities and Exchange Commission are accurate and (ii) acknowledge that they are responsible for establishing, maintaining and periodically evaluating the effectiveness of the disclosure controls and procedures. Section 404 of the Act requires management to report on internal control over financial reporting. The SEC requires us to comply with Section 404 by the year ending December 31, 2006.

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

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 herein to per share amounts refer to diluted shares. References herein to per share amounts for the three months ended March 31, 2004 have been revised to reflect the one-for-ten reverse stock split and thirty-for- one forward stock split in the form of a stock dividend which occurred on May 18, 2004. 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, 2004, 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 March 31,				
	2005			20	
	Average Balance	Interest and Dividends	Average Yield/Rate	Average Balance	Inte a Divi
			(Dollars in Thousands)		
INTEREST-EARNING ASSETS:					
Loans (1)	$ 288,288	$ 4,694	6.51%	$293,441	$4,
Investment securities	671,946	6,179	3.68	589,961	4,
Other (2)(5)	16,683	94	2.25	2,081	
Total interest-earning assets	976,917	10,967	4.49	885,483	9,
Noninterest-earning assets	42,516			37,710	
Total Assets	$1,019,433			$923,193	
INTEREST-BEARING LIABILITIES:					
Interest bearing deposits	321,695	1,337	1.66%	259,195	
Time deposits	296,497	1,554	2.10	320,081	1,
Other borrowings	240,470	1,923	3.20	194,709	1,
Total interest-bearing liabilities	858,662	4,814	2.24	773,985	3,
Demand deposits	43,708			37,199	
Noninterest-bearing liabilities	6,656			7,348	
Stockholders' equity (5)	110,407			104,661	
Total liabilities and stockholders' equity	$1,019,433			$923,193	

Net interest income		6,153		5,
Interest-rate spread (3)			2.25%	
Net interest margin (4)			2.52%	
Ratio of average interest-earning assets to average interest bearing liabilities	1.14			1.14

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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 Months Ended March 31, 2005 Compared to the Three Months Ended March 31, 2004.

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

Net Income. Net income for the three-month period ended March 31, 2005 was $1.70 million, or $.25 per share, as compared to $1.95 million, or $.28 per share, for the three-month period ended March 31, 2004.

The Company's net income is largely dependent on interest rate levels, the demand for the Company's loan and deposit products and the strategies employed to manage the interest rate and other risks inherent in the banking business. From June 2003 through June 30, 2004, interest rates, as measured by the prime rate, remained constant at 4.00%. On July 1, 2004, inflation fighting actions taken by the Federal Reserve Board resulted in a 25 basis point increase in the prime rate to 4.25%, the first such increase in more than four years. Similar 25 basis point moves taken by the Federal Reserve Board in August, September, November and December of 2004, and February and March 2005 have moved the prime rate to its present level of 5.75%.

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 March 31, 2005, net interest income increased by $235,000, or 3.97%, to $6.15 million from $5.92 million for the quarter ended March 31, 2004. The quarter over quarter increase in net interest income was the result of the 10.33% growth in the average amount of interest-earning assets to $976.92 million in 2005 from $885.48 million in 2004, partially offset by the 10.94% increase in the average amount of interest-bearing liabilities to $858.66 million in 2005 from $773.99 million in 2004, and further offset by the interest rate spread, or the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities.

During the first quarter of 2005, the average yield on interest-earning assets increased by 3.22% to 4.49% from 4.35% during the first quarter of 2004, while the average cost of interest-bearing liabilities increased by 16.67% to 2.24% in 2005 from 1.92% in 2004. If interest rates remain at current levels or increase slowly over time, we expect to see only moderate pressure on the Company's interest-rate spread and net interest income. Investment securities in our portfolio that have been sold, matured or called by the issuer during fiscal 2004 have been replaced with securities carrying somewhat lower yields and, by design, shorter maturities to hedge against a rising interest rate environment. Rates paid on deposit accounts are likely to increase in a rising rate environment due to competition for deposits in the market place. The cost of borrowed funds with floating rather than fixed interest rates will increase as well.

Net Interest Margin. Net interest margin, or annualized net interest income as a percentage of average interest-earning assets, declined by 15 basis points, or 5.62%, to 2.52% in the first quarter of fiscal 2005 from 2.67% in the first quarter of fiscal 2004. We seek to secure and retain customer deposits with competitive products and rates, while making 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 fixed and adjustable rate loans, investment securities and short-term interest-earning assets which provided an aggregate average yield of 4.49% and 4.35% during the quarter ended March 31, 2005 and 2004, respectively.

The average amounts of loans decreased by $5.15 million, or 1.76%, to $288.29 million in the three months ended March 31, 2005 from $293.44 million in the three months ended March 31, 2004, as did the average yield on the loan portfolio which declined to 6.51% from 6.61%. The principal amount of new loans originated and principal repayments on existing loans during the first quarter of 2005 was $12.32 million and $13.40 million, respectively.

The average amount of investment securities increased by $81.99 million, or 13.90% in the three months ended March 31, 2005 to $671.95 million from $589.96 million in the three months ended March 31, 2004. The average yield on investment securities improved by 44 basis points, to 3.68% in 2005 from 3.24% in 2004.

Interest Income. Total interest income for the quarter ended March 31, 2005 increased by $1.33 million, or 13.79%, to $10.97 million from $9.64 million for the quarter ended March 31, 2004. The increase in total interest income was primarily due to the growth in the average amount of total interest-earning assets. Loans contributed $4.69 million of interest income in 2005, a decline of $155,000 from the $4.85 million of interest income contributed in 2004. Investment securities contributed $6.18 million of interest income in the first quarter of 2005, an increase of $1.39 million, or 29.11%, over the $4.79 million of interest income earned on investment securities in the first quarter of 2004.

	Three Months Ended March 31,			
	2005		2004	
	Interest Income	% of Total	Interest Income	% of Total
	(In thousands, except percentages)			
Loans	$ 4,694	42.81%	$ 4,849	50.31%
Investment Securities	6,179	56.35	4,786	49.66
Other	94	0.84	3	0.03
Total Interest Income	$10,967	100.00%	$ 9,638	100.00%

Loans, which are inherently risky and therefore command a higher return than our conservative portfolio of invesment securities, declined to 29.51% of our total average interest-earning assets during the three months ended March 31, 2005 from 33.14% of total average interest-earning assets during the three months ended March 31, 2004. Investment securities increased to 68.78% from 66.63% of total average interest-earning assets during 2005 and 2004, respectively. While we actively seek to originate new loans with qualified borrowers who meet the Bank's underwriting standards, our strategy has been to maintain those standards, sacrificing some current income to avoid possible large future losses in the loan portfolio.

	Three Months Ended March 31,			
	2005		2004	
	Average Amount	% of Total	Average Amount	% of Total
	(In thousands, except percentages)			
Loans	$288,288	29.51%	$293,441	33.14%
Investment Securities	671,946	68.78	589,961	66.63
Other	16,683	1.71	2,081	0.23

Total Interest-Earning Assets	$976,917	100.00%	$885,483	100.00%

Interest Expense. Total interest expense for the quarter ended March 31, 2005 increased by $1.09 million, or 29.41%, to $4.81 million from $3.72 million for the quarter ended March 31, 2004. The increase in interest expense was due primarily to the growth in the average amount of interest-bearing liabilities and the increase in the average rates paid on such liabilities, 2.24% and 1.92% in 2005 and 2004, respectively. As interest rates move higher, interest expense will increase as we price our deposit products to meet the competition and the adjustable rates paid on other borrowings increase as well. In May 2004, we sold $15.46 million of floating rate junior subordinated denbentures which mature in 2034 and used the net proceeds to augment the Bank's capital to allow for business expansion. The additional interest expense on these debentures, which is included in other borrowings, was $206,000 during the three months ended March 31, 2005.

	Three Months Ended March 31,			
	2005		2004	
	Interest Income	% of Total	Interest Income	% of Total
	(In thousands, except percentages)			
Interest-Bearing Deposits	$1,337	27.77%	$ 898	24.14%
Time Deposits	1,554	32.28	1,557	41.85
Other Borrowings	1,923	39.95	1,265	34.01
Total Interest Expense	$4,814	100.00%	$3,720	100.00%

	Three Months Ended March 31,			
	2005		2004	
	Average Amount	% of Total	Average Amount	% of Total
	(In thousands, except percentages)			
Interest-Bearing Deposits	$321,695	37.46%	$259,195	33.49%
Time Deposits	296,497	34.53	320,081	41.35
Other Borrowings	240,470	28.01	194,709	25.16
Total Interest-Bearing Liabilities	$858,662	100.00%	$773,985	100.00%

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 March 31, 2005, total non-interest income decreased by $149,000, to $269,000 from $418,000 for the three months ended March 31, 2004. The decrease is largely due to the decrease in gains on sales of investment securities.

	Three Months Ended March 31,			
	2005		2004	
	Non-Interest Income	% of Total	Non-Interest Income	% of Total
	(In thousands, except percentages)			
Service Charges on Deposits	$133	49.44%	$127	30.38%
Investment Securities gains	6	2.23	93	22.25
Other	130	48.33	198	47.37
Total Non-Interest Income	$269	100.00%	$418	100.00%

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 months ended March 31, 2005 increased by $231,00 to $3.19 million from $2.96 million for the three months ended March 31, 2004. The largest component of non-interest expense, 61% of the total, are salaries and employee benefits which increased by $288,000 to $1.96 million in the 2005 quarter from $1.67 million in the 2004 quarter. The increase is due to the addition of personnel in our internal control and compliance departments.

	Three Months Ended March 31,			
	2005		2004	
	Non-Interest Income	% of Total	Non-Interest Income	% of Total
	(In thousands, except percentages)			
Salaries and Employee Benefits	$1,955	61.23%	$1,667	56.29%
Net Occupancy Expense	381	11.93	274	9.25
Equipment Expense	99	3.10	86	2.90
FDIC Assessment	69	2.16	22	0.74
Data Processing Expense	44	1.38	32	1.08

Other	645	20.20	881	29.74
Total Non-Interest Expense	$3,193	100.00%	$2,962	100.00%

Provision for Income Tax. We recorded income tax expense of $1.49 million and $1.38 million for the three-month periods ended March 31, 2005 and 2004, respectively. The tax provisions for federal, state and local taxes represent effective tax rates of 46.67% and 41.39%, respectively.

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Common Stock Repurchases

On May 15, 2003, The Company's Board of Directors authorized the purchase of up to an additional 450,000 shares of its Common Stock in the open market, from time to time, depending upon prevailing market conditions, thereby increasing the maximum number of shares which may be purchased by the Company from 1,950,000 shares of Common Stock to 2,400,000 shares of Common Stock. Since 1990 through December 31, 2004, the Company has purchased a total of 1,848,909 shares of its Common Stock. At March 31, 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 2005

	Number of Shares Purchased	Average Price Paid Per Share
January - March	--	--

Fiscal Year 2004

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

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 an additional interest rate management strategy, the Bank borrows funds from the Federal Home Loan Bank, approximately $103.90 million at March 31, 2005, 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 March 31,
(in thousands, except for percentages)

		3 Months or Less	3 Through 12 Months	1 Through 3 Years	Over 3 Years	
Federal funds sold		9,000	--	--	--	
	(Rate)	2.79%				
Interest bearing deposits in banks		1,267	--	--	--	
	(Rate)	1.56%				
Loans (1)(2)						
Adjustable rate loans		43,502	16,757	8,088	17,256	8
	(Rate)	6.87%	4.90%	7.47%	6.51%	
Fixed rate loans		4,913	918	15,619	178,475	19
	(Rate)	7.47%	6.80%	6.85%	6.29%	
Total loans		48,415	17,675	23,707	195,731	28
Investments (3)(4)		91,193	132,805	160,209	291,621	67
	(Rate)	2.81%	2.66%	3.34%	4.80%	
Total rate-sensitive assets		140,875	150,480	183,916	487,352	96
Deposit accounts (5)						
Savings and NOW		283,932	--	--	--	28
	(Rate)	1.61%				
Money market		20,904	--	--	--	2
	(Rate)	0.55%				
Time Deposits		82,738	147,913	68,825	2,080	30
	(Rate)	1.80%	2.52%	2.94%	1.97%	
Total deposit accounts		387,574	147,913	68,825	2,080	60
Repurchase Agreements		68,509	34,739	33,000	--	13
	(Rate)	2.59%	3.08%	2.92%		
Other borrowings		--	2,263	61,620	55,478	11
	(Rate)	%	3.60%	3.55%	4.42%	
Total rate-sensitive liabilities		456,083	184,915	163,445	57,558	86
Interest rate caps		20,000	--	(20,000)	--	
Gap (repricing differences)		(335,208)	(34,435)	40,471	429,794	10
Cumulative Gap		(335,208)	(369,643)	(329,172)	100,622	
Cumulative Gap to Total Rate Sensitive Assets		(34.82)%	(38.40)%	(34.20)%	10.45%	

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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.

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 March 31, 2005.

For the three month periods ended March 31, 2005 and 2004, we recovered loans totaling $50,000 and $23,000, respectively, which amounts were returned to the provision for loan losses. We did not charge-off any loans during either of these two periods.

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 guarantees, 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 March 31, 2005 and 2004, we had a total of $404,000 and $328,000, respectively, of non-accrual 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, the year over year decrease in total loans to $285.53 million from $295.34 million and the economic conditions in our market area, the provision for the three months ended March 31, 2005, including net recoveries which are added back to the provision, increased to $3.02 million from $2.66 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 March 31, 2005	Three Months Ended March 31, 2004
Average loans outstanding	$288,288	$293,441
Allowance at beginning of period	2,927	2,593
Charge-offs:		
Commercial and other loans	--	--
Total loans charged-off	--	--
Recoveries:		
Commercial and other loans	50	23
Total loans recovered	50	23
Net (charge-offs) recoveries	50	23
Provision for loan losses charged to operating expenses	45	45
Allowance at end of period	$ 3,022	$ 2,661
Ratio of net recoveries (charge-offs) to average loans outstanding	0.02%	0.01%
Allowance as a percent of total loans	1.06%	0.90%
Total loans at end of period	$285,528	$295,336

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 March 31, 2005, we had total gross loans of $285.53 million, deferred loan fees of $756,000 and an allowance for loan losses of $3.02 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. During the three-month period ended March 31, 2005, the Bank sold approximately $505,000 of such loans and recorded in other income a gain of approximately $7,000 on such sales.

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

	March 31, 2005	December 31, 2004
	Amount	Amount
	(in thousands)	
Commercial and professional loans	$ 18,201	$ 16,498
Secured by real estate		
1-4 family	152,687	155,079
Multi family	3,807	4,600
Non-residential (commercial)	108,974	109,597
Consumer	1,859	1,989
Total loans	285,528	287,763
Less:		
Deferred loan fees	(756)	(864)
Allowance for loan losses	(3,022)	(2,927)
Loans, net	$281,750	$284,052

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 March 31, 2005 and 2004, we 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 March 31, 2005, 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 March 31, 2005 and December 31, 2004 (dollars in thousands):

	Actual		For capital adequacy purposes	
	Amount	Ratio	Amount	Ratio
March 31, 2005				
Total Capital (to Risk-Weighted Assets)				
Company	112,359	28.8%	31,220	>=8.0%
Bank	84,687	23.2%	29,173	>=8.0%
Tier I Capital (to Risk-Weighted Assets)				
Company	109,337	28.0%	15,610	>=4.0%
Bank	81,665	22.4%	14,586	>=4.0%
Tier I Capital (to Average Assets)				
Company	109,337	10.7%	40,777	>=4.0%
Bank	81,665	8.4%	39,044	>=4.0%

	Actual		For capital adequacy purposes	
	Amount	Ratio	Amount	Ratio

December 31, 2004				
Total Capital (to Risk-Weighted Assets)				
Company	$110,063	30.1%	$29,234	>=8.0%
Bank	82,970	24.1%	27,533	>=8.0%
Tier I Capital (to Risk-Weighted Assets)				
Company	107,136	29.3%	14,617	>=4.0%
Bank	80,042	23.3%	13,766	>=4.0%
Tier I Capital (to Average Assets)				
Company	107,136	11.2%	38,250	>=4.0%
Bank	80,042	8.6%	37,240	>=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 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 and 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 and April 2005. 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 March 31, 2005, the Company, excluding the Bank, had cash and cash equivalents of $2.34 million and investment securities available for sale of $12.80 million.

The Company maintains financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments, approximately $20.32 million at March 31, 2005, include commitments to extend credit and stand-by letters of credit.

At March 31, 2005, the Company had outstanding commitments of approximately $408.97 million. These commitments include $233.62 million that mature or renew within one year, $131.89 million that mature or renew after one year and within three years, $31.04 million that mature or renew after three years and within five years and $12.41 million that mature or renew after five years.

At March 31, 2005, the Company had one unconsolidated subsidiary, 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 the Company's 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 SEC's rules and forms. In accordance with SEC requirements, the CEO/CFO notes that during the fiscal quarter ended March 31, 2005, 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 6. Exhibits

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

SIGNATURES

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

BERKSHIRE BANCORP INC.
(Registrant)

Date: May 6, 2005 By: /s/ Steven Rosenberg

Steven Rosenberg
President and Chief
Financial Officer

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