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BERKSHIRE BANCORP INC /DE/
Form 10-Q
May 04, 2007

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, 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 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

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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 May 1, 2007, there were 6,914,206 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, 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.

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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, 2007 | DECEMBER 31, 2006 |
|--|-------------------|----------------------|
| | ----- | ----- |
| ASSETS | | |
| Cash and due from banks | \$ 7,227 | \$ 8,061 |
| Interest bearing deposits | 8,262 | 4,950 |
| Federal funds sold | 45,200 | 11,300 |
| | ----- | ----- |
| Total cash and cash equivalents | 60,689 | 24,311 |
| Investment Securities: | | |
| Available-for-sale | 514,865 | 514,798 |
| Held-to-maturity, fair value of \$430 in 2007 and \$436 in 2006 | 426 | 433 |
| | ----- | ----- |
| Total investment securities | 515,291 | 515,231 |
| Loans, net of unearned income | 378,151 | 370,923 |
| Less: allowance for loan losses | (3,848) | (3,771) |
| | ----- | ----- |

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| | | |
|--|------------|------------|
| Net loans | 374,303 | 367,152 |
| Accrued interest receivable | 5,897 | 6,397 |
| Premises and equipment, net | 9,181 | 9,338 |
| Goodwill, net | 18,549 | 18,549 |
| Other assets | 7,497 | 7,678 |
| | ----- | ----- |
| Total assets | \$ 991,407 | \$ 948,656 |
| | ===== | ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Deposits: | | |
| Non-interest bearing | \$ 49,648 | \$ 49,418 |
| Interest bearing | 722,638 | 632,071 |
| | ----- | ----- |
| Total deposits | 772,286 | 681,489 |
| Securities sold under agreements to repurchase | 23,206 | 62,652 |
| Long term borrowings | 43,888 | 52,738 |
| Subordinated debt | 22,681 | 22,681 |
| Accrued interest payable | 7,356 | 8,110 |
| Other liabilities | 3,918 | 5,209 |
| | ----- | ----- |
| Total liabilities | 873,335 | 832,879 |
| | ----- | ----- |
| Stockholders' equity | | |
| Preferred stock - \$.10 Par value: | -- | -- |
| 2,000,000 shares authorized - none issued | | |
| Common stock - \$.10 par value | | |
| Authorized -- 10,000,000 shares | | |
| Issued -- 7,698,285 shares | | |
| Outstanding -- | | |
| March 31, 2007, 6,905,706 shares | | |
| December 31, 2006, 6,877,881 shares | 770 | 770 |
| Additional paid-in capital | 90,635 | 90,659 |
| Retained earnings | 39,350 | 37,285 |
| Accumulated other comprehensive loss, net | (4,795) | (4,772) |
| Treasury Stock | | |
| March 31, 2007, 792,579 shares | | |
| December 31, 2006, 820,404 shares | (7,888) | (8,165) |
| | ----- | ----- |
| Total stockholders' equity | 118,072 | 115,777 |
| | ----- | ----- |
| | \$ 991,407 | \$ 948,656 |
| | ===== | ===== |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

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

FOR THE
THREE MONTHS ENDED
MARCH 31,

2007 2006

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| | | |
|--|----------|----------|
| INTEREST INCOME | ----- | ----- |
| Loans | \$ 7,238 | \$ 5,504 |
| Investment securities | 5,835 | 6,255 |
| Federal funds sold and interest bearing deposits | 686 | 76 |
| Total interest income | 13,759 | 11,835 |
| INTEREST EXPENSE | ----- | ----- |
| Deposits | 7,444 | 4,855 |
| Short-term borrowings | 433 | 541 |
| Long-term borrowings | 991 | 1,211 |
| Total interest expense | 8,868 | 6,607 |
| Net interest income | 4,891 | 5,228 |
| PROVISION FOR LOAN LOSSES | 75 | 45 |
| Net interest income after provision for loan losses | 4,816 | 5,183 |
| NON-INTEREST INCOME | ----- | ----- |
| Service charges on deposit accounts | 181 | 140 |
| Investment securities gains | 125 | 741 |
| Other income | 209 | 172 |
| Total non-interest income | 515 | 1,053 |
| NON-INTEREST EXPENSE | ----- | ----- |
| Salaries and employee benefits | 2,234 | 2,107 |
| Net occupancy expense | 476 | 475 |
| Equipment expense | 102 | 96 |
| FDIC assessment | 20 | 21 |
| Data processing expense | 96 | 90 |
| Other | 525 | 624 |
| Total non-interest expense | 3,453 | 3,413 |
| Income before provision for taxes | 1,878 | 2,823 |
| Provision for income taxes | 778 | 1,327 |
| Net income | \$ 1,100 | \$ 1,496 |
| Net income per share: | ===== | ===== |
| Basic | \$.16 | \$.22 |
| Diluted | \$.16 | \$.21 |
| Number of shares used to compute net income per share: | ===== | ===== |
| Basic | 6,896 | 6,891 |
| Diluted | 6,957 | 6,983 |

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

FOR THE THREE MONTHS ENDED MARCH 31, 2007 AND 2006
(In Thousands)
(Unaudited)

| | COMMON SHARES | STOCK PAR VALUE | ADDITIONAL PAID-IN CAPITAL | ACCUMULATED OTHER COMPREHENSIVE (LOSS) NET | RETAINED EARNINGS | TREASURY STOCK |
|---|------------------|-----------------------|----------------------------------|--|----------------------|-------------------|
| | ----- | ----- | ----- | ----- | ----- | ----- |
| BALANCE AT JANUARY 1, 2007 | 7,698 | \$770 | \$90,659 | \$ (4,772) | \$ 37,285 | \$ (8,000) |
| Adoption of FIN 48 | | | | | 965 | |
| Adjusted balance at January 1, 2007 | | | | | 38,250 | |
| Net income | | | | | 1,100 | |
| Exercise of stock options | | | (24) | | | |
| Other comprehensive (loss) net of reclassification adjustment and taxes | | | | (23) | | |
| Comprehensive income | | | | | | |
| BALANCE AT MARCH 31, 2007 | 7,698 | \$770 | \$90,635 | \$ (4,795) | \$ 39,350 | \$ (7,000) |
| BALANCE AT JANUARY 1, 2006 | 7,698 | \$770 | \$90,594 | \$ (8,415) | \$ 33,504 | \$ (7,000) |
| Net income | | | | | 1,496 | |
| Exercise of stock options | | | 1 | | | |
| Other comprehensive (loss) net of reclassification adjustment and taxes | | | | (969) | | |
| Comprehensive income | | | | | | |
| BALANCE AT MARCH 31, 2006 | 7,698 | \$770 | \$90,595 | \$ (9,384) | \$ 35,000 | \$ (7,000) |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS STATEMENT.

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

FOR THE THREE MONTHS ENDED
MARCH 31,

2007 2006

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| | | |
|---|-----------|-----------|
| Cash flows from operating activities: | | |
| Net income | \$ 1,100 | \$ 1,496 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Realized gains on investment securities | (125) | (741) |
| Net (accretion) amortization of premiums of investment securities | (361) | 35 |
| Depreciation and amortization | 183 | 176 |
| Provision for loan losses | 75 | 45 |
| Decrease in accrued interest receivable | 500 | 574 |
| Decrease in other assets | 181 | 761 |
| (Decrease) increase in accrued interest payable and other liabilities | (1,080) | 635 |
| Net cash provided by operating activities | 473 | 2,981 |
| Cash flows from investing activities: | | |
| Investment securities available for sale | | |
| Purchases | (460,195) | (137,757) |
| Sales, maturities and calls | 460,591 | 145,825 |
| Investment securities held to maturity | | |
| Maturities | 7 | 62 |
| Net (increase) decrease in loans | (7,226) | 2,317 |
| Acquisition of premises and equipment | (26) | (473) |
| Net cash (used in) provided by investing activities | (6,849) | 9,974 |

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FOR THE THREE MONTHS ENDED
MARCH 31,

| | 2007 | 2006 |
|--|-----------|-----------|
| Cash flows from financing activities: | | |
| Net increase (decrease) in non interest bearing deposits | 230 | (5,140) |
| Net increase in interest bearing deposits | 90,567 | 9,207 |
| (Decrease) in securities sold under agreements to repurchase | (39,446) | (22,203) |
| Repayment of long term debt | (8,850) | (8,080) |
| Proceeds from exercise of common stock options | 253 | 30 |
| Net cash provided by (used in) financing activities | 42,754 | (26,186) |
| Net increase in cash and cash equivalents | 36,378 | (13,231) |
| Cash and cash equivalents - beginning of period | 24,311 | 27,882 |
| Cash and cash equivalents - end of period | \$ 60,689 | \$ 14,651 |
| Supplemental disclosures of cash flow information: | | |
| Cash used to pay interest | \$ 9,622 | \$ 5,927 |
| Cash used to pay taxes, net of refunds | \$ 505 | \$ 775 |

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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, 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%.

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%.

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| | | | | |
|--|---------|-------|-------|---------|
| Options | -- | 361 | .-- | -- |
| | ----- | ----- | ----- | ----- |
| Diluted earnings per share | | | | |
| Net income available to common stockholders plus assumed conversions | \$1,100 | 6,957 | \$.16 | \$1,496 |
| | ===== | ===== | ===== | ===== |

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

NOTE 4. INVESTMENT SECURITIES

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

| | MARCH 31, 2007 | | | |
|--|----------------|------------------------|-------------------------|------------|
| | AMORTIZED COST | GROSS UNREALIZED GAINS | GROSS UNREALIZED LOSSES | FAIR VALUE |
| | ----- | ----- | ----- | ----- |
| | (In thousands) | | | |
| HELD TO MATURITY INVESTMENT SECURITIES | | | | |
| U.S. Government Agencies | \$ 426 | \$ 4 | \$ -- | \$ 430 |
| | ----- | --- | --- | ----- |
| Totals | \$ 426 | \$ 4 | \$ -- | \$ 430 |
| | ===== | === | ===== | ===== |

| | DECEMBER 31, 2006 | | | |
|--|-------------------|------------------------|-------------------------|------------|
| | AMORTIZED COST | GROSS UNREALIZED GAINS | GROSS UNREALIZED LOSSES | FAIR VALUE |
| | ----- | ----- | ----- | ----- |
| | (In thousands) | | | |
| HELD TO MATURITY INVESTMENT SECURITIES | | | | |
| U.S. Government Agencies | \$ 433 | \$ 4 | \$ (1) | \$ 436 |
| | ----- | --- | --- | ----- |
| Totals | \$ 433 | \$ 4 | \$ (1) | \$ 436 |
| | ===== | === | ===== | ===== |

| | MARCH 31, 2007 | | | |
|--|----------------|------------------------|-------------------------|------------|
| | AMORTIZED COST | GROSS UNREALIZED GAINS | GROSS UNREALIZED LOSSES | FAIR VALUE |
| | ----- | ----- | ----- | ----- |
| | (In thousands) | | | |
| AVAILABLE-FOR-SALE INVESTMENT SECURITIES | | | | |

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| | | | | |
|--|-----------|---------|------------|-----------|
| U.S. Treasury and Notes | \$ 5,002 | \$ -- | \$ (5) | \$ 4,997 |
| U.S. Government Agencies | 303,995 | 1 | (4,989) | 299,007 |
| Mortgage-backed securities | 64,265 | 118 | (1,579) | 62,804 |
| Corporate notes | 67,262 | 336 | (612) | 66,986 |
| Municipal Securities | 5,698 | 1,234 | (859) | 6,073 |
| Marketable equity securities and other | 74,874 | 207 | (83) | 74,998 |
| | ----- | ----- | ----- | ----- |
| Totals | \$521,096 | \$1,896 | \$ (8,127) | \$514,865 |
| | ===== | ===== | ===== | ===== |

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

NOTE 4. - (CONTINUED)

| | DECEMBER 31, 2006 | | | |
|---|-------------------|------------------------------|-------------------------------|---------------|
| | AMORTIZED COST | GROSS UNREALIZED GAINS | GROSS UNREALIZED LOSSES | FAIR VALUE |
| | ----- | ----- | ----- | ----- |
| | (In thousands) | | | |
| AVAILABLE-FOR-SALE INVESTMENT SECURITIES | | | | |
| U.S. Treasury and Notes | \$5,002 | \$ -- | \$ (12) | \$ 4,990 |
| U.S. Government Agencies | 322,986 | -- | (5,822) | 317,164 |
| Mortgage-backed securities | 67,472 | 92 | (1,711) | 65,853 |
| Corporate Notes | 44,366 | 334 | (662) | 44,038 |
| Municipal securities | 5,698 | 1,489 | -- | 7,187 |
| Marketable equity securities and other | 75,419 | 216 | (69) | 75,566 |
| | ----- | ----- | ----- | ----- |
| Totals | \$520,943 | \$2,131 | \$ (8,276) | \$514,798 |
| | ===== | ===== | ===== | ===== |

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.

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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:

| | MARCH 31, 2007 | | DECEMBER 31, 2006 | |
|--|------------------------|---------------|-------------------|---------------|
| | AMOUNT | % OF TOTAL | AMOUNT | % OF TOTAL |
| | (Dollars in thousands) | | | |
| Commercial and professional loans Secured by real estate | \$ 64,377 | 17.0% | \$ 63,331 | 17.0% |
| 1-4 family | 138,162 | 36.4 | 139,611 | 37.5 |
| Multi family | 3,883 | 1.0 | 4,013 | 1.1 |
| Non-residential (commercial) | 168,031 | 44.3 | 160,417 | 43.1 |
| Consumer | 4,860 | 1.3 | 4,763 | 1.6 |
| | | | | |
| Total loans | 379,313 | 100.0% | 372,135 | 100.0% |
| | | ===== | | ===== |
| Deferred loan fees | (1,162) | | | (1,212) |
| Allowance for loan losses | (3,848) | | | (3,771) |
| | | | | |
| Loans, net | \$374,303 | | | \$367,152 |
| | | ===== | | ===== |

NOTE 6. DEPOSITS

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

| | MARCH 31, 2007 | | DECEMBER 31, 2006 | |
|----------------------|------------------------|------------------|-------------------|------------------|
| | AVERAGE AMOUNT | AVERAGE YIELD | AVERAGE AMOUNT | AVERAGE YIELD |
| | (Dollars in thousands) | | | |
| Demand deposits | \$ 48,266 | -- | \$ 47,890 | -- |
| NOW and money market | 28,870 | 0.56% | 35,141 | 0.61% |
| Savings deposits | 244,262 | 3.73 | 171,604 | 2.95 |
| Time deposits | 424,970 | 4.82 | 410,729 | 4.21 |
| | | | | |
| Total deposits | \$746,368 | 3.99% | \$665,364 | 3.39% |
| | ===== | ===== | ===== | ===== |

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

NOTE 7. COMPREHENSIVE INCOME (LOSS)

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

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| | FOR THE THREE MONTHS ENDED | | | | |
|---|----------------------------|-----------------------------|----------------------|----------------------|-------------------------------|
| | MARCH 31, 2007 | | | MARCH 31, 2006 | |
| | BEFORE TAX AMOUNT | TAX (EXPENSE) BENEFIT | NET OF TAX AMOUNT | BEFORE TAX AMOUNT | TOTAL (EXPENSE) BENEFIT |
| | (In thousands) | | | | |
| Unrealized (losses) gains on investment securities: | | | | | |
| Unrealized holding gains (losses) arising during period | \$ 39 | \$ (3) | \$ 36 | \$ (835) | \$ (835) |
| Less reclassification adjustment for gains realized in net income | 125 | (50) | 75 | 741 | (1,000) |
| Unrealized gain (loss) on investment securities | (86) | 47 | (39) | | |
| Change in minimum pension liability | 16 | -- | 16 | -- | -- |
| Other comprehensive (loss) income, net | \$ (70) | \$ 47 | \$ (23) | \$ (1,576) | \$ (1,576) |

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 its operating results and financial condition because the Company made no stock-based compensation payments in fiscal 2006 or in the first quarter of fiscal 2007.

At March 31, 2007, the Company has one stock-based employee compensation plan. The Company accounted for that plan under the recognition and measurement principles of APB 25 and related interpretations. Stock-based employee compensation costs were not reflected in net income, as all options granted under the plan had an exercise price equal to the market value of the underlying common stock on the date of the grant. The Company did not grant stock options during the quarter ended March 31, 2007 or during the fiscal year ended December 31, 2006. We have 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) as amended by FAS 158.

| | FOR THE THREE MONTHS ENDED MARCH 31, | |
|--------------------------------|--|-----------|
| | 2007 | 2006 |
| Service cost | \$ 90,750 | \$ 82,000 |
| Interest cost | 43,500 | 37,000 |
| Expected return on plan assets | (46,000) | (38,000) |
| Amortization and Deferral: | | |
| Transition amount | -- | -- |
| Prior service cost | 4,500 | 5,000 |
| (Gain)/loss | 11,750 | 14,000 |
| | ----- | ----- |
| Net periodic pension cost | \$104,500 | \$100,000 |
| | ===== | ===== |

During the fiscal year ending December 31, 2007, we expect to contribute approximately \$340,000 to the Plan. We did not make any contributions, required or otherwise, to the Plan in the three months ended March 31, 2007 and 2006.

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 ("Statement 159"). The objective of Statement 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.

Statement 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, Statement 159

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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.

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

NOTE 10. - (CONTINUED)

Statement 159 is required to be adopted by the Company on January 1, 2008. Early adoption is permitted; however, the Company does not intend to adopt Statement 159 prior to the required adoption date of January 1, 2008. The Company expects to adopt Statement 159 along with Statement 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 Statement 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 Statement 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. 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. For the Company, this is for 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.

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

NOTE 10. - (CONTINUED)

ACCOUNTING FOR UNCERTAINTY IN INCOME TAXES

On July 13, 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"): an interpretation of FASB No. 109. FIN 48 clarifies the accounting for uncertainty involved in the recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure, and transition. In accordance with FIN 48, the Company's financial statements must reflect only those tax positions that are more-likely-than-not to be sustained as of the adoption date. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company's adoption of FIN 48 resulted in a decrease in our tax reserves of \$965,000 and a corresponding increase to stockholders' equity as of January 1, 2007.

As of March 31, 2007, the Company does not have any uncertain tax positions under FIN 48. As a result, there are no unrecognized tax benefits as of March 31, 2007. The Company's 2003 through 2006 federal tax returns still remain subject to examination by the Internal Revenue Service. If the Company were to incur any interest and penalties in connection with income tax deficiencies, the Company would classify interest in the "interest expense" category and classify penalties in the "non-interest expense" category within the consolidated statements of income.

ACCOUNTING FOR FINANCIAL ASSETS

In March 2006, the FASB issued SFAS No. 156, "Accounting for Servicing of Financial Assets—an amendment of FASB Statement No. 140." This statement requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset, and that the servicing assets and servicing liabilities be initially measured at fair value. The statement also permits an entity to choose a subsequent measurement method for each class of separately recognized servicing assets and servicing liabilities. SFAS No. 156 is effective as of the beginning of the fiscal year that begins after September 15, 2006. The application of SFAS No. 156 is not expected to have a material impact on the Company's financial condition or results of operations.

In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain

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Hybrid Financial Instruments." The Statement amends SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" and SFAS No.140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." The Statement also resolves issues addressed in SFAS No. 133 Implementation Issue No. D1, "Application of Statement 133 to Beneficial Interest in Securitized Financial Assets." SFAS No. 155 permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS No. 133, establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain as embedded derivative requiring bifurcation, and clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives. The Statement eliminates the interim guidance in SFAS No. 133 Implementation Issue No. D1, which provided that beneficial interests in securitized financial assets are not subject to the provisions of SFAS No. 133.

In October 2006, the FASB recommended a narrow scope exception for asset backed securities, including mortgage-backed securities, created from pools of loans containing embedded call features, that (a) only contain an embedded derivative that is tied to the prepayment risk of the underlying prepayable financial assets, and (b) the investor does not control the right to accelerate the settlement. The Statement is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. Since the Statement is effective for purchases made by the Company after December 31, 2006, management is unable, at this time, to determine the impact of this statement.

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

NOTE 10. - (CONTINUED)

ACCOUNTING FOR PRIOR YEAR MISSTATEMENTS

In September 2006, the SEC staff issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements." SAB 108 was issued to provide consistency between how registrants quantify financial statement misstatements. Historically, there have been two widely-used methods for quantifying the effects of financial statement misstatements. These methods are referred to as the "roll-over" and "iron curtain" method. The roll-over method quantifies the amount by which the current year income statement is misstated. Exclusive reliance on an income statement approach can result in the accumulation of errors on the balance sheet that may not have been material to any individual income statement, but which may misstate one or more balance sheet accounts. The iron curtain method quantifies the error as the cumulative amount by which the current year balance sheet is misstated. Exclusive reliance on a balance sheet approach can result in disregarding the effects of errors in the current year income statement that results from the correction of an error existing in previously issued financial statements.

SAB 108 established an approach that requires quantification of financial statement misstatements based on the effects of the misstatement on each of the Company's financial statements and the related financial statement disclosures. This approach is commonly referred to as the "dual approach" because it requires quantification of errors under both the roll-over and iron

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curtain methods. SAB 108 allows registrants to initially apply the dual approach either by (1) retroactively adjusting prior financial statements as if the dual approach had always been used or by (2) recording the cumulative effect of initially applying the dual approach as adjustments to the carrying values of assets and liabilities as of January 1, 2006 with an offsetting adjustment recorded to the opening balance of retained earnings. Use of this "cumulative effect" transition method requires detailed disclosure of the nature and amount of each individual error being corrected through the cumulative adjustment and how and when it arose. SAB 108 is effective for fiscal years ending after November 15, 2006. The adoption of SAB 108 did not have a material effect on the Company's results of operations or financial condition.

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.

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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

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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.

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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 END | | | |
|--------------------------|--------------------------|------------------------------|-----------------------|------------------|
| | ----- 2007 ----- | | | |
| | AVERAGE BALANCE | INTEREST AND DIVIDENDS | AVERAGE YIELD/RATE | AVERAG BALANC |
| | ----- | ----- | ----- | ----- |
| | (Dollars in Thousand) | | | |
| INTEREST-EARNING ASSETS: | | | | |
| Loans (1) | \$ 376,914 | \$ 7,238 | 7.68% | \$ 310,0 |
| Investment securities | 507,614 | 5,835 | 4.60 | 594,5 |

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| | | | | |
|--|------------|--------|-------|----------|
| Other (2) (5) | 54,382 | 686 | 5.05 | 8,4 |
| | ----- | ----- | ----- | ----- |
| Total interest-earning assets | 938,910 | 13,759 | 5.86 | 913,0 |
| | | | ----- | |
| Noninterest-earning assets | 45,240 | | | 46,3 |
| | ----- | | | ----- |
| Total Assets | \$ 984,150 | | | \$ 959,3 |
| | ===== | | | ===== |
| INTEREST-BEARING LIABILITIES: | | | | |
| Interest bearing deposits | 273,132 | 2,321 | 3.40% | 214,6 |
| Time deposits | 424,970 | 5,123 | 4.82 | 412,9 |
| Other borrowings | 106,668 | 1,424 | 5.34 | 164,4 |
| | ----- | ----- | ----- | ----- |
| Total interest-bearing liabilities | 804,770 | 8,868 | 4.41 | 792,0 |
| | | ----- | ----- | |
| Demand deposits | 48,266 | | | 46,4 |
| Noninterest-bearing liabilities | 13,482 | | | 11,7 |
| Stockholders' equity (5) | 117,632 | | | 109,1 |
| | ----- | | | ----- |
| Total liabilities and stockholders' equity | \$ 984,150 | | | \$ 959,3 |
| | ===== | | | ===== |
| Net interest income | | 4,891 | | |
| | | ===== | | |
| Interest-rate spread (3) | | | 1.45% | |
| | | | ===== | |
| Net interest margin (4) | | | 2.08% | |
| | | | ===== | |
| Ratio of average interest-earning assets to average interest bearing liabilities | | | | |
| | 1.17 | | | 1. |
| | ===== | | | ===== |

(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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RESULTS OF OPERATIONS

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2007 COMPARED TO THE THREE MONTHS ENDED MARCH 31, 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 eleven branch locations, six branches in New York City and four branches in Orange and Sullivan counties New York, and one branch in Ridgefield, New Jersey which opened in May 2006.

NET INCOME. Net income for the three-month period ended March 31, 2007 was \$1.10 million, or \$.16 per share, as compared to \$1.50 million, or \$.21 per share, for the three-month period ended March 31, 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. Inflation fighting actions taken by the Federal Reserve Board have moved short-term rates up while long-term rates have remained relatively flat. The Company's rising cost of funds, the rates paid on deposits and borrowings, has not been matched by the ability to 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 earning assets, such as loans and investment securities, and interest expense on interest-bearing liabilities such as deposits and borrowings.

For the quarter ended March 31, 2007, net interest income decreased by \$337,000 to \$4.89 million from \$5.23 million for the quarter ended March 31, 2006. The quarter over quarter decrease in net interest income was the result of the 107 basis point increase in the average rates paid on the average amounts of interest-bearing liabilities to 4.41% in the 2007 quarter from 3.34% in the 2006 quarter. The decrease was partially offset by the 68 basis point increase in the average yields earned on the average amounts of interest-earning assets to 5.86% in 2007 from 5.18% in 2006. 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 39 basis points to 1.45% in the 2007 quarter from 1.84% in the 2006 quarter.

NET INTEREST MARGIN. Net interest margin, or annualized net interest income as a percentage of average interest-earning assets, declined by 21 basis points to 2.08% in the first quarter of fiscal 2007 from 2.29% in the first quarter of fiscal 2006. We seek to secure and retain customer deposits with competitive products and rates, while making strategic use of the prevailing interest rate environment to borrow funds at what we believe to be attractive rates. We invest such deposits and borrowed funds in a prudent mix of fixed and adjustable rate loans, investment securities and short-term interest-earning assets which provided an aggregate average yield of 5.86% and 5.18% during the quarters ended March 31, 2007 and 2006, respectively. The decrease in net interest margin is primarily due to the decrease in net interest income, partially offset by the increase in the average amount of higher yielding loans as a percentage of our total mix of interest-earning assets.

The average amount of loans in our portfolio increased by \$66.91 million to \$376.91 million in the quarter ended March 31, 2007 from \$310.01 million in the quarter ended March 31, 2006, and the average yield on our loan portfolio increased to 7.68% in the 2007 quarter from 7.10% in the 2006 quarter. The

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average amount of investment securities decreased by \$86.91 million, to \$507.61 million in the three months ended March 31, 2007 from \$594.53 million in the three months ended March 31, 2006, and the average yield on investment securities

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improved by 39 basis points, to 4.60% in 2007 from 4.21% in 2006. The average amount of other interest-earning assets, primarily cash and short-term investments, increased by \$45.89 million to \$54.38 million in the 2007 quarter from \$8.50 million in the 2006 quarter, and returned an average yield of 5.05% and 3.53% in the quarter ended March 31, 2007 and 2006, respectively.

INTEREST INCOME. Total interest income for the quarter ended March 31, 2007 increased by \$1.92 million to \$13.76 million from \$11.84 million for the quarter ended March 31, 2006. The increase in total interest income was primarily due to the increase in the average yields earned on interest-earning assets and by the increase in the average amount of such assets. Loans contributed \$7.24 million of interest income in the 2007 quarter, an increase of \$1.73 million from the \$5.50 million of interest income contributed in the 2006 quarter. Investment securities contributed \$5.84 million of interest income in the first quarter of 2007, a decrease of \$420,000 from the \$6.26 million of interest income earned on investment securities in the first quarter of 2006.

| | ----- THREE MONTHS ENDED MARCH 31, ----- | | | |
|-----------------------|--|---------------|--------------------|---------------|
| | 2007 | | 2006 | |
| | INTEREST INCOME | % OF TOTAL | INTEREST INCOME | % OF TOTAL |
| | ----- (In thousands, except percentages) ----- | | | |
| Loans | \$ 7,238 | 52.60% | \$ 5,504 | 46.51% |
| Investment Securities | 5,835 | 42.41 | 6,255 | 52.86 |
| Other | 686 | 4.99 | 76 | 0.63 |
| | ----- | | | |
| Total Interest Income | \$13,759 | 100.00% | \$11,835 | 100.00% |

Loans, which are inherently risky and therefore command a higher return than our portfolio of investment securities, increased to 40.14% of our total average interest-earning assets during the three months ended March 31, 2007 from 33.95% of total average interest-earning assets during the three months ended March 31, 2006. Investment securities declined to 54.07% from 65.12% of total average interest-earning assets during the three-month periods ended March 31, 2007 and 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 MARCH 31, ----- | | | |
|-------|--|---------------|-------------------|---------------|
| | 2007 | | 2006 | |
| | AVERAGE AMOUNT | % OF TOTAL | AVERAGE AMOUNT | % OF TOTAL |
| | ----- (In thousands, except percentages) ----- | | | |
| Loans | \$376,914 | 40.14% | \$310,007 | 33.95% |

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| | | | | |
|-------------------------------|-----------|---------|-----------|---------|
| Investment Securities | 507,614 | 54.07 | 594,526 | 65.12 |
| Other | 54,382 | 5.79 | 8,496 | 0.93 |
| | ----- | ----- | ----- | ----- |
| Total Interest-Earning Assets | \$938,910 | 100.00% | \$913,029 | 100.00% |

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INTEREST EXPENSE. Total interest expense for the quarter ended March 31, 2007 increased by \$2.26 million to \$8.87 million from \$6.61 million for the quarter ended March 31, 2006. The increase in interest expense was due primarily to the increase in the average rates paid on the average amount of interest-bearing liabilities, 4.41% in the 2007 quarter compared to 3.34% in the 2006 quarter. In May 2004 and April 2005, we sold an aggregate of \$22.68 million of floating rate junior subordinated debentures which mature in thirty years 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 \$458,000 and \$424,000 during the three months ended March 31, 2007 and 2006, respectively.

| | ----- THREE MONTHS ENDED MARCH 31, ----- | | | |
|---------------------------|--|---------|----------|---------|
| | 2007 | | 2006 | |
| | INTEREST | % OF | INTEREST | % OF |
| | INCOME | TOTAL | INCOME | TOTAL |
| | ----- | ----- | ----- | ----- |
| | (In thousands, except percentages) | | | |
| Interest-Bearing Deposits | \$ 2,321 | 26.17% | \$ 1,143 | 17.30% |
| Time Deposits | 5,123 | 57.77 | 3,711 | 56.17 |
| Other Borrowings | 1,424 | 16.06 | 1,753 | 26.53 |
| | ----- | ----- | ----- | ----- |
| Total Interest Expense | \$ 8,868 | 100.00% | \$ 6,607 | 100.00% |

| | ----- THREE MONTHS ENDED MARCH 31, ----- | | | |
|------------------------------------|--|---------|-----------|---------|
| | 2007 | | 2006 | |
| | AVERAGE | % OF | AVERAGE | % OF |
| | AMOUNT | TOTAL | AMOUNT | TOTAL |
| | ----- | ----- | ----- | ----- |
| | (In thousands, except percentages) | | | |
| Interest-Bearing Deposits | \$273,132 | 33.94% | \$214,675 | 37.46% |
| Time Deposits | 424,970 | 52.81 | 412,963 | 34.53 |
| Other Borrowings | 106,668 | 13.25 | 164,405 | 28.01 |
| | ----- | ----- | ----- | ----- |
| Total Interest-Bearing Liabilities | \$804,770 | 100.00% | \$792,043 | 100.00% |

NON-INTEREST INCOME. Non-interest income consists primarily of realized gains on sales of marketable securities and service fee income. For the three months ended March 31, 2007, total non-interest income decreased by \$538,000, to \$515,000 from \$1.05 million for the three months ended March 31, 2006. The decrease is largely due to the \$616,000 decrease in gains on the sales of investment securities in the 2007 quarter.

THREE MONTHS ENDED MARCH 31,

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| | 2007 | | 2006 | |
|-----------------------------|------------------------------------|------------|---------------------|------------|
| | NON-INTEREST INCOME | % OF TOTAL | NON-INTEREST INCOME | % OF TOTAL |
| | (In thousands, except percentages) | | | |
| Service Charges on Deposits | \$ 181 | 35.15% | \$ 140 | 13.30% |
| Investment Securities gains | 125 | 24.27 | 741 | 70.37 |
| Other | 209 | 40.58 | 172 | 16.33 |
| Total Non-Interest Income | \$ 515 | 100.00% | \$ 1,053 | 100.00% |

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NON-INTEREST EXPENSE. Non-interest expense includes salaries and employee benefits, occupancy and equipment expenses, legal and professional fees and other operating expenses associated with the day-to-day operations of the Company. Total non-interest expense for the three months ended March 31, 2007 increased by \$40,000 to \$3.45 million from \$3.41 million for the three months ended March 31, 2006. The largest component of non-interest expense, almost 65% of the total, are salaries and employee benefits which increased by \$127,000 to \$2.23 million in the 2007 quarter from \$2.11 million in the 2006 quarter. The increase is due to the addition of personnel in our internal control and compliance departments.

| | THREE MONTHS ENDED MARCH 31, | | | |
|--------------------------------|------------------------------------|------------|----------------------|------------|
| | 2007 | | 2006 | |
| | NON-INTEREST EXPENSE | % OF TOTAL | NON-INTEREST EXPENSE | % OF TOTAL |
| | (In thousands, except percentages) | | | |
| Salaries and Employee Benefits | \$ 2,234 | 64.70% | \$ 2,107 | 61.72% |
| Net Occupancy Expense | 476 | 13.79 | 475 | 13.94 |
| Equipment Expense | 102 | 2.95 | 96 | 2.81 |
| FDIC Assessment | 20 | 0.58 | 21 | 0.61 |
| Data Processing Expense | 96 | 2.78 | 90 | 2.64 |
| Other | 525 | 15.20 | 624 | 18.28 |
| Total Non-Interest Expense | \$ 3,453 | 100.00% | \$ 3,413 | 100.00% |

PROVISION FOR INCOME TAX. We recorded income tax expense of \$778,000 and \$1.33 million for the three-month periods ended March 31, 2007 and 2006, respectively. The tax provisions for federal, state and local taxes represent effective tax rates of 41.43% and 47.01% for the three months ended March 31, 2007 and 2006, respectively.

ISSUER PURCHASES OF EQUITY SECURITIES

On May 15, 2003, The Company's Board of Directors authorized the purchase of up to an additional 450,000 shares of its Common Stock in the open market, from time to time, depending upon prevailing market conditions, thereby increasing the maximum number of shares which may be purchased by the Company from 1,950,000 shares of Common Stock to 2,400,000 shares of Common Stock. Since 1990 through December 31, 2006, the Company has purchased a total of 1,898,909

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shares of its Common Stock. At March 31, 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 first quarter of 2007.

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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 \$43.89 million at March 31, 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.

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In the banking industry, a traditional measure of interest rate sensitivity is known as "gap" analysis, which measures the cumulative differences between the amounts of assets and liabilities maturing or repricing at various time intervals. The following table sets forth the Company's interest rate repricing gaps for selected maturity periods:

BERKSHIRE BANCORP I
INTEREST RATE SENSITIVITY GAP AT
(IN THOUSANDS, EXCEPT FOR P

| 3 MONTHS OR LESS | 3 THROUGH 12 MONTHS | 1 THROUGH 3 YEARS |
|---------------------|------------------------|----------------------|
| ----- | ----- | ----- |

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| | | | | |
|---|--------|-----------|-----------|-----------|
| Federal funds sold | | 45,200 | -- | -- |
| | (Rate) | 5.30% | | |
| Interest bearing deposits in banks | | 8,262 | -- | -- |
| | (Rate) | 4.30% | | |
| Loans (1) (2) | | | | |
| Adjustable rate loans | | 86,635 | 13,725 | 21,483 |
| | (Rate) | 8.94% | 7.48% | 6.62% |
| Fixed rate loans | | 13,290 | 13,080 | 31,778 |
| | (Rate) | 7.99% | 8.66% | 7.69% |
| | | ----- | ----- | ----- |
| Total loans | | 99,925 | 26,805 | 53,261 |
| Investments (3) (4) | | 154,922 | 88,003 | 120,332 |
| | (Rate) | 4.48% | 4.41% | 4.09% |
| | | ----- | ----- | ----- |
| Total rate-sensitive assets | | 263,109 | 114,808 | 173,593 |
| | | ----- | ----- | ----- |
| Deposit accounts (5) | | | | |
| Savings and NOW | | 281,661 | -- | -- |
| | (Rate) | 3.63% | | |
| Money market | | 14,688 | -- | -- |
| | (Rate) | 0.69% | | |
| Time Deposits | | 270,881 | 149,946 | 5,459 |
| | (Rate) | 4.74% | 4.94% | 2.84% |
| | | ----- | ----- | ----- |
| Total deposit accounts | | 567,230 | 149,946 | 5,459 |
| Repurchase Agreements | | 15,199 | 8,007 | -- |
| | (Rate) | 4.87% | 4.58% | 4.16% |
| Other borrowings | | 1,711 | 10,247 | 19,930 |
| | (Rate) | 3.58% | 3.39% | 3.92% |
| | | ----- | ----- | ----- |
| Total rate-sensitive liabilities | | 584,140 | 168,200 | 25,389 |
| | | ----- | ----- | ----- |
| Interest rate caps | | 20,000 | (20,000) | -- |
| Gap (repricing differences) | | (341,031) | (33,392) | 148,204 |
| | | ===== | ===== | ===== |
| Cumulative Gap | | (341,031) | (374,423) | (226,219) |
| | | ===== | ===== | ===== |
| Cumulative Gap to Total Rate Sensitive Assets | | (37.51)% | (41.19)% | (24.88)% |
| | | ===== | ===== | ===== |

(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.

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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 groups 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

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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-month periods ended March 31, 2007 and 2006, we charged-off loans of \$0 and \$1,000, respectively, and recovered loans of \$2,000 and \$5,000, respectively. All amounts recovered in the 2007 and 2006 periods were returned to the allowance for loan losses.

The following table sets forth information with respect to activity in the Company's allowance for loan losses during the periods indicated (in thousands, except percentages):

| | THREE MONTHS ENDED MARCH 31, | |
|----------------------------------|---------------------------------|-----------|
| | 2007 | 2006 |
| Average loans outstanding | \$376,914 | \$310,007 |
| Allowance at beginning of period | 3,771 | 3,266 |
| Charge-offs: | | |
| Commercial and other loans | -- | 1 |
| Total loans charged-off | -- | 1 |
| Recoveries: | | |

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| | | |
|---|-----------|-----------|
| Commercial and other loans | 2 | 5 |
| | ----- | ----- |
| Total loans recovered | 2 | 5 |
| | ----- | ----- |
| Net (charge-offs) recoveries | 2 | 4 |
| | ----- | ----- |
| Provision for loan losses charged to operating expenses | 75 | 45 |
| | ----- | ----- |
| Allowance at end of period | \$ 3,848 | \$ 3,315 |
| | ----- | ----- |
| Ratio of net recoveries (charge-offs) to average loans outstanding | 0.00% | 0.00% |
| | ===== | ===== |
| Allowance as a percent of total loans | 1.01% | 1.08% |
| | ===== | ===== |
| Total loans at end of period | \$379,313 | \$307,879 |
| | ===== | ===== |

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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 March 31, 2007, we had total gross loans of \$379.31 million, deferred loan fees of \$1.16 million and an allowance for loan losses of \$3.85 million. From time to time, the Bank may originate residential mortgage loans and then sell them on the secondary market, normally recognizing fee income in connection with the sale. During the three-month period ended March 31, 2007, the Bank did not sell any loans.

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

| | MARCH 31, 2007 | DECEMBER 31, 2006 |
|-----------------------------------|-------------------|----------------------|
| | ----- | ----- |
| | AMOUNT | AMOUNT |
| | ----- | ----- |
| | (in thousands) | |
| Commercial and professional loans | \$ 64,377 | \$ 63,331 |
| Secured by real estate | | |
| 1-4 family | 138,162 | 139,611 |
| Multi family | 3,883 | 4,013 |
| Non-residential (commercial) | 168,031 | 160,417 |
| Consumer | 4,860 | 4,763 |
| | ----- | ----- |
| Total loans | 379,313 | 372,135 |
| Less: | | |
| Deferred loan fees | (1,162) | (1,212) |
| Allowance for loan losses | (3,848) | (3,771) |
| | ----- | ----- |
| Loans, net | \$ 374,303 | \$ 367,152 |
| | ===== | ===== |

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It is the Bank's policy to discontinue accruing interest on a loan when it is 90 days past due or if management believes that continued interest accruals are unjustified. The Bank may continue interest accruals if a loan is more than 90 days past due if the Bank determines that the nature of the delinquency and the collateral are such that collection of the principal and interest on the loan in full is reasonably assured. When the accrual of interest is discontinued, all accrued but unpaid interest is charged against current period income. Once the accrual of interest is discontinued, the Bank records interest as and when received until the loan is restored to accruing status. If the Bank determines that collection of the loan in full is in reasonable doubt, then amounts received are recorded as a reduction of principal until the loan is returned to accruing status. At March 31, 2007 and 2006, we did not have any loans past due more than 90 days and still accruing interest.

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CAPITAL ADEQUACY

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and Tier I capital (as defined) to average assets (as defined). As of March 31, 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 March 31, 2007 and December 31, 2006 (dollars in thousands):

| | ACTUAL | | FOR CAPITAL ADEQUACY PURPOSES | | TO BE WELL CAPITALIZED UNDER PROMPT CORRECTIVE ACTION PROVISIONS | |
|---------------------------|---------|-------|-------------------------------|-------|--|--------|
| | AMOUNT | RATIO | AMOUNT | RATIO | AMOUNT | RATIO |
| MARCH 31, 2007 | | | | | | |
| Total Capital | | | | | | |
| (to Risk-Weighted Assets) | | | | | | |
| Company | 130,852 | 22.9% | 45,691 | >8.0% | -- | N/A |
| Bank | 100,122 | 18.2% | 44,029 | >8.0% | 55,036 | >10.0% |
| Tier I Capital | | | | | | |
| (to Risk-Weighted Assets) | | | | | | |
| Company | 127,004 | 22.4% | 22,845 | >4.0% | -- | N/A |
| Bank | 96,274 | 17.5% | 22,014 | >4.0% | 33,021 | >6.0% |
| Tier I Capital | | | | | | |
| (to Average Assets) | | | | | | |
| Company | 127,004 | 12.9% | 39,366 | >4.0% | -- | N/A |

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| | ACTUAL | | FOR CAPITAL ADEQUACY PURPOSES | | TO BE WELL CAPITALIZED UNDER PROMPT CORRECTIVE ACTION PROVISIONS | |
|--|-----------|-------|-------------------------------|-------|--|--------|
| | AMOUNT | RATIO | AMOUNT | RATIO | AMOUNT | RATIO |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| DECEMBER 31, 2006 | | | | | | |
| Total Capital (to Risk-Weighted Assets) | | | | | | |
| Company | \$128,452 | 23.9% | \$43,031 | >8.0% | -- | N/A |
| Bank | 99,170 | 19.3% | 41,120 | >8.0% | 51,400 | >10.0% |
| Tier I Capital (to Risk-Weighted Assets) | | | | | | |
| Company | 124,681 | 23.2% | 21,516 | >4.0% | -- | N/A |
| Bank | 95,400 | 18.6% | 20,560 | >4.0% | 30,840 | >6.0% |
| Tier I Capital (to Average Assets) | | | | | | |
| Company | 124,681 | 13.4% | 37,322 | >4.0% | -- | N/A |
| Bank | 95,400 | 10.9% | 35,022 | >4.0% | 43,778 | >5.0% |

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LIQUIDITY

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

For the Company, liquidity means having cash available to fund operating expenses and to pay stockholder dividends, when and if declared by the Company's Board of Directors and to pay the interest on the Debentures issued in May 2004 and April 2005. The ability of the Company to meet all of its obligations, including the payment of dividends, is not dependent upon the receipt of dividends from the Bank. At March 31, 2007, the Company, excluding the Bank, had cash and cash equivalents of \$14.41 million and investment securities available for sale of \$11.79 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 \$45.45 million at March 31, 2007, include commitments to extend credit and stand-by letters of credit.

At March 31, 2007, the Company had outstanding commitments of approximately \$473.85 million; including \$426.29 million of time deposits,

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\$43.89 million of Federal Home Loan Bank debt, and \$3.67 million of operating leases. These commitments include \$433.72 million that mature or renew within one year, \$26.68 million that mature or renew after one year and within three years, \$13.03 million that mature or renew after three years and within five years and \$418,000 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.

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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

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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 March 31, 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. |

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SIGNATURES

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

BERKSHIRE BANCORP INC.
(REGISTRANT)

Date: May 4, 2007

By: /s/ Steven Rosenberg

STEVEN ROSENBERG
PRESIDENT AND CHIEF
FINANCIAL OFFICER

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EXHIBIT INDEX

| Exhibit Number | Description | Sequential Page Number |
|-------------------|---|---------------------------|
| ----- | ----- | ----- |
| 31 | Certification of Principal Executive and Financial Officer pursuant to Section 302 Of The Sarbanes-Oxley Act of 2002. | 35 |

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Certification of Principal Executive
and Financial Officer pursuant to
Section 906 Of The Sarbanes-Oxley Act
of 2002.

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