

BERKSHIRE BANCORP INC /DE/

Form 10-Q

May 11, 2011

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2011

or

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

For the transition period from _____ to _____

Commission file number: 0-13649

BERKSHIRE BANCORP INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State or Other Jurisdiction of
Incorporation or Organization)

94-2563513

(I.R.S. Employer
Identification No.)

160 Broadway, New York, New York
(Address of Principal Executive Offices)

10038
(Zip Code)

Registrant's Telephone Number, Including Area Code: (212) 791-5362

N/A

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. (See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.) (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.

Yes No

As of May 6, 2011, there were 7,054,183 outstanding shares of the issuer's 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 actual results and experiences of Berkshire Bancorp Inc. (the "Company") 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, rules and regulations, and other factors referred to in this Quarterly Report and in Item 1A, "Risk Factors", of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2010.

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, 2011	December 31, 2010
ASSETS		
Cash and due from banks	\$ 5,775	\$ 4,920
Interest bearing deposits	58,665	74,197
Total cash and cash equivalents	64,440	79,117
Investment Securities:		
Available-for-sale	398,864	341,564
Held-to-maturity, fair value of \$322 in 2011 and \$316 in 2010	314	319
Total investment securities	399,178	341,883
Loans, net of unearned income	349,598	366,305
Less: allowance for loan losses	(17,324)	(16,105)
Net loans	332,274	350,200
Accrued interest receivable	3,841	3,578
Premises and equipment, net	7,720	7,815
Other receivable	—	10,047
Other assets	35,109	37,257
Total assets	\$ 842,562	\$ 829,897
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	\$ 79,267	\$ 73,609
Interest bearing	600,342	596,527
Total deposits	679,609	670,136
Securities sold under agreements to repurchase	50,000	50,000
Borrowings	9,544	10,657
Subordinated debt	22,681	22,681
Accrued interest payable	2,954	2,743
Other liabilities	3,088	2,047
Total liabilities	767,876	758,264
Stockholders' equity		
Preferred stock - \$.01 Par value: Authorized — 2,000,000 shares Issued — 60,000 shares Outstanding — March 31, 2011, 60,000 shares December 31, 2010, 60,000 shares	1	1
Common stock - \$.10 par value Authorized — 25,000,000 shares Issued — 7,698,285 shares Outstanding — March 31, 2011, 7,054,183 shares December 31, 2010, 7,054,183 shares	770	770
Additional paid-in capital	150,985	150,985
Accumulated Deficit	(64,843)	(65,123)
Accumulated other comprehensive loss, net	(5,816)	(8,589)
Treasury Stock at cost March 31, 2011, 644,102 shares December 31, 2010, 644,102 shares	(6,411)	(6,411)
Total stockholders' equity	74,686	71,633

Total liabilities and stockholders' equity	\$	842,562	\$	829,897
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The accompanying notes are an integral part of these statements

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

	For The Three Months Ended March 31,	
	2011	2010
INTEREST INCOME		
Loans, including related fees	\$5,679	\$6,533
Investment securities	3,181	3,800
Federal funds sold and interest bearing deposits	61	51
Total interest income	8,921	10,384
INTEREST EXPENSE		
Deposits	1,566	2,260
Securities sold under agreements to repurchase	499	498
Borrowings and subordinated debt	262	517
Total interest expense	2,327	3,275
Net interest income	6,594	7,109
PROVISION FOR LOAN LOSSES	1,200	1,250
Net interest income after provision for loan losses	5,394	5,859
NON-INTEREST INCOME		
Service charges on deposit accounts	127	126
Investment securities gains	55	155
Other income	97	102
Total non-interest income	279	383
NON-INTEREST EXPENSE		
Salaries and employee benefits	2,435	2,341
Net occupancy expense	565	566
Equipment expense	82	91
FDIC assessment	384	468
Data processing expense	109	126
Other	836	820
Total non-interest expense	4,411	4,412
Income before provision for taxes	1,262	1,830
(Benefit) provision for income taxes	(218)) 676
Net income	\$1,480	\$1,154
Dividends on preferred stock	1,200	1,200
Income (loss) allocated to common stockholders	\$280	\$(46)
Net income (loss) per common share:		
Basic	\$.04	\$(.01)
Diluted	\$.04	\$(.01)
Number of shares used to compute net income (loss) per share:		
Basic	7,054	7,054
Diluted	7,054	7,054

The accompanying notes are an integral part of these statements.

BERKSHIRE BANCORP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
and COMPREHENSIVE INCOME (LOSS)

For The Three Months Ended March 31, 2011 and 2010
(In Thousands)
(Unaudited)

	Common Shares	Preferred Shares	Common Stock Value	Preferred Stock Par Value	Additional paid-in capital	Accumulated other comprehensive (loss), net	Retained Earnings (Accumulated deficit)	Treasury stock	Comprehensive income (loss)	Total stockholders' equity
Balance at December 31, 2009	7,698	60	\$ 770	\$ 1	\$ 150,985	\$ (13,276)	\$ (46,833)	\$ (6,411)		\$ 85,236
Net income							1,154		\$ 1,154	1,154
Other comprehensive income net of taxes						3,174			3,174	3,174
Comprehensive income									\$ 4,328	
Cash dividends - Preferred Stock							(1,200)			(1,200)
Balance at March 31, 2010	7,698	60	\$ 770	\$ 1	\$ 150,985	\$ (10,102)	\$ (46,879)	\$ (6,411)		\$ 88,364
Balance at December 31, 2010	7,698	60	\$ 770	\$ 1	\$ 150,985	\$ (8,589)	\$ (65,123)	\$ (6,411)		\$ 71,633
Net income							1,480		\$ 1,480	1,480
Other comprehensive income net of taxes						2,773			2,773	2,773
Comprehensive income									\$ 4,253	
Cash dividends - Preferred Stock							(1,200)			(1,200)
Balance at March 31, 2011	7,698	60	\$ 770	\$ 1	\$ 150,985	\$ (5,816)	\$ (64,843)	\$ (6,411)		\$ 74,686

The accompanying notes are an integral part of these statements.

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

	For The Three Months Ended March 31,	
	2011	2010
Cash flows from operating activities:		
Net income	\$ 1,480	\$ 1,154
Adjustments to reconcile net income to net cash provided by operating activities:		
Realized gains on investment securities	(55)	(155)
Net amortization of premiums of investment securities	430	646
Depreciation and amortization	123	130
Provision for loan losses	1,200	1,250
Increase in accrued interest receivable	(263)	(61)
Decrease in other assets	12,195	2,809
Increase in accrued interest payable and other liabilities	52	2,650
Net cash provided by operating activities	15,162	8,423
Cash flows from investing activities:		
Investment securities available for sale		
Purchases	(110,782)	(59,706)
Sales, maturities and calls	55,880	50,779
Investment securities held to maturity		
Maturities	5	6
Net decrease in loans	16,726	13,454
Acquisition of premises and equipment	(28)	(19)
Net cash (used in) provided by investing activities	(38,199)	4,514
Cash flows from financing activities:		
Net increase in non interest bearing deposits	5,658	7,342
Net increase (decrease) in interest bearing deposits	3,815	(4,291)
Repayment of borrowings	(1,113)	(3,071)
Dividends paid on preferred stock	—	(1,200)
Net cash provided by (used in) financing activities	8,360	(1,220)
Net (decrease) increase in cash and cash equivalents	(14,677)	11,717
Cash and cash equivalents at beginning of period	79,117	60,803
Cash and cash equivalents at end of period	\$ 64,440	\$ 72,520
Supplemental disclosures of cash flow information:		
Cash used to pay interest	\$ 2,116	\$ 2,838
Cash used to pay income taxes, net of refunds	\$ —	\$ —
Schedule of non-cash investing activities:		
Transfer from loans to real estate owned	\$ —	\$ 12,318
Schedule of non-cash financing activities:		
Dividends declared and not paid	\$ 1,200	\$ —

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, 2011 and 2010

(unaudited)

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 Berkshire Bancorp Inc. and its consolidated subsidiaries unless the context otherwise requires. Berkshire's principal activity is the ownership and management of its indirect wholly-owned subsidiary, The Berkshire Bank (the "Bank"), a New York State chartered commercial bank. The Bank is owned through Berkshire's wholly-owned subsidiary, Greater American Finance Group, Inc. ("GAFG").

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, GAFG and East 39, LLC.

We have prepared the accompanying financial statements pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC") for interim financial reporting. These consolidated financial statements, including the notes thereto, are unaudited and, in our opinion, include all adjustments, consisting of normal recurring adjustments and accruals necessary for a fair presentation of our consolidated balance sheets, operating results, and cash flows for the periods presented. Operating results for the periods presented are not necessarily indicative of the results that may be expected for the remaining quarters of fiscal 2011 due to a variety of factors. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States ("GAAP") have been omitted in accordance with the rules and regulations of the Securities and Exchange Commission (the "SEC"). These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes included in the Company's 2010 Annual Report on Form 10-K.

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

Note 2. Earnings (Loss) Per Share

Basic earnings (loss) per common share is calculated by dividing income (loss) available to common stockholders by the weighted average common stock outstanding, excluding stock options from the calculation. As of and for the periods ended March 31, 2011 and 2010, there were no potential dilutive shares.

The following table presents the Company's calculation of income (loss) per common share.

	For The Three Months Ended					
	March 31, 2011			March 31, 2010		
	Income (numerator)	Shares (denominator)	Per share amount	Income (numerator)	Shares (denominator)	Per share amount
	(In thousands, except per share data)					
Basic earnings (loss) per common share						
Net income	\$ 1,480			\$ 1,154		
Dividends paid to preferred shareholders	(1,200)			(1,200)		
Net income (loss) available to common stockholders	\$ 280	7,054	\$.04	\$ (46)	7,054	\$ (.01)

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

Note 3. Loan Portfolio

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

	March 31, 2011		December 31, 2010		
	Amount	% of Total	Amount	% of Total	
	(Dollars in thousands)				
Commercial and Industrial and Finance Leases	\$16,473	4.7 %	\$19,321	5.3 %	
Secured by real estate					
Residential	113,413	32.4	114,594	31.2	
Multi family	8,645	2.5	5,865	1.6	
Commercial real estate and construction	211,240	60.2	226,667	61.7	
Consumer	728	0.2	795	0.2	
Total loans	350,499	100.0 %	367,242	100.0 %	
Deferred loan fees	(901)		(937)		
Allowance for loan losses	(17,324)		(16,105)		
Loans, net	\$332,274		\$350,200		

The Bank had \$1.4 million and \$1.5 million of non-accrual loans as of March 31, 2011 and December 31, 2010, respectively, and \$2.0 million and \$495,000 of loans delinquent more than ninety days and still accruing interest at March 31, 2011 and December 31, 2010, respectively. The Bank did not foreclose on any loans during the quarter ended March 31, 2011. During the three months ended March 31, 2010, the Bank foreclosed on a real estate loan in the amount of \$12.3 million. In April 2010, the Bank sold its interest in this foreclosed loan for \$12.6 million.

The Bank classified the non-accrual loans as impaired loans at both March 31, 2011 and December 31, 2010. However, no specific reserves for impaired loans was made because the collateral underlying the impaired loans was deemed to be sufficient to cover any loss in the event of a default. Therefore, the allowance for loan loss is includable in the calculation of regulatory capital up to a maximum of 125% of risk-weighted assets or approximately \$5.5 million and \$5.8 million at March 31, 2011 and December 31, 2010, respectively.

Average impaired loans for the three months ended March 31, 2011 and 2010 were approximately \$3.6 million and \$17.1 million, respectively. Interest income that would have been recognized had these loans performed in accordance with their contractual terms was approximately \$3,000 and \$307,000, respectively.

The following table sets forth information concerning activity in the Company's allowance for loan losses for the indicated periods.

	For The Three Months Ended	
	March 31, 2011	March 31, 2010
	(In thousands)	
Balance at beginning of period	\$ 16,105	\$ 11,416
Provision charged to operations	1,200	1,250
Loans charged off	(2)	(766)

Recoveries	21	—
Balance at end of period	\$ 17,324	\$ 11,900

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

Note 3. - (continued)

Allowance for Credit Losses and Recorded Investment in Financing Receivables

The qualitative factors are determined based on the various risk characteristics of each loan class. Relevant risk characteristics are as follows:

Commercial and industrial loans - Loans in this class are made to businesses. Generally these loans are secured by assets of the business and repayment is expected from the cash flows of the business. A weakened economy, and resultant decreased consumer and/or business spending will have an effect on the credit quality in this loan class.

Commercial real estate - Loans in this class include income-producing investment properties and owner-occupied real estate used for business purposes. The underlying properties are generally located in our primary market area. The cash flows of the income producing investment properties are adversely impacted by a downturn in the economy as evidenced by increased vacancy rates, which in turn, will have an effect on credit quality. In the case of owner-occupied real estate used for business purposes a weakened economy and resultant decreased consumer and/or business spending will have an adverse effect on credit quality.

Construction loans - Loans in this class primarily include land loans to local individuals, contractors and developers for developing the land for sale or for the purpose of making improvements thereon. Repayment is derived from sale of the lots/units including any pre-sold units. Credit risk is affected by market conditions, time to sell at an adequate price and cost overruns. To a lesser extent this class includes commercial development projects we finance which in most cases have an interest-only phase during construction and then convert to permanent financing. Credit risk is affected by cost overruns, market conditions and the availability of permanent financing, to the extent such permanent financing is not being provided by us.

Residential real estate - Loans in this class are made to and secured by owner-occupied residential real estate and repayment is dependent on the credit quality of the individual borrower. The overall health of the economy, including unemployment rates and housing prices, will have an effect on the credit quality in this loan class. The Company generally does not originate loans with a loan-to-value ratio greater than 80 percent and does not grant subprime loans.

Multi-Family real estate - Loans in this class are made to and secured by owner-occupied residential real estate and repayment is dependent on the credit quality of the individual borrower. The overall health of the economy, including unemployment rates and housing prices, will have an effect on the credit quality in this loan class. The Company generally does not originate loans with a loan-to-value ratio greater than 80 percent and does not grant subprime loans.

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

Note 3. - (continued)

Consumer loans - Loans in this class may be either secured or unsecured and repayment is dependent on the credit quality of the individual borrower and, if applicable, sale of the collateral securing the loan (such as automobile or other secured assets). Therefore the overall health of the economy, including unemployment rates and housing prices, will have an effect on the credit quality in this loan class.

Financing Leases - Loans in this class may be either secured or unsecured and repayment is dependent on the credit quality of the individual borrower and, if applicable, sale of the collateral securing the loan (such as equipment or other secured assets). Therefore the overall health of the economy, including unemployment rates and housing prices, will have an effect on the credit quality in this loan class.

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

Note 3. - (continued)

Allowance for Credit Losses and Recorded Investment in Loans
For the Three Months Ended March 31, 2011
(In thousands)

	Commercial & Industrial	Commercial Real Estate	Commercial Construction	Multi Family	Residential Real Estate	Consumer	Finance Leases	Unallocated	Total
Allowance for credit losses:									
Beginning balance	\$ 417	\$ 8,610	\$ 2,784	\$ 147	\$ 2,066	\$ 25	\$ 419	\$ 1,637	\$ 16,105
Charge-offs	(2)								(2)
Recoveries	21								21
Provision	(111)	(827)	(1,410)	69	507	(1)	(56)	3,029	1,200
Ending balance	\$ 325	\$ 7,783	\$ 1,374	\$ 216	\$ 2,573	\$ 24	\$ 363	\$ 4,666	\$ 17,324
Ending balance:									
individually evaluated for impairment	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Ending balance:									
collectively evaluated for impairment	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 17,324
Financing Receivables:									
Ending balance	\$ 8,838	\$ 189,239	\$ 22,001	\$ 8,645	\$ 113,413	\$ 728	\$ 7,635	\$ 0	\$ 350,499
Ending balance:									
individually evaluated for impairment	\$ 0	\$ 1,361	\$ 0	\$ 0	\$ 2,269	\$ 0	\$ 0	\$ 0	\$ 3,630
Ending balance:									
collectively evaluated for impairment	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 346,869

The Company believes the unallocated amount included in the allowance for credit losses is appropriate given the nature of the portfolio with the size of individual loans and the current economy's impact on the real estate market. The Company will continue to closely monitor the environment and loan portfolio and make adjustments when appropriate.

The \$3.6 million of impaired loans were identified as troubled debt restructurings ("TDRs"). TDRs are the result of an economic concession being granted to borrowers experiencing financial difficulties. Certain TDRs are classified as nonperforming at the time of restructuring and may only return to performing status after considering the borrower's sustained repayment performance under the revised payment terms for a reasonable period, generally six months. We evaluated all of the impaired loans by analyzing the collateral value and by evaluating the discounted cash flow. Based on the nature of the modifications no impairment was required.

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

Note 3. - (continued)

Allowance for Credit Losses and Recorded Investment in Loans
For the Year Ended December 31, 2010
(In thousands)

	Commercial & Industrial	Commercial Real Estate	Commercial Construction	Multi Family	Residential Real Estate	Consumer	Finance Leases	Unallocated	Total
Allowance for credit losses:									
Beginning balance	\$ 1,349	\$ 2,592	\$ 3,211	\$ 30	\$ 763	\$ 57	\$ 115	\$ 3,299	\$ 11,416
Charge-offs	(300)	(766)				(1)			(1,067)
Recoveries	6								6
Provision	(638)	6,784	(427)	117	1,303	(31)	304	(1,662)	5,750
Ending balance	\$ 417	\$ 8,610	\$ 2,784	\$ 147	\$ 2,066	\$ 25	\$ 419	\$ 1,637	\$ 16,105
Ending balance: individually evaluated for impairment	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Ending balance: collectively evaluated for impairment	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 16,105
Financing Receivables:									
Ending balance	\$ 10,498	\$ 193,500	\$ 33,167	\$ 5,865	\$ 114,594	\$ 795	\$ 8,823	\$ 0	\$ 367,242
Ending balance: individually evaluated for impairment	\$ 0	\$ 816	\$ 0	\$ 0	\$ 1,998	\$ 0	\$ 0	\$ 0	\$ 2,814
Ending balance: collectively evaluated for impairment	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 364,428

The \$2.0 million of residential impaired loans were identified as troubled debt restructurings ("TDRs") at December 31, 2010. TDRs are the result of an economic concession being granted to borrowers experiencing financial difficulties. Certain TDRs are classified as nonperforming at the time of restructuring and may only return to performing status after considering the borrower's sustained repayment performance under the revised payment terms for a reasonable period, generally six months. We evaluated all of the impaired loans by analyzing the collateral value

and by evaluating the discounted cash flow. Based on the nature of the modifications no impairment was required.

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

Note 3. - (continued)

Age Analysis of Past Due Loans
As of March 31, 2011
(In thousands)

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	Recorded Loans > 90 Days and Accruing
Commercial & industrial	\$ —	\$ 227	\$ —	\$ 227	\$ 8,611	\$ 8,838	\$ —
Construction	—	—	—	—	22,001	22,001	—
Commercial real estate	14	30	2,000	2,044	187,195	189,239	2,000
Consumer	—	—	—	—	657	657	—
Overdrafts	—	—	—	—	71	71	—
Residential - prime	6,583	—	—	6,583	106,830	113,413	—
Residential - multi family	—	—	—	—	8,645	8,645	—
Finance leases	—	—	—	—	7,635	7,635	—
Total	\$ 6,597	\$ 257	\$ 2,000	\$ 8,854	\$ 341,645	\$ 350,499	\$ 2,000

Age Analysis of Past Due Loans
As of December 31, 2010
(In thousands)

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	Recorded Loans > 90 Days and Accruing
Commercial & industrial	\$ 251	\$ —	\$ 166	\$ 417	\$ 10,081	\$ 10,498	\$ 29
Construction	900	—	—	900	32,267	33,167	—
Commercial real estate	1,356	2,000	—	3,356	190,144	193,500	—
Consumer	—	—	15	15	780	795	11
Residential - prime	404	387	695	1,486	113,108	114,594	451
Residential - multi family	—	—	—	—	5,865	5,865	—
Finance leases	—	—	—	—	8,823	8,823	—
Total	\$ 2,911	\$ 2,387	\$ 876	\$ 6,174	\$ 361,068	\$ 367,242	\$ 495

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

Note 3. - (continued)

Impaired Loans

For the Three Months Ended March 31, 2011

(In thousands)

	Recorded Loan	Unpaid Principal Balance	Related Allowance	Average Recorded Loan	Interest Income Recognized	Interest Income Foregone
With no related allowance recorded:						
Commercial & industrial	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Construction	—	—	—	—	—	—
Commercial real estate	1,361	1,361	—	1,342	23	—
Consumer	—	—	—	—	—	—
Residential - prime	2,269	2,269	—	2,274	32	—
Residential - multi family	—	—	—	—	—	—
Finance leases	—	—	—	—	—	—
Total	\$ 3,630	\$ 3,630	\$ —	\$ 3,616	\$ 55	\$ 0
Commercial	1,361	1,361	—	1,342	23	—
Consumer	—	—	—	—	—	—
Residential	2,269	2,269	—	2,274	32	—

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

Note 3. - (continued)

Impaired Loans
For the Year Ended December 31, 2010
(In thousands)

	Recorded Loan	Unpaid Principal Balance	Related Allowance	Average Recorded Loan	Interest Income Recognized	Interest Income Foregone
With no related allowance recorded:						
Commercial & industrial	\$ —	\$ —	\$ —	\$ 292	\$ —	\$ 22
Construction	—	—	—	4,211	—	303
Commercial real estate	816	816	—	400	99	—
Consumer	—	—	—	—	—	—
Residential - prime	1,998	1,998	—	963	125	—
Residential - multi family	—	—	—	—	—	—
Finance leases	—	—	—	—	—	—
Total	\$ 2,814	\$ 2,814	\$ —	\$ 5,866	\$ 224	\$ 325
Commercial	816	816	—	4,903	99	325
Consumer	—	—	—	—	—	—
Residential	1,998	1,998	—	963	67	—

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

Note 3. - (continued)

Loans on Nonaccrual Status
As of

	March 31, 2011	December 31, 2010
	(In thousands)	
Commercial & industrial	\$ 133	\$ 137
Construction	—	—
Commercial real estate	—	—
Consumer	18	—
Residential	1,278	1,380
Residential - multi family	—	—
Finance leases	—	—
Total	\$ 1,429	\$ 1,517

Credit Exposure
Credit Risk Profile by Internally Assigned Grades
For the Three Months Ended March 31, 2011
(In thousands)

	Commercial & Industrial	Commercial Real Estate Construction	Commercial Real Estate Other
Grade:			
Pass	\$8,681	\$15,362	\$148,891
Watch	24	—	8,561
Special Mention	—	5,649	15,099
Substandard	133	990	16,688
Total	\$8,838	\$22,001	\$189,239

	Residential	Residential Multi Family
Grade:		
Pass	\$104,935	\$8,645
Watch	860	—
Special Mention	5,768	—
Substandard	1,850	—
Total	\$113,413	\$8,645

	Consumer Overdrafts	Consumer Other	Finance Leases
Performing	\$71	\$639	\$7,635
Nonperforming	—	18	—

Total	\$71	\$657	\$7,635
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BERKSHIRE BANCORP INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (continued)
(unaudited)

Note 3. - (continued)

Credit Exposure
Credit Risk Profile by Internally Assigned Grades
For the Year Ended December 31, 2010
(In thousands)

	Commercial & Industrial	Commercial Real Estate Construction	Commercial Real Estate Other
Grade:			
Pass	\$10,344	\$23,085	\$151,200
Watch	—	—	8,624
Special Mention	—	10,082	15,344
Substandard	154	—	18,332
Total	\$10,498	\$33,167	\$193,500

	Residential	Residential Multi Family
Grade:		
Pass	\$106,165	\$5,865
Watch	336	—
Special Mention	5,929	—
Substandard	2,164	—
Total	\$114,594	\$5,865

	Consumer Overdrafts	Consumer Other	Finance Leases
Performing	\$61	\$719	\$8,823
Nonperforming	4	11	—
Total	\$65	\$730	\$8,823

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

Note 3. - (continued)

The Company utilizes a grade risk rating system for commercial and industrial, commercial real estate and construction loans.

On a quarterly basis, or more often if needed, the Company formally reviews the ratings on all classified commercial and industrial, commercial real estate and construction loans. Semi-annually, the Company engages an independent third-party to review a significant portion of loans within these segments. Management uses the results of these reviews as part of its periodic review process.

Note 4. Investment Securities

The following is a summary of held to maturity investment securities:

	Amortized Cost	March 31, 2011 Gross unrealized gains Gross unrealized losses		Fair value
		(In thousands)		
U.S. Government Agencies	\$314	\$8	\$—	\$322

	Amortized Cost	December 31, 2010 Gross unrealized gains Gross unrealized losses		Fair value
		(In thousands)		
U.S. Government Agencies	\$319	\$1	\$(4)	\$316

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

Note 4. - (continued)

The following is a summary of available-for-sale investment securities:

	March 31, 2011			
	Amortized	Gross	Gross	Fair
	Cost	unrealized	unrealized	value
		gains	losses	
		(In thousands)		
U.S. Treasury Notes	\$80,034	\$50	\$(19)	\$80,065
U.S. Government Agencies	99,050	532	(1,854)	97,728
Mortgage-backed securities	129,158	3,819	(636)	132,341
Corporate notes	14,264	25	(419)	13,870
Single Issuer Trust Preferred CDO	1,024	462	—	1,486
Pooled Trust Preferred CDO	6,459	—	(4,949)	1,510
Municipal securities	2,645	—	(150)	2,495
Auction rate securities	73,993	2,304	(9,760)	66,537
Marketable equity securities and other	2,855	23	(46)	2,832
Totals	\$409,482	\$7,215	\$(17,833)	\$398,864

	December 31, 2010			
	Amortized	Gross	Gross	Fair
	Cost	unrealized	unrealized	value
		gains	losses	
		(In thousands)		
U.S. Treasury Notes	\$50,015	\$61	\$—	\$50,076
U.S. Government Agencies	88,469	591	(1,533)	87,527
Mortgage-backed securities	117,724	4,099	(686)	121,137
Corporate notes	13,773	44	(639)	13,178
Single Issuer Trust Preferred CDO	1,023	271	—	1,294
Pooled Trust Preferred CDO	6,459	—	(6,000)	459
Municipal securities	2,632	102	(46)	2,688
Auction rate securities	73,993	397	(12,311)	62,079
Marketable equity securities and other	2,810	316	—	3,126
Totals	\$356,898	\$5,881	\$(21,215)	\$341,564

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

Note 4. - (continued)

Management uses a multi-factor approach to determine whether each investment security in an unrealized loss position is other-than-temporarily impaired ("OTTI"). An unrealized loss position exists when the current fair value of an investment is less than its amortized cost basis. The valuation factors utilized by management incorporate the ideas and concepts outlined in relevant accounting guidance. These include such factors as:

- * The length of time and the extent to which the market value has been less than cost;
- * The financial condition of the issuer of the security as well as the near and long-term prospect for the issuer;
- * The rating of the security by a national rating agency;
- * Historical volatility and movement in the fair market value of the security; and
- * Adverse conditions relative to the security, issuer or industry.

The following table shows the outstanding auction rate securities aggregated by type of underlying collateral at March 31, 2011 and December 31, 2010:

	March 31, 2011		December 31, 2010	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
Federal Home Loan Mortgage Corporation Preferred Shares	\$693	\$2,997	\$693	\$1,089
Preferred Shares of Money Center Banks	71,300	61,540	71,300	58,990
Public Utility Debt and Equity Securities	2,000	2,000	2,000	2,000
Totals	\$73,993	\$66,537	\$73,993	\$62,079

In accordance with ASC 320-10, Investment - Debt and Equity Securities, Management's impairment analysis for the corporate and auction rate securities that were in a loss position as of March 31, 2011 began with management's determination that it had the intent to hold these securities for sufficient time to recover the cost basis. Management also concluded that it was unlikely that it would be required to sell any of the securities before recovery of the cost basis.

At both March 31, 2011 and December 31, 2010, the amortized cost of our auction rate securities was \$74.0 million. The fair value of the auction rate securities was \$66.5 million and \$62.1 million at March 31, 2011 and December 31, 2010, respectively.

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

Note 4. - (continued)

The fair value of the auction rate securities is determined by management valuing the underlying security. The auction rate securities allow for conversion to the underlying preferred security after two failed auctions. As of March 31, 2011, there have been more than two failed auctions for all outstanding auction rate securities. It is our intention to continue to hold these securities and not convert to the underlying preferred securities. We also perform a discounted cash flow analysis, but we considered the market value of the underlying preferred shares to be more objective and relevant in pricing auction rate securities.

In determining whether there is OTTI, management considers the factors noted above. The financial performance indicators we review include, but are not limited to, net earnings, change in liquidity, and change in cash from operating activities, and, for money center banks, the regulatory capital ratios and the allowance for loan losses to the nonperforming loans. Through March 31, 2011, the auction rate securities have continued to pay interest at the highest rate as stipulated in the original prospectus, except for Freddie Mac. Currently, the interest rate paid approximates the rate paid on money market deposit accounts.

At March 31, 2011 and December 31, 2010, we had six auction rate securities with an aggregate fair market value of \$18.7 million and \$21.0 million, respectively, which were below investment grade.

Based upon our methodology for determining the fair value of the auction rate securities, we concluded that as of March 31, 2011, the unrealized loss for the auction rate securities is due to the market interest volatility, the continued illiquidity of the auction rate markets, and uncertainty in the financial markets as there has not been a deterioration in the credit quality of the issuer of the auction rate securities or a downgrade of additional auction rate securities from investment grade. It is not more likely than not that the Company would be required to sell the auction rate securities prior to recovery of the unrealized loss, nor does the Company intend to sell the security at the present time.

During both the three months ended March 31, 2011 and the year ended December 31, 2010, no auction rate securities were redeemed.

At both March 31, 2011 and December 31, 2010, we had one pooled trust preferred CDO ("TPCDO") with an amortized cost of \$6.5 million, and a fair value of \$1.5 million and \$458,000, respectively. We own a Class B tranche of the TPCDO, which was considered below investment grade at both March 31, 2011 and December 31, 2010. In determining whether there is OTTI, management obtains discounted cash flow scenarios from independent third parties and uses the most conservative result in order to value the TPCDO, which we believe also reflects the most likely expected cash flow. Based upon the discounted cash flow analysis, no additional credit related OTTI charges were recognized during the quarter ended March 31, 2011.

There have been no credit rating down grades on any of our credit securities subsequent to December 31, 2010.

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

Note 4. - (continued)

At March 31, 2011 and December 31, 2010, the Company owned preferred and common stock (collectively "equity securities"). The fair value of the equity securities at March 31, 2011 increased by approximately \$294,000 from the fair value at December 31, 2010.

The Company has investments in certain debt securities that have unrealized losses or may be otherwise impaired, but an OTTI has not been recognized in the financial statements as management believes the decline is due to the credit markets coupled with the interest rate environment.

The following table indicates the length of time individual securities that we consider temporarily impaired have been in a continuous unrealized loss position at March 31, 2011 (in thousands):

Description of Securities	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury Notes	\$ 9,977	\$ 19	\$ —	\$ —	\$ 9,977	\$ 19
U.S. Government Agencies	53,391	1,854	31	—	53,422	1,854
Mortgage-backed securities	36,077	320	10,747	316	46,824	636
Corporate notes	2,652	17	8,291	402	10,943	419
Pooled Trust Preferred CDO	—	—	1,510	4,949	1,510	4,949
Auction rate securities	4,534	466	57,006	9,294	61,540	9,760
Municipal securities	2,495	150	—	—	2,495	150
Subtotal, debt securities	109,126	2,826	77,585	14,961	186,711	17,787
Marketable equity securities and other	816	46	—	—	816	46
Total temporarily impaired securities	\$ 109,942	\$ 2,872	\$ 77,585	\$ 14,961	\$ 187,527	\$ 17,833

The Company had a total of 72 debt securities with a fair market value of \$186.7 million which were temporarily impaired at March 31, 2011. The total unrealized loss on these securities was \$17.8 million, which is attributable to the market interest volatility, the continued illiquidity of the debt markets, and uncertainty in the financial markets. It is not more likely than not that we would sell these securities before maturity, and we have the intent to hold all of these securities to maturity and will not be required to sell these securities, due to our ratio of cash and cash equivalents of approximately 7.6% of total assets at March 31, 2011. Therefore, the unrealized losses associated with these securities are not considered to be other than temporary.

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

Note 4. - (continued)

The amortized cost and fair value of investment securities available for sale and held to maturity, by contractual maturity, at March 31, 2011 are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

March 31, 2011

Available for Sale