BERKSHIRE BANCORP INC /DE/
Form 10-Q
November 14, 2007

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 SEPTEMBER 30, 2007

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 a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. Large accelerated filer [ ] Accelerated filer [ ] Non-accelerated filer [X]

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act. Yes [ ] No [X]

As of November 12, 2007, there were 7,039,706 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 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, 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, 2006.

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)

	SEPTEMBER 30, 2007
ASSETS	
Cash and due from banks	$ 4,221
Interest bearing deposits	10,035

Federal funds sold	19,200
Total cash and cash equivalents	33,456
Investment Securities:	
Available-for-sale	595,607
Held-to-maturity, fair value of $405 in 2007 and $436 in 2006	400
Total investment securities	596,007
Loans, net of unearned income	396,776
Less: allowance for loan losses	(4,006)
Net loans	392,770
Accrued interest receivable	7,135
Premises and equipment, net	9,534
Goodwill, net	18,549
Other assets	8,647
Total assets	$ 1,066,098
LIABILITIES AND STOCKHOLDERS' EQUITY	
Deposits:	
Non-interest bearing	$ 50,544
Interest bearing	770,971
Total deposits	821,515
Securities sold under agreements to repurchase	41,911
Long term borrowings	48,410
Subordinated debt	22,681
Accrued interest payable	7,286
Other liabilities	3,068
Total liabilities	944,871
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 -- September 30, 2007, 7,054,183 shares December 31, 2006, 6,877,881 shares	770
Additional paid-in capital	90,965
Retained earnings	41,025
Accumulated other comprehensive loss, net	(5,122)
Treasury Stock at cost September 30, 2007, 644,102 shares December 31, 2006, 820,404 shares	(6,411)
Total stockholders' equity	121,227
	$ 1,066,098

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

BERKSHIRE BANCORP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(IN THOUSANDS, EXCEPT PER SHARE DATA)
(UNAUDITED)

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		NI
	2007	2006	2007
INTEREST INCOME			
Loans	$ 7,363	$ 6,059	$ 21,84
Investment securities	7,086	5,989	19,33
Federal funds sold and interest bearing deposits	208	93	1,27
Total interest income	14,657	12,141	42,44
INTEREST EXPENSE			
Deposits	8,281	5,831	23,55
Short-term borrowings	462	583	1,32
Long-term borrowings	939	1,095	2,84
Total interest expense	9,682	7,509	27,72
Net interest income	4,975	4,632	14,72
PROVISION FOR LOAN LOSSES	75	45	22
Net interest income after provision for loan losses	4,900	4,587	14,50
NON-INTEREST INCOME			
Service charges on deposits	148	148	51
Investment securities gains (losses)	(39)	--	8
Other income	236	211	65
Total non-interest income	345	359	1,25
NON-INTEREST EXPENSE			
Salaries and employee benefits	2,211	2,149	6,58
Net occupancy expense	603	489	1,51
Equipment expense	97	112	29
FDIC assessment	23	22	6
Data processing expense	111	90	30
Other	519	538	1,77
Total non-interest expense	3,564	3,400	10,54
Income before provision for taxes	1,681	1,546	5,20
Provision for income taxes	406	689	1,81
Net income	$ 1,275	$ 857	$ 3,39
Net income per share:			

Basic	$ .18	$ .12	$ .4
Diluted	$ .18	$ .12	$ .4
Number of shares used to compute net income per share:			
Basic	7,051	6,899	6,96
Diluted	7,052	6,984	6,98
Dividends declared per share	$ --	$ --	$ .0

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

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

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006
(In Thousands)
(unaudited)

	COMMON SHARES	STOCK PAR VALUE	ADDITIONAL PAID-IN CAPITAL	ACCUMULAT OTHER COMPREHENS (LOSS), N
BALANCE AT JANUARY 1, 2007	7,698	$770	$90,659	$ (4,77
Adoption of FIN 48				
Adjusted balance at January 1, 2007				
Net income				
Exercise of stock options			306	
Other comprehensive (loss) net of reclassification adjustment and taxes				(35
Comprehensive income (loss)				
Cash dividends				
BALANCE AT SEPTEMBER 30, 2007 (UNAUDITED)	7,698	$770	$90,965	$ (5,12
BALANCE AT JANUARY 1, 2006	7,698	$770	$90,594	$ (8,41
Net income				
Exercise of stock options			6	
Other comprehensive income net of reclassification adjustment and taxes				2,06
Comprehensive income				

Cash dividends				
BALANCE AT SEPTEMBER 30, 2006 (UNAUDITED)	7,698	$770	$90,600	$(6,35

	COMPREHENSIVE INCOME (LOSS)	TOTAL STOCKHOLDERS' EQUITY
BALANCE AT JANUARY 1, 2007		$115,777
Adoption of FIN 48		965
Adjusted balance at January 1, 2007		116,742
Net income	3,395	3,395
Exercise of stock options		2,060
Other comprehensive (loss) net of reclassification adjustment and taxes	(350)	(350)
Comprehensive income (loss)	$ 3,045	
Cash dividends		(620)
BALANCE AT SEPTEMBER 30, 2007 (UNAUDITED)		$121,227
BALANCE AT JANUARY 1, 2006		$108,710
Net income	3,273	3,273
Exercise of stock options		83
Other comprehensive income net of reclassification adjustment and taxes	2,065	2,065
Comprehensive income	$ 5,338	
Cash dividends		(549)
BALANCE AT SEPTEMBER 30, 2006 (UNAUDITED)		$113,582

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

	200
Cash flows from operating activities:	
Net income	$
Adjustments to reconcile net income to net cash provided by operating activities:	
Realized gains on investment securities	
Net (accretion) of premiums of investment securities	(
Depreciation and amortization	
Provision for loan losses	
(Increase) decrease in accrued interest receivable	
(Increase) decrease in other assets	
(Decrease) increase in accrued interest payable and other liabilities	(
Net cash (used in) provided by operating activities	
Cash flows from investing activities:	
Investment securities available for sale	
Purchases	(1,17
Sales, maturities and calls	1,09
Investment securities held to maturity	
Maturities	
Net increase in loans	(2
Acquisition of premises and equipment	
Net cash (used in) provided by investing activities	(10

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BERKSHIRE BANCORP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)
(UNAUDITED)

	FOR
	200
Cash flows from financing activities:	
Net increase (decrease) in non interest bearing deposits	1
Net increase (decrease) in interest bearing deposits	138
(Decrease) in securities sold under agreements to repurchase	(20
Proceeds from long term debt	16
Repayment of long term debt	(20
Proceeds from exercise of common stock options	2
Dividends paid	
Net cash provided by (used in) financing activities	116

Net (decrease) increase in cash and cash equivalents	9
Cash and cash equivalents - beginning of period	24
Cash and cash equivalents - end of period	$ 33
Supplemental disclosure of cash flow information:	
Cash used to pay interest	$ 27
Cash used to pay taxes, net of refunds	$ 2

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

BERKSHIRE BANCORP INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2007 AND 2006

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 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.

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 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 2007 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 SEC. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes included in our 2006 Annual Report on Form 10-K.

NOTE 2. 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%, currently 8.06%.

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%, currently 7.44%.

NOTE 2. - (CONTINUED)

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 and BCTII are not 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 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			
	SEPTEMBER 30, 2007			SEPTEM
	Income (numerator)	Shares (denominator)	Per share amount	Income (numerator)
	(In thousands, except per share data)			
Basic earnings per share Net income available to common stockholders	$1,275	7,051	$.18	$ 857
Effect of dilutive securities options	--	1	.--	--
Diluted earnings per share Net income available to common stockholders plus assumed conversions	$1,275	7,052	$.18	$ 857

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BERKSHIRE BANCORP INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 3. - (CONTINUED)

	FOR THE NINE MONTHS ENDED			
	SEPTEMBER 30, 2007			SEPT
	Income (numerator)	Shares (denominator)	Per share amount	Income (numerator)
	(In thousands, except per share data)			
Basic earnings per share Net income available to common stockholders	$3,395	6,965	$.49	$3,273
Effect of dilutive securities options	--	24	.--	--
Diluted earnings per share Net income available to common stockholders plus assumed conversions	$3,395	6,989	$.49	$3,273

NOTE 4. INVESTMENT SECURITIES

The following tables summarize held to maturity and available-for-sale investment securities as of September 30, 2007 and December 31, 2006:

	SEPTEMBER 30, 2007		
	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES
	(In thousands)		
HELD TO MATURITY INVESTMENT SECURITIES			
U.S. Government Agencies	$ 400	$ 6	$ (1)
Totals	$ 400	$ 6	$ (1)

	DECEMBER 31, 2006		
	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES
	(In thousands)		
HELD TO MATURITY INVESTMENT SECURITIES			
U.S. Government Agencies	$ 433	$ 4	$ (1)
Totals	$ 433	$ 4	$ (1)

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BERKSHIRE BANCORP INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 4. - (CONTINUED)

	SEPTEMBER 30, 2007		
	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES
	(In thousands)		

AVAILABLE-FOR-SALE INVESTMENT SECURITIES			
U.S. Treasury and Notes	$ --	$ --	$ --
U.S. Government Agencies	288,616	19	(2,768)
Mortgage-backed securities	58,186	84	(1,490)
Corporate notes	60,493	242	(4,180)
Municipal Securities	1,973	1,226	--
Marketable equity securities and other	193,186	184	(164)
Totals	$602,454	$ 1,755	$ (8,602)

	DECEMBER 31, 2006		
	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES
	(In thousands)		
AVAILABLE-FOR-SALE INVESTMENT SECURITIES			
U.S. Treasury and Notes	$ 5,002	$ --	$ (12)
U.S. Government Agencies	322,986	--	(5,822)
Mortgage-backed securities	67,472	92	(1,711)
Corporate Notes	44,366	334	(662)
Municipal securities	5,698	1,489	--
Marketable equity securities and other	75,419	216	(69)
Totals	$520,943	$ 2,131	$ (8,276)

Our available-for-sale portfolio is carried at estimated fair value, with any unrealized gains or losses, net of taxes, reported as accumulated other comprehensive income or loss in stockholders' equity. Our held-to-maturity portfolio, consisting of debt securities for which we have a positive intent and ability to hold to maturity, is carried at amortized cost. We conduct a periodic review and evaluation of the securities portfolio to determine if the value of any security has declined below its cost or amortized cost, and whether such decline is other-than-temporary.

The Company has investments in debt and equity securities that have unrealized losses, but an other-than-temporary impairment has not been recognized in its financial statements. Based upon management's review of the available information including the changes in interest rates during the period, current market conditions, applicable industry and company information specific to each investment, the creditworthiness of the issuer, and the Company's ability to hold the investment to maturity, such unrealized losses are not considered to be other-than-temporary.

BERKSHIRE BANCORP INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 5. LOAN PORTFOLIO

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

	SEPTEMBER 30, 2007		DECEMBER
	AMOUNT	% OF TOTAL	AMOUNT
	(Dollars in thousands)		
Commercial and professional loans	$ 66,408	16.7%	$ 63,33
Secured by real estate			
1-4 family	134,042	33.7	139,61
Multi family	3,639	0.9	4,01
Non-residential	192,901	48.4	160,41
Consumer	1,141	0.3	4,76
Total loans	398,131	100.0%	372,13
Deferred loan fees	(1,355)		(1,212
Allowance for loan losses	(4,006)		(3,771
Loans, net	$392,770		$367,15

Management does not believe that the Company has engaged in any subprime lending activities.

NOTE 6. DEPOSITS

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

	SEPTEMBER 30, 2007		DECEMBER 31, 2006	
	AVERAGE AMOUNT	AVERAGE YIELD	AVERAGE AMOUNT	AVERAGE YIELD
	(Dollars in thousands)			
Demand deposits	$ 50,089	--	$ 47,890	--
NOW and money market	34,245	0.63%	35,141	0.61%
Savings deposits	256,512	3.83	171,604	2.95
Time deposits	442,395	4.84	410,729	4.21
Total deposits	$783,241	4.02%	$665,364	3.39%

BERKSHIRE BANCORP INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 7. COMPREHENSIVE INCOME

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

	FOR THE NINE MONTHS ENDED			
	SEPTEMBER 30, 2007			SE
	BEFORE TAX AMOUNT	TAX (EXPENSE) BENEFIT	NET OF TAX AMOUNT	BEFORE TAX AMOUNT
			(In thousands)	
Unrealized gains (losses) on investment securities:				
Unrealized holding gains (losses) arising during period	$ (702)	$ 300	$ (402)	$4,165
Less reclassification adjustment for gains realized in net income	86	(34)	52	743
Other comprehensive income (loss), net	$ (616)	$ 266	$ (350)	$3,422

NOTE 8. ACCOUNTING FOR STOCK BASED COMPENSATION

In December 2004, the Financial Accounting Standards Board (the "FASB") issued Statement No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123(R)") which requires the measurement and recognition of compensation expense for all stock-based compensation payments and supersedes the Company's previous accounting under Accounting Principals Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25). SFAS 123(R) is effective for all annual periods beginning after June 15, 2005 or our fiscal year 2006. In March 2005, the Securities and Exchange Commission (the "SEC") issued Staff Accounting Bulletin No. 107 ("SAB 107") relating to the adoption of SFAS 123(R).

The Company adopted SFAS 123(R) in the first quarter of fiscal year 2006. The adoption of SFAS 123(R) did not have an impact on our operating results or financial condition because all options outstanding under the plan vested prior to the adoption of SFAS 123(R).

At September 30, 2007, the Company has one stock-based employee compensation plan, for which 2,076 options at a weighted average exercise price of $8.30 per share were outstanding with an average remaining life of 1.75 years. Prior to the adoption of SFAS 123(R), the Company accounted for that plan under the recognition and measurement principles of APB 25 and related interpretations. The Company did not grant stock options during the nine-month

period ended September 30, 2007 or during the fiscal year ended December 31, 2006. The Company has no plans to grant significant stock options, if any, in 2007. Therefore, we do not expect the implementation of FAS 123(R) to affect our financial position or results of operations in the near future.

BERKSHIRE BANCORP INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 9. 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 SEPTEMBER 30,		FOR THE NINE MONTHS E SEPTEMBER 3
	2007	2006	2007
Service cost	$ 90,750	$ 90,357	$ 272,250
Interest cost	43,500	37,531	130,500
Expected return on plan assets	(46,000)	(37,710)	(138,000)
Amortization and Deferral:			
Transition amount	--	--	--
Prior service cost	4,500	4,457	13,500
Loss	11,750	15,429	35,250
Net periodic pension cost	$104,500	$110,063	$ 313,500

During the fiscal year ending December 31, 2007, we expect to contribute approximately $390,000 to the Plan. We contributed $119,600 in April 2007, $84,905 in July 2007 and $185,000 in September 2007. We contributed $56,000, $221,000 and $56,000 in April, July and October 2006, respectively.

NOTE 10. NEW ACCOUNTING PRONOUNCEMENTS

FAIR VALUE OPTION FOR FINANCIAL ASSETS AND LIABILITIES

In February 2007, the FASB issued Statement 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS No. 159"). The objective of SFAS No. 159 is to provide companies with the option to recognize most financial assets and liabilities and certain other items at fair value. Statement 159 will allow companies the opportunity to mitigate earnings volatility caused by measuring related assets and liabilities differently without having to apply complex hedge accounting. Unrealized gains and losses on items for which the fair value option has been elected should be reported in earnings. The fair value option election is applied on an instrument by instrument basis (with some exceptions), is irrevocable, and is applied to an entire instrument. The election may be made as of the date of initial adoption

for existing eligible items. Subsequent to initial adoption, the Company may elect the fair value option at initial recognition of eligible items or on entering into an eligible firm commitment. The Company can only elect the fair value option after initial recognition in limited circumstances.

SFAS No. 159 requires similar assets and liabilities for which the Company has elected the fair value option to be displayed on the face of the balance sheet either (a) together with financial instruments measured using other measurement attributes with parenthetical disclosure of the amount measured at fair value or (b) in separate line items. In addition, SFAS No. 159 requires additional disclosures to allow financial statement users to compare similar assets and liabilities measured differently either within the financial statements of the Company or between financial statements of different companies.

NOTE 10. - (CONTINUED)

SFAS No. 159 is required to be adopted by the Company on January 1, 2008. Early adoption is permitted; however, the Company did not adopt SFAS No. 159 prior to the required adoption date of January 1, 2008. The Company is required to adopt SFAS No. 159 concurrent with SFAS No. 157, "Fair Value Measurements." The remeasurement to fair-value will be reported as a cumulative-effect adjustment in the opening balance of retained earnings. Additionally, any changes in fair value due to the concurrent adoption of SFAS No. 157 will be included in the cumulative-effect adjustment if the fair value option is also elected for that item.

The Company is currently evaluating, which, if any items it will elect to recognize at fair value at the date of adoption. The financial statement impact will depend on which items the Company elects to recognize at fair value, fair value at the date of adoption, and the concurrent adoption of SFAS No. 157. If the Company elects to recognize items at fair value as a result of Statement 159, this could result in increased earnings volatility.

ACCOUNTING FOR FAIR VALUE MEASUREMENT

In September 2006 the FASB issued SFAS No. 157, "Fair Value Measurements." The Statement is effective for all financial statements issued for fiscal years beginning after November 15, 2007, or January 1, 2008 as to the Company. The Statement defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Adoption of SFAS No. 157 is not expected to have a material impact on the Company's results of operations or financial condition.

ACCOUNTING FOR DEFINED BENEFIT PENSION AND OTHER POSTRETIREMENT PLANS

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans." The Statement requires an employer that is a business entity and sponsors one or more single-employer defined benefit plans to: (1) recognize the funded status of a benefit plan - measured as the difference between plan assets at fair value and the benefit obligation - in its statement of financial position, with the corresponding credit or charge, net of taxes, upon initial adoption to Other

Comprehensive Income; (2) recognize as a component of other comprehensive income, net of tax, the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost pursuant to SFAS No. 87, "Employers' Accounting for Pensions", or SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions"; (3) measure defined benefit plan assets and obligations as of the date of the employer's fiscal year end; and (4) expand disclosures in the notes to the financial statements about certain effects on net periodic benefit cost. The Statement also amends SFAS No. 132 (revised 2003), "Employers' Disclosures about Pensions and Other Postretirement Benefits", and SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans for Termination Benefits".

An employer who has publicly traded equity securities, such as the Company, is required to initially recognize the funded status of a defined benefit postretirement plan and to provide the required disclosures as of the end of its first fiscal year ending after December 15, 2006, as to the Company, the year ended December 31, 2006. The requirement to measure plan assets and benefit obligations as of the date of the employer's fiscal year end is effective for fiscal years ending after December 15, 2008. The adoption of this statement for the year ended December 31, 2006 did not have a significant effect on Other Comprehensive Income and stockholders' equity.

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. Presently, the SEC requires the Company to first comply with Section 404 by the year ending December 31, 2007.

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 per share amounts refer to diluted shares. References to Notes herein are references to the "Notes to Consolidated Financial Statements" of the Company located in Item 1 herein.

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.

CRITICAL ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

The Company's accounting and reporting policies conform with accounting principles generally accepted in the United States of America and general practices within the banking 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 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 Statement of Financial Accounting Standards ("SFAS") No. 142 ("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 the Bank. 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, 2006, the Company completed its annual 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. The quarterly evaluation of 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 SEPT			
	2007			
	AVERAGE BALANCE	INTEREST AND DIVIDENDS	AVERAGE YIELD/RATE	AVERAGE BALANCE
			(Dollars in Thousands)	
INTEREST-EARNING ASSETS:				
Loans (1)	$ 385,425	$ 7,363	7.64%	$330,11
Investment securities	581,577	7,086	4.87	528,76
Other (2)(5)	18,386	208	4.53	8,48
Total interest-earning assets	985,388	14,657	5.95	867,36
Noninterest-earning assets	47,250			49,33
Total Assets	$1,032,638			$916,70
INTEREST-BEARING LIABILITIES:				
Interest bearing deposits	291,919	2,631	3.61%	200,26
Time deposits	461,936	5,650	4.89	400,17
Other borrowings	98,123	1,401	5.71	144,69
Total interest-bearing liabilities	851,978	9,682	4.55	745,13
Demand deposits	51,525			47,17
Noninterest-bearing liabilities	9,979			15,57
Stockholders' equity (5)	119,156			108,82
Total liabilities and stockholders' equity	$1,032,638			$916,70
Net interest income		$ 4,975		
Interest-rate spread (3)			1.40%	
Net interest margin (4)			2.02%	
Ratio of average interest-earning assets to average interest bearing liabilities	1.16			1.1

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(1) Includes nonaccrual loans.

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

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

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

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

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FOR THE NINE MONTHS ENDED SEPTE

	2007			
	AVERAGE BALANCE	INTEREST AND DIVIDENDS	AVERAGE YIELD/RATE	AVERAGE BALANCE
			(Dollars in Thousands)	
INTEREST-EARNING ASSETS:				
Loans (1)	$ 380,628	$ 21,841	7.65%	$ 317,612
Investment securities	547,809	19,337	4.71	564,102
Other (2)(5)	34,146	1,270	4.96	8,404
Total interest-earning assets	962,583	42,448	5.88	890,118
Noninterest-earning assets	45,988			47,491
Total Assets	$1,008,571			$ 937,609
INTEREST-BEARING LIABILITIES:				
Interest bearing deposits	285,232	7,492	3.50%	208,545
Time deposits	442,395	16,058	4.84	408,203
Other borrowings	100,516	4,173	5.54	151,635
Total interest-bearing liabilities	828,143	27,723	4.46	768,383
Demand deposits	50,088			47,535
Noninterest-bearing liabilities	11,892			12,120
Stockholders' equity (5)	118,448			109,571
Total liabilities and stockholders' equity	$1,008,571			$ 937,609
Net interest income		$ 14,725		

Interest-rate spread (3)		1.42%	
Net interest margin (4)		2.04%	
Ratio of average interest-earning assets to average interest bearing liabilities	1.16		1.16

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(1) Includes nonaccrual loans.

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

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

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

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

RESULTS OF OPERATIONS

RESULTS OF OPERATIONS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2007 COMPARED TO THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2006.

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 twelve branch locations; seven branches in New York City, four branches in Orange and Sullivan counties New York, and one branch in Ridgefield, New Jersey.

NET INCOME. Net income for the three-month period ended September 30, 2007 was $1.28 million, or $.18 per share, as compared to $857,000, or $.12 per share, for the three-month period ended September 30, 2006. Net income for the nine-month period ended September 30, 2007 was $3.40 million, or $.49 per share, as compared to $3.27 million, or $.47 per share, for the nine-month period ended September 30, 2006.

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. The difference between the yield on short-term, 3-month U.S. Treasury Notes, and long-term, 10-year U.S. Treasury Bonds, referred to as the yield curve, is at historic lows. The Company's rising cost of funds, the rates paid on deposits and borrowings, has not been matched by the ability to safely increase the yields on interest earning assets.

NET INTEREST INCOME. The Company's primary source of revenue is net interest income, or the difference between interest income on interest-earning assets,

such as loans and investment securities, and interest expense on interest-bearing liabilities such as deposits and borrowings.

For the quarter ended September 30, 2007, net interest income increased by $343,000 to $4.98 million from $4.63 million for the quarter ended September 30, 2006. The quarter over quarter increase in net interest income was due to the $118.03 million increase in the average amount of interest-earning assets and the 35 basis point increase in the average yield earned on such assets, partially offset by the $106.84 million increase in the average amount of interest-bearing liabilities and the 52 basis point increase in the average rate paid on such liabilities. The Company's interest-rate spread, the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities, narrowed by 17 basis points to 1.40% in the 2007 quarter from 1.57% in the 2006 quarter.

For the nine-month period ended September 30, 2007, net interest income was flat, decreasing by $6,000 to $14.73 million for both nine-month periods ended September 30, 2007 and 2006. The average amount of interest-earning assets increased by $72.47 million to $962.58 million in the 2007 period from $890.12 million in the 2006 period and the average yield earned on such assets increased by 52 basis points to 5.88% in 2007 from 5.36% in 2006. The Company's interest-rate spread narrowed by 29 basis points to 1.42% during the nine-month period ended September 30, 2007 from 1.71% during the nine-month period ended September 30, 2006.

NET INTEREST MARGIN. Net interest margin, or annualized net interest income as a percentage of average interest-earning assets, declined by 12 basis points to 2.02% in the third quarter of 2007 from 2.14% in the third quarter of 2006, and declined by 17 basis points to 2.04% in the nine-month period ended September 30, 2007 from 2.21% in the nine-month period ended September 30, 2006. We seek to secure and retain customer deposits with competitive products and rates, and to make strategic use of the prevailing interest rate environment to borrow funds

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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 5.95% and 5.88% in the three and nine months ended September 30, 2007, respectively, compared to an aggregate average yield of 5.60% and 5.36% in the three and nine months ended September 30, 2006, respectively.

The increased yield on interest-earning assets is primarily the result of the increase in our loan portfolio as a percentage of our total interest-earning assets. For the three months ended September 30, 2007, the average amount of loans increased by $55.31 million to $385.43 million from $330.12 million for the three months ended September 30, 2006. The average yield on such loans increased by 30 basis points to 7.64% in the 2007 quarter from 7.34% in the 2006 quarter. The average amount of investment securities increased by $52.82 million, to $581.58 million during the quarter ended September 30, 2007 from $528.76 million during the quarter ended September 30, 2006 and the average yield on investment securities increased to 4.87% during the 2007 quarter from 4.53% during the 2006 quarter. The average amount of other interest-earning assets, primarily cash and short-term investments, increased by $9.90 million to $18.39 million from $8.48 million in the three months ended September 30, 2007 and 2006, respectively.

During the nine-month period ended September 30, 2007, the average amount of loans in our loan portfolio increased by $63.02 million to $380.63 million from $317.61 million for the nine-month period ended September 30, 2006. The average yield on such loans increased by 45 basis points to 7.65% in the 2007 period from 7.20% in the 2006 period. The average amount of investment securities decreased by $16.29 million to $547.81 million in the 2007 period from $564.10 million in the 2006 period, and the average yield on such securities increased by 36 basis points to 4.71% from 4.35% in the nine-month period ended September 30, 2007 and 2006, respectively. Other interest-earning assets increased by $25.74 million to $34.14 million in the 2007 period from $8.40 million in the 2006 period, and the average yield on other interest-earning assets increased by 98 basis points to 4.96% in the nine-month period ended September 30, 2007 from 3.98% in the nine-month period ended September 30, 2006.

INTEREST INCOME. Total interest income for the quarter ended September 30, 2007 increased by $2.52 million to $14.66 million from $12.14 million for the quarter ended September 30, 2006, and increased by $6.66 million to $42.45 million for the nine months ended September 30, 2007 from $35.79 million for the nine months ended September 30, 2006. The increase in total interest income during the three and nine months of fiscal year 2007 was due to the higher average yields earned and the higher average amounts of interest-earning assets.

Loans contributed $7.36 million and $21.84 million of interest income during the three and nine months ended September 30, 2007, respectively, compared to $6.06 million and $17.15 million of interest income during the three and nine months ended September 30, 2006, respectively. Investment securities contributed $7.09 million and $19.34 million of interest income during the three and nine months ended September 30, 2007, respectively, compared to $5.99 million and $18.39 million of interest income during the three and nine months ended September 30, 2006, respectively.

	THREE MONTHS ENDED SEPTEMBER 30,			
	2007		2006	
	INTEREST INCOME	% OF TOTAL	INTEREST INCOME	% OF TOTAL
	(In thousands, except percentages)			
Loans	$ 7,363	50.23%	$ 6,059	49.91%
Investment Securities	7,086	48.35	5,989	49.33
Other	208	1.42	93	0.76
Total Interest Income	$14,657	100.00%	$12,141	100.00%

NINE MONTHS ENDED SEPTEMBER 30,

	2007		2006	
	INTEREST INCOME	% OF TOTAL	INTEREST INCOME	% OF TOTAL
	(In thousands, except percentages)			
Loans	$21,841	51.46%	$17,148	47.91%
Investment Securities	19,337	45.55	18,393	51.39
Other	1,270	2.99	251	0.70
Total Interest Income	$42,448	100.00%	$35,792	100.00%

Loans, which are inherently risky and therefore command a higher return than our portfolio of investment securities, have increased as a percentage of total average interest-earning assets. During the three and nine months ended September 30, 2007, the average amount of our loan portfolio represented 39.11% and 39.54%, respectively, of total interest-earning assets compared to 38.06% and 35.68%, respectively, for the three and nine months ended September 30, 2006. The average amount of investment securities have decreased to 59.02% and 56.91% of total interest-earning assets during the three and nine-month periods of fiscal year 2007, respectively, compared to 60.96% and 63.37% during the three and nine-month periods of fiscal year 2006, 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 SEPTEMBER 30,			
	2007		2006	
	AVERAGE AMOUNT	% OF TOTAL	AVERAGE AMOUNT	
	(In thousands, except percentages)			
Loans	$385,425	39.11%	$330,117	
Investment Securities	581,577	59.02	528,760	
Other	18,386	1.87	8,484	
Total Interest-Earning Assets	$985,388	100.00%	$867,361	1

	NINE MONTHS ENDED SEPTEMBER 30,		
	2007		2006
	AVERAGE AMOUNT	% OF TOTAL	AVERAGE AMOUNT

		(In thousands, except percentages)		
Loans	$380,628	39.54%	$317,612	
Investment Securities	547,809	56.91	564,102	
Other	34,146	3.55	8,404	
Total Interest-Earning Assets	$962,583	100.00%	$890,118	1

INTEREST EXPENSE. Total interest expense for the quarter ended September 30, 2007 increased by $2.17 million to $9.68 million from $7.51 million for the quarter ended September 30, 2006. The increase in interest expense was due to the increase in the average rates paid on such liabilities, 4.55% and 4.03% in the 2007 and 2006 quarters, respectively, and the increase in the average amount of interest-bearing liabilities. In May 2004 and April 2005, we sold $15.46 million and $7.22 million, respectively, of floating rate junior subordinated debentures (the "Debentures") and used the net proceeds to augment the Bank's capital to allow for business expansion. The interest expense on these Debentures, which is included in other borrowings was, approximately $458,000 and $444,000 during the three months ended September 30, 2007 and 2006, respectively.

	THREE MONTHS ENDED SEPTEMBER 30,			
	2007		2006	
	INTEREST EXPENSE	% OF TOTAL	INTEREST EXPENSE	% OF TOTAL
	(In thousands, except percentages)			
Interest-Bearing Deposits	$2,631	27.17%	$1,406	18.72
Time Deposits	5,650	58.36	4,425	58.93
Other Borrowings	1,401	14.47	1,678	22.35
Total Interest Expense	$9,682	100.00%	$7,509	100.00

Total interest expense for the nine-month period ended September 30, 2007 increased by $6.66 million to $27.72 million from $21.06 million for the nine-month period ended September 30, 2006. The increase in interest expense was due to the increase in the average rates paid on such liabilities, 4.46% and 3.65% in the 2007 and 2006 periods, respectively, and the increase in the average amount of interest-bearing liabilities. The interest expense on the Debentures was approximately $1.37 million and $1.30 million during the 2007 and 2006 nine-month periods, respectively.

	NINE MONTHS ENDED SEPTEMBER 30,			
	2007		2006	
	INTEREST EXPENSE	% OF TOTAL	INTEREST EXPENSE	% TOT
	(In thousands, except percentages)			
Interest-Bearing Deposits	$7,492	27.02%	$3,772	17.9
Time Deposits	16,058	57.93	12,259	58.2
Other Borrowings	4,173	15.05	5,030	23.8
Total Interest Expense	$ 27,723	100.00%	$ 21,061	100.0

NON-INTEREST INCOME. Non-interest income consists primarily of realized gains on sales of marketable securities and service fee income. For the three and nine months ended September 30, 2007, non-interest income amounted to $345,000 and $1.25 million, respectively, compared to non-interest income of $359,000 and $1.72 million for the three and nine months ended September 30, 2006, respectively.

	THREE MONTHS ENDED SEPTEMBER 30,			
	2007		2006	
	NON-INTEREST INCOME	% OF TOTAL	NON-INTEREST INCOME	
	(In thousands, except percentages)			
Service Charges on Deposits	$ 148	42.90%	$ 148	
Investment Securities Losses	(39)	(11.30)	--	
Other	236	68.40	211	
Total Non-Interest Income	$ 345	100.00%	$ 359	1

	NINE MONTHS ENDED SEPTEMBER 30,		
	2007		2006
	NON-INTEREST INCOME	% OF TOTAL	NON-INTEREST INCOME

(In thousands, except percentages)

Service Charges on Deposits	$ 512	40.93	$ 434	
Investment Securities gains	86	6.87	743	
Other	653	52.20	540	
Total Non-Interest Income	$ 1,251	100.00%	$ 1,717	1

NON-INTEREST EXPENSE. Non-interest expense includes salaries and employee benefits, occupancy and equipment expenses, legal and professional fees and other operating expenses associated with the day-to-day operations of the Company. Total non-interest expense for the three and nine-month periods ended September 30, 2007 was $3.56 million and $10.54 million, respectively, compared to $3.40 million and $10.19 million for the three and nine month-periods ended September 30, 2006, respectively. The increase in the 2007 three and nine-month periods are primarily due to the expansion of our business. We have added space and staff and have invested in new technologies to maintain and enhance customer service levels, and to insure our compliance with various regulatory matters.

	THREE MONTHS ENDED SEPTEMBER 30,		
	2007		2006
	NON-INTEREST EXPENSE	% OF TOTAL	NON-INTEREST EXPENSE
	(In thousands, except percentages)		
Salaries and Employee Benefits	$ 2,211	62.04%	$ 2,149
Net Occupancy Expense	603	16.92	489
Equipment Expense	97	2.72	112
FDIC Assessment	23	0.65	22
Data Processing Expense	111	3.11	90
Other	519	14.56	538
Total Non-Interest Expense	$ 3,564	100.00%	$ 3,400

	NINE MONTHS ENDED SEPTEMBER 30,		
	2007		2006
	NON-INTEREST EXPENSE	% OF TOTAL	NON-INTEREST EXPENSE

(In thousands, except percentages)

Salaries and Employee Benefits	$ 6,587	62.47%	$ 6,326
Net Occupancy Expense	1,519	14.41	1,455
Equipment Expense	297	2.82	316
FDIC Assessment	63	0.60	65
Data Processing Expense	306	2.90	271
Other	1,771	16.80	1,757
Total Non-Interest Expense	$10,543	100.00%	$10,190

PROVISION FOR INCOME TAX. During the three and nine-month periods ended September 30, 2007, the Company recorded income tax expense of $406,000 and $1.81 million, respectively, compared to income tax expense of $689,000 and $2.85 million, respectively, for the three and nine-month periods ended September 30, 2006. The tax provisions for federal, state and local taxes recorded for the first nine months of 2007 and 2006 represent effective tax rates of 34.81% and 46.55%, respectively. The effective tax rate for the three months ended September 30, 2007 and 2006 were 24.15% and 44.56%, respectively. The decline in the effective tax rate in 2007 compared to 2006 is primarily due the Bank's investment in certain securities which carry a larger tax benefit because of their dividend payments.

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 September 30, 2007, the Company has purchased a total of 1,898,909 shares of its Common Stock. At September 30, 2007, there were 501,091 shares of Common Stock which may yet be purchased under our stock repurchase plan. We did not repurchase shares of the Company's Common Stock during the nine months ended September 30, 2007.

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 $48.41 million at September 30, 2007, 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 BANCOR
INTEREST RATE SENSITIVITY GAP A
(IN THOUSANDS, EXCEPT FO

		3 MONTHS OR LESS	3 THROUGH 12 MONTHS	1 THROUGH 3 YEARS
Federal funds sold		19,200	--	--
	(Rate)	5.35%		
Interest bearing deposits in banks		10,035	--	--
	(Rate)	4.17%		
Loans (1)(2)				
Adjustable rate loans		114,552	10,431	19,351
	(Rate)	8.56%	6.68%	6.83%
Fixed rate loans		324	23,534	36,230
	(Rate)	7.59%	7.63%	8.21%
Total loans		114,876	33,965	55,581
Investments (3)(4)		254,672	93,319	139,436
	(Rate)	5.16%	4.53%	4.25%
Total rate-sensitive assets		398,783	127,284	195,017
Deposit accounts (5)				
Savings and NOW		280,793	--	--

	(Rate)	3.71%		
Money market		13,350	--	--
	(Rate)	0.68%		
Time Deposits		181,338	294,298	1,192
	(Rate)	4.46%	5.04%	3.19%
Total deposit accounts		475,481	294,298	1,192
Repurchase Agreements		41,911	--	--
	(Rate)	4.86%		
Other borrowings		15,769	8,441	23,229
	(Rate)	5.10%	3.34%	5.36%
Total rate-sensitive liabilities		533,161	302,739	24,421
Interest rate caps		10,000	(10,000)	
Gap (repricing differences)		(144,378)	(165,455)	170,596
Cumulative Gap		(144,378)	(309,833)	(139,237)
Cumulative Gap to Total Rate Sensitive Assets		(14.01)%	(30.01)%	(13.51)%

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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 allowance for loan losses is the estimated amount considered necessary to cover credit losses inherent in the loan portfolio at the balance sheet date. The allowance is established through the provision for loan losses that is charged against income. In determining the allowance for loan losses, management makes significant estimates and therefore has identified the allowance as a critical accounting policy. The methodology for determining the allowance for loan losses is considered a critical accounting policy by management due to the high degree of judgment involved, the subjectivity of the assumptions utilized, and the potential for changes in the economic environment that could result in changes to the amount of the recorded allowance for loan losses.

The allowance for loan losses has been determined in accordance with accounting principles generally accepted in the United States of America, under which we are required to maintain an allowance for probable losses at the balance sheet date. We are responsible for the timely and periodic determination

of the amount of the allowance required. Management believes that the allowance for loan losses is adequate to cover specifically identifiable losses, as well as estimated losses inherent in our portfolio for which certain losses are probable but not specifically identifiable.

Management performs a quarterly evaluation of the adequacy of the allowance for loan losses. The analysis of the allowance for loan losses has two components: specific and general allocations. Specific allocations are made for loans determined to be impaired. Impairment is measured by determining the present value of expected future cash flows or, for collateral-dependent loans, the fair value of the collateral adjusted for market conditions and selling expenses. The general allocation is determined by segregating the remaining loans by type of loan, risk weighting (if applicable) and payment history. Management also analyzes historical loss experience, delinquency trends, general economic conditions, geographic concentrations, and industry and peer comparisons. This analysis establishes factors that are applied to the loan segments to determine the amount of the general allocations. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revisions based upon changes in economic and real estate market conditions. Actual loan losses may be significantly more than the allowance for loan losses management has established which could have a material negative effect on the Company's financial results.

On a quarterly basis, the Bank's management committee reviews the current status of various loan assets in order to evaluate the adequacy of the allowance for loan losses. In this evaluation process, specific loans are analyzed to determine their potential risk of loss. This process includes all loans, concentrating on non-accrual and classified loans. Each non-accrual or classified loan is evaluated for potential loss exposure. Any shortfall results in a recommendation of a specific allowance if the likelihood of loss is evaluated as probable. To determine the adequacy of collateral on a particular loan, an estimate of the fair market value of the collateral is based on the most current appraised value available. This appraised value is then reduced to reflect estimated liquidation expenses.

The Company's primary lending emphasis has been the origination of commercial and residential mortgages and commercial and consumer loans and lines of credit. The bank also originates home equity loans and home equity lines of credit. These activities resulted in a loan concentration in commercial and residential mortgages. As a substantial amount of our loan portfolio is collateralized by real estate, appraisals of the underlying value of property securing loans are critical in determining the amount of the allowance required for specific loans. Assumptions for appraisal valuations are instrumental in determining the value of properties. Overly optimistic assumptions or negative changes to assumptions could significantly impact the valuation of a property securing a loan and the related allowance determined. The assumptions supporting

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such appraisals are carefully reviewed by management to determine that the resulting values reasonably reflect amounts realizable on the related loans. Based on the composition of our loan portfolio, management believes the primary risks are increases in interest rates, a decline in the economy, generally, and a decline in real estate market values in the New York metropolitan area. Any one or combination of these events may adversely affect our loan portfolio resulting in increased delinquencies, loan losses and future levels of loan loss provisions. Management considers it important to maintain the ratio of our allowance for loan losses to total loans at an adequate level given current

economic conditions, interest rates, and the composition of the portfolio. Management believes the allowance for loan losses reflects the inherent credit risk in our portfolio, the level of our non-performing loans and our charge-off experience.

Although management believes that we have established and maintained the allowance for loan losses at adequate levels, additions may be necessary if future economic and other conditions differ substantially from the current operating environment. Although management uses the best information available, the level of the allowance for loan losses remains an estimate that is subject to significant judgment and short-term change. In addition, the Federal Deposit Insurance Corporation, New York State Banking Department, and other regulatory bodies, as an integral part of their examination process, will periodically review our allowance for loan losses. Such agencies may require us to recognize adjustments to the allowance based on its judgments about information available to them at the time of their examination.

For the three and nine months ended September 30, 2007, we did not charge-off any loans, and we recovered loans of $3,000 and $10,000, respectively. For the three and nine months ended September 30, 2006, we charged-off loans of $41,000 and $42,000, respectively, and recovered loans of $9,000 and $14,000, respectively. All recovered amounts in 2007 and 2006 were returned to the provision for loan loss reserves.

The provision for loan losses totaled $75,000 and $225,000 for the three and nine-month periods ended September 30, 2007, respectively, as compared to $45,000 and $135,000 for the three and nine-month periods ended September 30, 2006, respectively. The increases in the provision for loan losses in the 2007 periods is predicated upon the growth in the loan portfolio.

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 SEPTEMBER 30,		NINE MONTHS E SEPTEMBER 3	
	2007	2006	2007	
Average loans outstanding	$385,425	$330,117	$380,628	$3
Allowance at beginning of period	3,928	3,360	3,771	

Charge-offs:				
Commercial and other loans	--	41	--	
Real estate loans	--	--	--	
Total loans charged-off	--	41	--	
Recoveries:				
Commercial and other loans	3	9	10	
Real estate loans	--	--	--	
Total loans recovered	3	9	10	
Net recoveries (charge-offs)	3	(32)	10	
Provision for loan losses charged to operating expenses	75	45	225	
Allowance at end of period	4,006	3,373	4,006	
Ratio of net recoveries (charge-offs) to average loans outstanding	0.00%	(0.01)%	0.00%	
Allowance as a percent of total loans	1.01%	0.95%	1.01%	
Total loans at end of period	$398,131	$354,344	$398,131	$3

LOAN PORTFOLIO.

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 September 30, 2007, we had total gross loans of $398.13 million, deferred loans fees of $1.36 million and an allowance for loan losses of $4.01 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 and nine-month periods ended September 30, 2007, the Bank sold approximately $1.40 million, with no recognized gain or loss, and $5.07 million, with a gain of $3,000, recorded in other income, respectively, on such sales.

The Bank's policy is 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 September 30, 2007 and 2006, 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 September 30, 2007, 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 September 30, 2007 and December 31, 2006 (dollars in thousands):

	ACTUAL		FOR CAPITAL ADEQUACY PURPOSES		TO BE CAPITALIZ PROMPT CO ACTION PR
	AMOUNT	RATIO	AMOUNT	RATIO	AMOUNT
SEPTEMBER 30, 2007					
Total Capital (to Risk-Weighted Assets)					
Company	$134,487	19.6%	$55,028	>8.0% -	--
Bank	102,437	15.3%	53,445	>8.0% -	66,807
Tier I Capital (to Risk-Weighted Assets)					
Company	130,481	19.0%	27,514	>4.0% -	--
Bank	98,431	14.7%	26,723	>4.0% -	40,084
Tier I Capital (to Average Assets)					
Company	130,481	12.9%	40,343	>4.0% -	--
Bank	98,431	10.0%	39,478	>4.0% -	49,347

	ACTUAL		FOR CAPITAL ADEQUACY PURPOSES		TO BE CAPITALIZE PROMPT COR ACTION PRO
	AMOUNT	RATIO	AMOUNT	RATIO	AMOUNT

DECEMBER 31, 2006					
Total Capital (to Risk-Weighted Assets)					
Company	$128,452	23.9%	$43,031	>8.0% -	--
Bank	99,170	19.3%	41,120	>8.0% -	51,400
Tier I Capital (to Risk-Weighted Assets)					
Company	124,681	23.2%	21,516	>4.0% -	--
Bank	95,400	18.6%	20,560	>4.0% -	30,840
Tier I Capital (to Average Assets)					
Company	124,681	13.4%	37,322	>4.0% -	--
Bank	95,400	10.9%	35,022	>4.0% -	43,778

LIQUIDITY

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

For the Company, liquidity means having cash available to fund operating expenses, to pay shareholder dividends, when and if declared by the Company's Board of Directors and to pay the interest on the Debentures issued in May 2004 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 September 30, 2007, the Company, excluding the Bank, had cash and cash equivalents of approximately $15.45 million and investment securities available for sale of $10.02 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 $55.39 million at September 30, 2007, include commitments to extend credit and stand-by letters of credit.

At September 30, 2007, the Company had outstanding commitments of approximately $528.49 million; including $476.83 million of time deposits, $48.41 million of Federal Home Loan Bank debt and $3.25 million of operating leases. These commitments include $499.41 million that mature or renew within one year, $26.86 million that mature or renew after one year and within three years, $1.61 million that mature or renew after three years and within five years and $617,000 that mature or renew after five years.

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 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 and that any material information relating to the Company is accumulated and communicated with management, including its principal executive/financial officer to allow timely decisions regarding required disclosure. In accordance with SEC requirements, the CEO/CFO notes that during the fiscal quarter ended September 30, 2007, 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: NOVEMBER 12, 2007

By: /S/ STEVEN ROSENBERG

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STEVEN ROSENBERG
PRESIDENT AND CHIEF
FINANCIAL OFFICER

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