BERKSHIRE BANCORP INC /DE/
Form 10-Q
May 15, 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 March 31, 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 May 11, 2001, there were 2,504,658 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

INDEX

3

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

	March 31, 2001
ASSETS	
Cash and due from banks	$ 22,159
Interest bearing deposits	2,838
Federal funds sold	20,000
Total cash and cash equivalents	44,997
Investment Securities:	
Available-for-sale	87,296
Held-to-maturity	786
Total investment securities	88,082
Loans, net of unearned income	76,445
Less: allowance for loan losses	(1,128)
Net loans	75,317
Accrued interest receivable	1,529
Premises and equipment, net	3,993
Prepaid expenses and other	3,038
Goodwill, net of amortization of $1,524 in 2001 and $1,365 in 2000	11,384
Total assets	$ 228,340
LIABILITIES AND STOCKHOLDERS' EQUITY	
Deposits:	
Non-interest bearing	$ 13,857
Interest bearing	122,005
Total deposits	135,862
Securities sold under agreements to repurchase	9,140
Long term borrowings	1,500
Accrued interest payable	1,304
Other liabilities	1,026
Total liabilities	148,832

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 --	
March 31, 2001, 1,943,725 shares	
December 31, 2000, 2,127,265 shares	256
Additional paid-in capital	78,549
Accumulated other comprehensive income (loss), net	270
Retained earnings	8,758
Less: Common stock in treasury - at cost:	
March 31, 2001, 622,370 shares	
December 31, 2000, 610,470 shares	(8,325)
Total stockholders' equity	79,508
	$ 228,340

The accompanying notes are an integral part of this statement.

4

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

	For The Three Months Ended March 31, 2001	2000
INTEREST INCOME		
Short-term interest-earning assets	$ 294	$ 275
Securities and other investments	1,732	1,414
Loans	1,702	1,426
Total interest income	3,728	3,115
INTEREST EXPENSE		
Deposits	1,496	996

Borrowings	216	31
Total interest expense	1,712	1,027
Net interest income	2,016	2,088
PROVISION FOR LOAN LOSSES	10	5
Net interest income after provision for loan losses	2,006	2,083
NON-INTEREST INCOME		
Investment securities gains	3	13,079
Other income	165	139
Total non-interest income	168	13,218
NON-INTEREST EXPENSE		
Salaries and employee benefits	619	524
Net occupancy expense	182	108
Equipment expense	30	24
FDIC assessment	6	4
Data processing expense	5	5
Amortization of goodwill	159	183
Other	266	289
Total non-interest expense	1,267	1,137
Income before provision for taxes	907	14,164
Provision for income taxes	501	5,123
Net income	$ 406	$ 9,041
Net income per share:		
Basic	$ .21	$ 4.25
Diluted	$ .21	$ 4.00

The accompanying notes are an integral part of this statement.

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

Fo

	20
Cash flows from operating activities:	
Net income	$
Adjustments to reconcile net income to net cash provided by (used in) operating activities:	
Realized gain on investment securities	
Depreciation and amortization	
Provision for loan losses	
Changes in assets and liabilities:	
(Increase) in accrued interest receivable	
Decrease in prepaid expenses and other	
Increase (decrease) in accounts payable, other accrued expenses, liabilities and income taxes payable	
Net cash provided by (used in) operating activities	
Cash flows from investing activities:	
Investment in Madison Merchant Services, Inc.	
Investment securities available for sale	
Purchases	(6
Sales	7
Investment securities held to maturity	
Sales	1
Net increase in loans	
Acquisition of real estate owned	(
Acquisition of premises and equipment	
Net cash provided by investing activities	2
Cash flows from financing activities:	
Net (decrease) in non interest bearing deposits	
Net increase (decrease) in interest bearing deposits	(
(Decrease) in securities sold under agreements to repurchase	(1
Acquisition of treasury stock	
Net cash provided by (used in) financing activities	(1
Net increase in cash	
Cash - beginning of period	3
Cash - end of period	$ 4
Supplemental cash flow information:	
Cash used to pay interest	$
Cash used to pay taxes	$

The accompanying notes are an integral part of this statement.

6

BERKSHIRE BANCORP INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
March 31, 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 March 31, 2001 and December 31, 2000 and the consolidated results of its operations for the three month periods ended March 31, 2001 and 2000, and its consolidated cash flows for the three month periods ended March 31, 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 $8.5 million will be amortized over a 15 year period. The results of GSB Financial's operations will be included in the Company's balances commencing April 1, 2001.

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 March 31, 2		
	Income (numerator)	Shares (denominator)	Pe a
	(In thousands, except per share data		
Basic earnings per share			
Net income available to common stockholders	$406	1,950	
Effect of dilutive securities			
Options	--	--	
Diluted earnings per share			
Net income available to common stockholders plus assumed conversions	$406	1,950	

Options to purchase 40,375 shares of common stock for $38.00 per share and 5,000 shares of common stock for $31.75 per share were outstanding during the three months ended March 31, 2001. These options were not included in the computation of diluted earnings per share because the option exercise price was greater than the average market price for the Company's common stock during this period.

	For The Three Months Ended March 31, 2		
	Income (numerator)	Shares (denominator)	Pe a
	(In thousands, except per share data		

Basic earnings per share		
Net income available to common stockholders	$9,041	2,127
Effect of dilutive securities		
Options	--	132
Diluted earnings per share		
Net income available to common stockholders plus assumed conversions	$9,041	2,259

Options to purchase 44,875 shares of common stock for $38.00 per share were outstanding during the three months ended March 31, 2000. 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.

8

NOTE 4. Investment Securities

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

	March 31, 2001		
	Amortized Cost	Gross unrealized gains	Gross unrealized losses
	(In thousands)		
Held To Maturity Investment Securities			
U.S. Government Agencies	$ 287	$ 1	$ --
Corporate notes	499	--	--
Totals	$ 786	$ 1	$ --

	December 31, 2000	
	Gross	Gross

	Amortized Cost	unrealized gains	unrealized losses
		(In thousands)	
Held To Maturity Investment Securities			
U.S. Government Agencies	$ 522	$ --	$ --
Corporate notes	4,477	--	(1)
Totals	$ 4,999	$ --	$ (1)

	March 31, 2001		
	Amortized Cost	Gross unrealized gains	Gross unrealized losses
		(In thousands)	
Available-For-Sale Investment Securities			
U.S. Treasury and U.S. Government Agencies	$78,333	$249	$ --
Mortgage-backed securities	3,795	16	--
Corporate notes	1,119	--	(240)
Marketable equity securities and other	3,895	129	--
Totals	$87,142	$394	$(240)

	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):

	March 31, 2001		December 31, 2000	
	Amount	% of Total	Amount	% of Total
Commercial and professional loans	$11,333	14.8%	$ 8,920	11.8%
Secured by real estate	64,491	84.4	65,409	86.5
Consumer	173	0.2	794	1.0
Other	448	0.6	500	0.7
Total loans	76,445	100.0%	75,623	100.0%
Less: Allowance for loan losses	(1,128)		(1,108)	
Loans, net	$75,317		$ 74,515	

NOTE 6. Real Estate Owned

On March 22, 2001, the Company purchased a parcel of land and building located in mid-town Manhattan for a total purchase price of $3.49 million in cash. The Company intends to utilize the property for banking offices and a bank branch.

NOTE 7. Deposits

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

	March 31, 2001		December 31, 2000	
	Average Amount	Average Yield	Average Amount	Average Yield
	(Dollars in thousands)			
Demand deposits	$ 14,747	--	$ 14,848	--
NOW and money market	23,863	3.21%	44,582	3.85%
Savings deposits	3,443	2.38	4,454	2.93
Time deposits	81,939	6.18	42,158	5.93
Total deposits	$123,992	4.76%	$106,042	4.08%

NOTE 8. Comprehensive Income

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

	For The Three Months Ended March 31, 2001		
	Before tax amount	Tax (expense) benefit	Net o Amo
	(In thousands)		
Unrealized gains on investment securities:			
Unrealized holding gains arising during period	595	(239)	
Less reclassification adjustment for gains realized in net income	3	(2)	
Other comprehensive income, net	$592	$(237)	

	For The Three Months Ended March 31, 2000		
	Before tax amount	Tax (expense) benefit	Net o Amo
	(In thousands)		
Unrealized gains on investment securities:			
Unrealized holding losses arising during period	$(14,776)	$ 5,911	$(
Less reclassification adjustment for gains realized in net income	13,079	(5,232)	
Other comprehensive loss, net	$ (1,697)	$ 679	$(

11

NOTE 9. New Accounting Pronouncements

SFAS No. 133, ("SFAS 133") "Accounting for Derivative Instruments and Hedging Activities" was amended in June, 1999 by SFAS 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133," and in June, 2000, by SFAS 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," (collectively SFAS 133). SFAS 133 requires that entities recognize all derivatives as either assets or liabilities in the statement of financial condition and measure those instruments at fair value. Under SFAS 133 an entity may designate a derivative as a hedge of exposure to either changes in: (a) fair value of a recognized asset or liability or firm commitment, (b) cash flows of a recognized or forecasted transaction, or (c) foreign currencies of a net investment in foreign operations, firm commitments, available-for-sale securities or a forecasted transaction. Depending upon the effectiveness of the hedge and/or the transaction being hedged, any changes in the fair value of the derivative instrument is either recognized in earnings in the current year, deferred to future periods, or recognized in other comprehensive income. Changes in the fair value of all derivative instruments not recognized as hedge accounting are recognized in current year earnings. SFAS 133 is required for all fiscal quarters or fiscal years beginning after June 15, 2000. The Company adopted SFAS 133 effective January 1, 2001. No adjustment was required as a result of the change in accounting principle.

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.

12

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 M			
	2001			
	Average Balance	Interest and Dividends	Average Yield/Rate	Average Balance
			(Dollars in Thousands)	
INTEREST-EARNING ASSETS:				
Loans (1)	$ 77,208	$1,702	8.81%	$ 68,471
Investment securities	104,437	1,732	6.64	81,070
Other (2)(5)	20,979	294	5.77	33,094
Total interest-earning assets	202,624	3,728	7.38	182,635
Noninterest-earning assets	25,894			18,442
Total Assets	228,518			201,077
INTEREST-BEARING LIABILITIES:				
Interest bearing deposits	27,306	231	3.38	60,548
Time deposits	81,939	1,265	6.18	32,096
Other borrowings	16,017	216	5.39	2,159
Total interest-bearing liabilities	125,262	1,712	5.47	94,803
Demand deposits	14,747			16,195
Noninterest-bearing liabilities	2,890			9,361

Stockholders' equity	85,619			80,718
Total liabilities and stockholders' equity	228,518			201,077
Net interest income		2,016		
Interest-rate spread (3)			1.91	
Net interest margin (4)			3.98	
Ratio of average interest-earning assets to average interest bearing liabilities	1.62			1.93

---

(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, 2001 Compared to the Three Months Ended March 31, 2000.

Net Income. Net income for the three-month period ended March 31, 2001 was $406,000, or $.21 per diluted share, as compared to $9.04 million, or $4.00 per diluted share, for the three-month period ended March 31, 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 March 31, 2001 and December 31, 2000, the Company owned 130,000 shares of Elottery, Inc. Common Stock with a fair market value of approximately $20,000 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 three months of 2001 was in contrast with the increasing interest rate environment that existed during the first three months of 2000.

For the quarter ended March 31, 2001, net interest income decreased by $72,000, or 3.45%, to $2.02 million, from $2.09 million for the first quarter of 2000. The decrease was the result of the growth in average interest-bearing liabilities of $30.46 million partially offset by the growth in average interest-earning assets of $19.98 million. Net interest rate spread declined to 1.91% for the quarter ended March 31, 2001, from 2.49% for the quarter ended March 31, 2000. The change in net interest rate spread resulted from an increase in the average cost of interest-bearing liabilities to 5.47% for the quarter ended March 31, 2001, from 4.33% for 2000, partially offset by an increase in the average yield on interest-earning assets to 7.38% for the quarter ended March 31, 2001, from 6.82% for the year ago period.

Net Interest Margin. Net interest margin, or annualized net interest income as a percentage of average interest-earning assets, was 3.98% for the first quarter of 2001 as compared to 4.57% for the same period in 2000. The decrease in net interest margin was due to the increase in the average amounts and average rates

paid on interest-bearing liabilities to $125.26 million and 5.47% in 2001, from $94.80 million and 4.33% in 2000, partially offset by the increase in the average amounts and average yield on interest-earning assets to $202.62 million and 7.38% in 2001 from $182.64 million and 6.82% in 2000.

Interest Income. Interest income for the three-month period ended March 31, 2001 increased $613,000, or 19.68%, to $3.73 million, from $3.12 million for the three-month period ended March 31, 2000. The increase was the result of a $19.98 million increase in average interest-earning assets to $202.62 million for the quarter ended March 31, 2001, from $182.64 million for 2000, and the increase in the average yield of interest-earning assets to 7.38% in 2001, from 6.82% for 2000. The increase in average interest-earning assets was due to increases in the loan portfolio and investment securities.

Interest income on loans increased $276,000 to $1.70 million for 2001, from $1.43 million in 2000, which was the result of an increase in the average balance of $8.74 million and an increase in the average yield on loans to 8.81% in 2001, from 8.33% in 2000. Interest income on investment securities increased $318,000 to $1.73 million for 2001, from $1.41 million in 2000, which was the result of an increase in the average balance of $23.37 million, partially offset by a decrease in the average yield on investments to 6.64% in 2001, from 6.98% in 2000.

Interest Expense. Interest expense for the three-month period ended March 31, 2001 increased $685,000, or 66.02%, to $1.71 million, from $1.03 million for the three-month period ended March 31, 2000. The increase was the result of a $30.46 million increase in average interest-bearing liabilities to $125.26 million for the quarter ended March 31, 2001, from $94.80 million for 2000, and the increase in the average rate paid on interest-bearing liabilities to 5.47% in 2001, from 4.33% 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 offerred on time deposits in furthering our growth strategy.

Interest expense on deposits increased $500,000 to $1.50 million for the three months ended March 31, 2001 from, $996,000 for the three months ended March 31, 2000, reflecting an increase in the average cost of interest-bearing deposits to 5.48% for 2001 from 4.30% for 2000 coupled with an increase in the average balance of interest-bearing deposits of $16.60 million to $109.25 million in 2001, from $92.64 in 2000. Interest expense on certificates of deposit increased $861,000 from the combined effect of an increase in the average balance of $49.84 million and an increase in the average cost to 6.18% for 2001, from 5.03% for 2000. Interest expense on money market and savings accounts decreased $361,000 as a result of a decrease in the average balance of $33.24 million and a decrease in the average cost to 3.38% for 2001, from 3.91% for 2000. As previously mentioned, declining interest rates during the first three months of 2001 led to our lowering the rates paid on these accounts.

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, 2001, service fee income was $165,000 as compared to service fee income of $139,000 in the year ago period. For the three-month period ended March 31, 2000, total non-interest income was $13.22 million of which $13.08 million was due to non recurring realized gains on sales of marketable securities.

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-month period ended March 31, 2001 increased to $1.27 million from $1.14 million for the three-month period ended March 31, 2000. The increase in 2001 was due primarily to increases in (i) salaries and benefits due to higher staffing levels at the Bank, (ii) occupancy expenses related to a new bank branch and (iii) equipment expenses, partially offset by decreases in legal and other professional fees.

Provision for Income Tax. During the first quarter of 2001, the Company recorded income tax expense of $501,000 compared to $5.12 million in the first quarter of 2000. The tax provisions for federal, state and local taxes recorded for 2001 and 2000 represent effective tax rates of 55.2% and 36.2%, respectively. Effective tax rates are attributable to the level of net income adjusted for certain tax-preference items.

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 March 31, 20
(in thousands, except for percentages)

		3 Months or Less	3 Through 12 Months	1 Through 3 Years	3
Federal funds sold		$ 20,000	$ --	$ --	$
	(Rate)	5.42%	--	--	
Interest bearing deposits in banks		2,838	--	--	
	(Rate)	4.42%	--	--	
Loans (1)(2)					
Adjustable rate loans		32,220	3,298	15,378	9
	(Rate)	8.55%	9.21%	8.85%	
Fixed rate loans		358	418	3,022	11
	(Rate)	2.98%	8.14%	8.40%	
Total loans		32,578	3,716	18,400	21
Investments (3)(4)		6,939	187	3,247	76
	(Rate)	5.49%	9.40%	5.76%	
Total rate-sensitive assets		62,355	3,903	21,647	98
Deposit accounts (5)					
Savings and NOW		9,385	--	--	
	(Rate)	1.50%	--	--	
Money market		17,097	--	--	
	(Rate)	3.00%	--	--	
Time Deposits		35,690	57,995	1,838	
	(Rate)	5.93%	6.03%	5.70%	
Total deposit accounts		62,172	57,995	1,838	
Repurchase agreements		9,140	--	--	
	(Rate)	4.80%	--	--	
Other borrowings		--	--	500	1
	(Rate)	--	--	6.09%	
Total rate-sensitive liabilities		71,312	57,995	2,338	1
Interest rate caps		20,000	--	--	(20
Gap (repricing differences)		(28,957)	(54,092)	19,309	117
Cumulative Gap		(28,957)	(83,049)	(63,740)	53
Cumulative Gap to Total Rate					

Sensitive Assets	(15.55)%	(44.59)%	(34.23)%	2

----

(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 March 31, 2001 and 2000, the Company did not have any non accrual or non performing loans. Loans past due more than 90 days and still accruing interest were $0 and $128,000 at March 31, 2001 and 2000, respectively. 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 $76.4 million from $66.4 million the provision for the three months ended March 31, 2001 was increased to $1.13 million from $1.02 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 March 31, 2001	Three Months Ended March 31, 2000
Average loans outstanding	$ 77,208	$ 65,957
Allowance at beginning of period	1,108	923
Charge-offs:		
Commercial and other loans	--	--
Real estate loans	--	--
Total loans charged-off	--	--
Recoveries:		
Commercial and other loans	10	90
Real estate loans	--	--
Total loans recovered	10	90
Net (charge-offs) recoveries	10	90
Provision for loan losses charged to operating expenses	10	5
Allowance at end of period	1,128	1,018
Ratio of net recoveries (charge-offs) to average loans outstanding (2)	.01%	.14%
Allowance as a percent of total loans	1.48%	1.53%
Total loans at end of period	$ 76,445	$ 66,389

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 March 31, 2001, the Company had total loans of $76.4 million and an allowance for loan losses of $1.13 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:

	March 31, 2001	December 31, 2000
	Amount	Amount
	(in thousands)	
Commercial and professional loans	$ 11,333	$ 8,920
Secured by real estate	64,491	65,409
Consumer	173	794
Other	448	500
Total loans	76,445	75,623
Less:		
Allowance for loan losses	(1,128)	(1,108)
Loans, net	$ 75,317	$ 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 March 31, 2001 and 2000, the Company did not have any non accrual or non performing loans. Loans past due more than 90 days and still accruing interest were $0 and $128,000 at March 31, 2001 and 2000, respectively.

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 March 31, 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.

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

	Actual		For capital adequacy purposes	
	Amount	Ratio	Amount	Ratio
March 31, 2001				
Total Capital (to Risk-Weighted Assets)				
Company	69,522	59.2%	9,391	>=8.0%
Bank	16,552	17.2%	7,702	>=8.0%
Tier I Capital (to Risk-Weighted Assets)				
Company	68,394	58.3%	4,695	>=4.0%
Bank	15,424	16.0	3,851	>=4.0%
Tier I Capital (to Average Assets)				
Company	68,394	31.5%	8,685	>=4.0%
Bank	15,424	8.1%	7,615	>=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 March 31, 2001, Berkshire had cash of $35.9 million and marketable securities of $4.0 million.

21

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 will utilize 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 6. Exhibits and Reports on Form 8-K

a. Exhibits

Exhibit Number	Description
10.5	Lease Agreement, dated October 26, 1999, between Braun Management, Inc., as agent for Bowling Green Associates, L.P. and The Berkshire Bank.

b. The Company filed a Report on Form 8-K, dated April 2, 2001 (date of earliest event March 30, 2001) under Item 5 to file the press release announcing the consummation of the merger between the Company and GSB Financial Corporation.

The Company filed a Report on Form 8-K, dated May 11, 2001 (date of earliest event March 30, 2001) under Item 7 to file the financial statements of the business acquired and the proforma financial statements in connection with the consummation of the merger between the Company and GSB Financial Corporation.

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 14, 2001

By: /s/ Steven Rosenberg

Steven Rosenberg
President and Chief
Financial Officer

EXHIBIT INDEX

Exhibit Number	Description
10.5	Lease Agreement, dated October 26, 1999, between Braun Management, Inc., as agent for Bowling Green Associates, L.P., and The Berkshire Bank.

STATEMENT OF DIFFERENCES

The degree symbol shall be expressed as................................ [d]
The greater-than-or-equal-to sign shall be expressed as................ >=