BERKSHIRE BANCORP INC /DE/
Form 10-Q
May 14, 2008

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended MARCH 31, 2008

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, a non-accelerated filer, or a smaller reporting company. (See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.) (Check one):

Large accelerated filer [ ] Accelerated filer [ ]

Non-accelerated filer [ ]   Smaller reporting company [X]
(Do not check if a smaller
reporting company)

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

As of May 12, 2008, there were 7,054,183 outstanding shares of the issuer's Common Stock, $.10 par value.

BERKSHIRE BANCORP INC. AND SUBSIDIARIES

FORWARD-LOOKING STATEMENTS

FORWARD-LOOKING STATEMENTS. STATEMENTS IN THIS QUARTERLY REPORT ON FORM 10-Q THAT ARE NOT BASED ON HISTORICAL FACT MAY BE "FORWARD-LOOKING STATEMENTS" WITHIN THE MEANING OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995. WORDS SUCH AS "BELIEVE", "MAY", "WILL", "EXPECT", "ESTIMATE", "ANTICIPATE", "CONTINUE" OR SIMILAR TERMS IDENTIFY FORWARD-LOOKING STATEMENTS. A WIDE VARIETY OF FACTORS COULD CAUSE THE ACTUAL RESULTS AND EXPERIENCES OF BERKSHIRE BANCORP INC. (THE "COMPANY") TO DIFFER MATERIALLY FROM THE RESULTS EXPRESSED OR IMPLIED BY THE COMPANY'S FORWARD-LOOKING STATEMENTS. SOME OF THE RISKS AND UNCERTAINTIES THAT MAY AFFECT OPERATIONS, PERFORMANCE, RESULTS OF THE COMPANY'S BUSINESS, THE INTEREST RATE SENSITIVITY OF ITS ASSETS AND LIABILITIES, AND THE ADEQUACY OF ITS LOAN LOSS ALLOWANCE, INCLUDE, BUT ARE NOT LIMITED TO: (I) DETERIORATION IN LOCAL, REGIONAL, NATIONAL OR GLOBAL ECONOMIC CONDITIONS WHICH COULD RESULT, AMONG OTHER THINGS, IN AN INCREASE IN LOAN DELINQUENCIES, A DECREASE IN PROPERTY VALUES, OR A CHANGE IN THE HOUSING TURNOVER RATE; (II) CHANGES IN MARKET INTEREST RATES OR CHANGES IN THE SPEED AT WHICH MARKET INTEREST RATES CHANGE; (III) CHANGES IN LAWS AND REGULATIONS AFFECTING THE FINANCIAL SERVICES INDUSTRY; (IV) CHANGES IN COMPETITION; (V) CHANGES IN CONSUMER PREFERENCES, (VI) CHANGES IN BANKING TECHNOLOGY; (VII) ABILITY TO MAINTAIN KEY MEMBERS OF MANAGEMENT, (VIII) POSSIBLE DISRUPTIONS IN THE COMPANY'S OPERATIONS AT ITS BANKING FACILITIES, (IX) COST OF COMPLIANCE WITH NEW CORPORATE GOVERNANCE REQUIREMENTS, 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, 2007.

CERTAIN INFORMATION CUSTOMARILY DISCLOSED BY FINANCIAL INSTITUTIONS, SUCH AS ESTIMATES OF INTEREST RATE SENSITIVITY AND THE ADEQUACY OF THE LOAN LOSS ALLOWANCE, ARE INHERENTLY FORWARD-LOOKING STATEMENTS BECAUSE, BY THEIR NATURE, THEY REPRESENT ATTEMPTS TO ESTIMATE WHAT WILL OCCUR IN THE FUTURE.

THE COMPANY CAUTIONS READERS NOT TO PLACE UNDUE RELIANCE UPON ANY FORWARD-LOOKING STATEMENT CONTAINED IN THIS QUARTERLY REPORT. FORWARD-LOOKING STATEMENTS SPEAK ONLY AS OF THE DATE THEY WERE MADE AND THE COMPANY ASSUMES NO OBLIGATION TO UPDATE OR REVISE ANY SUCH STATEMENTS UPON ANY CHANGE IN APPLICABLE CIRCUMSTANCES.

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

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BERKSHIRE BANCORP INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(DOLLARS IN THOUSANDS)
(UNAUDITED)

	MARCH 31, 2008	DECEMBER 31, 2007
ASSETS		
Cash and due from banks	$ 7,197	$ 8,614
Interest bearing deposits	7,546	7,579
Federal funds sold	12,500	31,000
Total cash and cash equivalents	27,243	47,193
Investment Securities:		
Available-for-sale	545,603	598,961
Held-to-maturity, fair value of $405 in 2008 and $405 in 2007	390	395

Total investment securities	545,993	599,356
Loans, net of unearned income	445,411	434,785
Less: allowance for loan losses	(4,398)	(4,183)
Net loans	441,013	430,602
Accrued interest receivable	7,177	8,602
Premises and equipment, net	9,198	9,362
Goodwill, net	18,549	18,549
Other assets	12,187	6,854
Total assets	$ 1,061,360	$ 1,120,518
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	$ 54,686	$ 53,805
Interest bearing	767,821	799,410
Total deposits	822,507	853,215
Securities sold under agreements to repurchase	53,436	76,842
Long term borrowings	37,593	31,607
Subordinated debt	22,681	22,681
Accrued interest payable	5,598	9,089
Other liabilities	2,124	2,826
Total liabilities	943,939	996,260
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, 2008, 7,054,183 shares December 31, 2007, 7,054,183 shares	770	770
Additional paid-in capital	90,986	90,986
Retained earnings	45,001	42,352
Accumulated other comprehensive loss, net	(12,925)	(3,439)
Treasury Stock March 31, 2008, 644,102 shares December 31, 2007, 644,102 shares	(6,411)	(6,411)
Total stockholders' equity	117,421	124,258
	$ 1,061,360	$ 1,120,518

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, 2008	2007
INTEREST INCOME		
Loans, including related fees	$ 8,205	$ 7,238
Investment securities	7,867	5,835
Federal funds sold and interest bearing deposits	224	686
Total interest income	16,296	13,759
INTEREST EXPENSE		
Deposits	7,733	7,444
Short-term borrowings	594	433
Long-term borrowings	806	991
Total interest expense	9,133	8,868
Net interest income	7,163	4,891
PROVISION FOR LOAN LOSSES	150	75
Net interest income after provision for loan losses	7,013	4,816
NON-INTEREST INCOME		
Service charges on deposit accounts	155	181
Investment securities gains	58	125
Other income	253	209
Total non-interest income	466	515
NON-INTEREST EXPENSE		
Salaries and employee benefits	2,399	2,234
Net occupancy expense	538	476
Equipment expense	95	102
FDIC assessment	106	20
Data processing expense	111	96
Other	661	525
Total non-interest expense	3,910	3,453
Income before provision for taxes	3,569	1,878
Provision for income taxes	920	778
Net income	$ 2,649	$ 1,100
Net income per share:		
Basic	$ .38	$ .16
Diluted	$ .38	$ .16
Number of shares used to compute net income per share:		
Basic	7,054	6,896
Diluted	7,055	6,957

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

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

FOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2007
(In Thousands)
(Unaudited)

	COMMON SHARES	STOCK PAR VALUE	ADDITIONAL PAID-IN CAPITAL	ACCUMULATED OTHER COMPREHENSIVE (LOSS) NET	RETAINED EARNINGS	TREA ST
BALANCE AT JANUARY 1, 2007	7,698	$770	$90,659	$(4,772)	$ 37,285	$ (8
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
BALANCE AT JANUARY 1, 2008	7,698	$770	$90,986	$(3,439)	$ 42,352	$ (6
Net income					2,649	
Other comprehensive (loss) net of reclassification adjustment and taxes				(9,486)		
Comprehensive (loss)						
BALANCE AT MARCH 31, 2008	7,698	$770	$90,986	$(12,925)	$ 45,001	$ (6

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

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

	FOR THE THREE MONTHS ENDED MARCH 31,	
	2008	2007
Cash flows from operating activities:		
Net income	$ 2,649	$ 1,100
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Realized gains on investment securities	(58)	(125)
Net accretion of premiums of investment securities	(197)	(361)
Depreciation and amortization	173	183
Provision for loan losses	150	75
Decrease in accrued interest receivable	1,425	500
(Increase) decrease in other assets	(1,763)	181
Decrease in accrued interest payable and other liabilities	(4,193)	(1,080)
Net cash (used in) provided by operating activities	(1,814)	473
Cash flows from investing activities:		
Investment securities available for sale		
Purchases	(767,497)	(460,195)
Sales, maturities and calls	808,054	460,591
Investment securities held to maturity		
Maturities	5	7
Net increase in loans	(10,561)	(7,226)
Acquisition of premises and equipment	(9)	(26)
Net cash provided by (used in) investing activities	29,992	(6,849)

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

	FOR THE THREE MONTHS ENDED MARCH 31,	
	2008	2007
Cash flows from financing activities:		
Net increase in non interest bearing deposits	$ 881	$ 230
Net (decrease) increase in interest bearing deposits	(31,589)	90,567
Decrease in securities sold under agreements to repurchase	(23,406)	(39,446)
Proceeds from long term debt	10,000	--
Repayment of long term debt	(4,014)	(8,850)
Proceeds from exercise of common stock options	--	253
Net cash (used in) provided by financing activities	(48,128)	42,754
Net (decrease) increase in cash and cash equivalents	(19,950)	36,378
Cash and cash equivalents at beginning of period	47,193	24,311

Cash and cash equivalents at end of period	$ 27,243	$ 60,689
	========	========
Supplemental disclosures of cash flow information:		
Cash used to pay interest	$ 12,624	$ 9,622
Cash used to pay taxes, net of refunds	$ 680	$ 505

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

BERKSHIRE BANCORP INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2008 AND 2007

NOTE 1. GENERAL

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

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

We have prepared the accompanying financial statements pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC") for interim financial reporting. These consolidated financial statements are unaudited and, in our opinion, include all adjustments, consisting of normal recurring adjustments and accruals necessary for a fair presentation of our consolidated balance sheets, operating results, and cash flows for the periods presented. Operating results for the periods presented are not necessarily indicative of the results that may be expected for the remaining quarters of fiscal 2008 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 2007 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 6.55%.

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 5.04%.

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			
	MARCH 31, 2008			M
	Income (numerator)	Shares (denominator)	Per share amount	Income (numerator)
	(In thousands, except per share d			
Basic earnings per share				
Net income available to common stockholders	$2,649	7,054	$ .38	$1,100
Effect of dilutive securities				
Options	--	1	.--	--
Diluted earnings per share				
Net income available to common stockholders plus assumed conversions	$2,649	7,055	$ .38	$1,100

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

NOTE 4. LOAN PORTFOLIO

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

	MARCH 31, 2008		DECEMBER 31, 2007	
	AMOUNT	% OF TOTAL	AMOUNT	% OF TOTAL
	2008 (Dollars in thousands)			
Commercial and professional loans	$ 67,275	15.1%	$ 76,132	17.4%
Secured by real estate				
1-4 family	139,259	31.2	142,140	32.6
Multi family	3,394	0.7	3,506	0.8
Non-residential (commercial)	235,508	52.7	212,850	48.8
Consumer	1,361	0.3	1,691	0.4
Total loans	446,797	100.0%	436,319	100.0%
Deferred loan fees	(1,386)		(1,534)	
Allowance for loan losses	(4,398)		(4,183)	
Loans, net	$441,013		$430,602	

======== ========

As of March 31, 2008, nonaccrual and nonperforming loans totalled $146,000 compared to $153,000 as of December 31, 2007. At March 31, 2008 and December 31, 2007, total loans contractually past due 90 days or more but still accruing interest were zero and $314,000, respectively.

NOTE 5. DEPOSITS

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

	THREE MONTHS ENDED MARCH 31, 2008		TWELVE MONTHS ENDED DECEMBER 31, 2007	
	AVERAGE AMOUNT	AVERAGE YIELD	AVERAGE AMOUNT	AVERAGE YIELD
	(Dollars in thousands)			
Demand deposits	$ 53,819	--	$ 50,647	--
NOW and money market	43,003	1.89%	29,984	0.76%
Savings deposits	279,708	3.51	261,065	3.83
Time deposits	447,907	4.54	449,754	4.83
Total deposits	$824,437	3.76%	$791,450	4.04%

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

NOTE 6. COMPREHENSIVE INCOME (LOSS)

The Company follows the provisions of Statement of Financial Accounting Standards ("SFAS") No. 130, "Reporting Comprehensive Income" which includes net income as well as certain other items which result in a change to equity during the period. The following table presents the components of comprehensive income, based on the provisions of SFAS No. 130.:

	FOR THE THREE MONTHS ENDED				
	MARCH 31, 2008			MARCH	
	BEFORE TAX AMOUNT	TAX (EXPENSE) BENEFIT	NET OF TAX AMOUNT	BEFORE TAX AMOUNT	(EX BE
			(In thousands)		
Unrealized (losses) gains on investment securities:					
Unrealized holding gains (losses) arising	$(15,893)	$ 6,357	$(9,536)	$ 39	$

during period					
Less reclassification adjustment for gains realized in net income	58	(23)	35	125	
Unrealized loss on investment securities	(15,835)	6,334	(9,501)	(86)	
Change in minimum pension liability	15	--	15	16	
Other comprehensive loss, net	$(15,820)	$ 6,334	$(9,486)	$ (70)	$

NOTE 7. ACCOUNTING FOR STOCK BASED COMPENSATION

At March 31, 2008, the Company has one stock-based employee compensation plan. The Company accounts for the plan in accordance with SFAS No. 123(R), "Share Based Payment". Under the fair value recognition provisions of SFAS 123R, share-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the vesting period. Determining the fair value of share-based awards at the grant date requires judgement, including estimating the Company's stock price volatility, employee stock option exercise behaviors and employee option forfeiture rates.

The Company did not grant stock options, nor did any stock options vest during the three-month periods ended March 31, 2008 and 2007, as a result of which, no stock based compensation expense was recorded in either of those periods.

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

NOTE 8. EMPLOYEE BENEFIT PLANS

The Company has a Retirement Income Plan (the "Plan"), a noncontributory defined benefit 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) based upon the most recent actuarial valuation dated December 31, 2007.

	FOR THE THREE MONTHS ENDED MARCH 31,	
	2008	2007
Service cost	$ 105,250	$90,750
Interest cost	54,750	43,500
Expected return on plan assets	(62,250)	(46,000)
Amortization and Deferral:		
Prior service cost	4,500	4,500
Loss	10,750	11,750

Net periodic pension cost	$ 113,000	$ 104,500
	=========	=========

The Pension Protection Act of 2006 (the "PPA") changes the funding rules for defined benefit pension plans, beginning in 2008. A key element of the PPA is the introduction of benefit restrictions on plans that are funded below 80% of the plan's target liabilities. In order to avoid these restrictions, during the fiscal year ending December 31, 2008, we expect to contribute approximately $869,000 to the Plan. On March 27, 2008, we contributed $577,500 to the Plan. We did not make any contributions to the Plan, required or otherwise, during the three months ended March 31, 2007.

NOTE 9 - FAIR VALUE MEASUREMENTS

Effective January 1, 2008, the Company adopted SFAS No. 157, "Fair Value Measurements." SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosure about fair value. SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants on the measurement date. SFAS 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value. A financial instrument's level within the fair value hierarchy is based on the lowest level of input significant to the fair value measurement. There have been no material changes in valuation techniques as a result of the adoption of SFAS No. 157.

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

Level 2 - Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities in active markets; quoted prices in markets that are not active for identical or similar assets or liabilities; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and significant to the fair value of the assets or liabilities that are developed using the reporting entities' estimates and assumptions, which reflect those that market participants would use.

ASSETS AND LIABILITIES MEASURED AT FAIR VALUE ON A RECURRING BASIS

A description of the valuation methodologies used for financial instruments measured at fair value on a recurring basis, as well as the classification of the instruments pursuant to the valuation hierarchy, are as follows:

SECURITIES AVAILABLE FOR SALE

Securities classified as available for sale are reported using Level 1, Level 2 and Level 3 inputs. Level 1 securities generally include equity securities valued based on quoted market prices in active markets. Level 2 instruments include U.S. government agency obligations, state and municipal bonds, mortgage-backed securities, collateralized mortgage obligations and corporate bonds. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things. Level 3 securities available for sale consist of instruments that are not readily marketable and may only be redeemed with the issuer at par such as Federal Home Loan Bank and Federal Reserve Bank stock. These securities are stated at par value.

Assets measured at fair value on a recurring basis are summarized below.

(Dollars in thousands)	Fair Value Measurement Using: Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
ASSETS			
Investment securities available for sale	$ 10,071	$ 352,743	$ 182,789
Total assets	$ 10,071	$ 352,743	$ 182,789

ASSETS AND LIABILITIES MEASURED AT FAIR VALUE ON A RECURRING BASIS USING SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)

The table below presents a reconciliation for assets measured at fair value on a recurring basis for which the Corporate has utilized significant unobservable inputs (Level 3).

(Dollars in thousands)	Investment Securities Available for Sale
Balance, January 1, 2008	$ 184,597
Total gains/losses (realized/unrealized)	
Included in earnings (or changes in net assets)	--
Included in other comprehensive income	(8,924)
Purchases, Sales, Issuances, and Settlements	7,116
Redemptions	--
Interest	--
Capital deductions for operating expenses	--
Balance, March 31, 2008	$ 182,789
The amount of total gains or losses for the period included in earnings (or changes in net assets) attributable to the change in unrealized gains or losses relating to assets still held at March 31, 2008	$ --

NOTE 10. NEW ACCOUNTING PRONOUNCEMENTS

ACCOUNTING FOR FAIR VALUE MEASUREMENT

In September 2006, the Financial Accounting Standards Board (the "FASB") issued SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"). SFAS No. 157 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. The adoption of SFAS No. 157 did not have a material impact on the Company's results of operations or financial condition, but required expanded disclosures (Note 9).

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 allows 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.

NOTE 10. - (CONTINUED)

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.

SFAS No. 159 was adopted by the Company on January 1, 2008, concurrent with the adoption of SFAS No. 157. At March 31, 2008, the Company has not elected the fair value measurement option for any of its assets or liabilities.

ACCOUNTING FOR BUSINESS COMBINATIONS

In December 2007, the FASB issued SFAS 141(R), "Accounting for Business Combinations." This Statement replaces FASB Statement No. 141, "Business Combinations" and is effective as of the beginning of the fiscal year beginning on or after December 15, 2008, or January 1, 2009 as to the Company. SFAS 141(R) establishes principles and requirements for how the acquirer of a business (i) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree, (ii) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase, and (iii) determines the information to disclose in its financial statements with respect to the nature and financial effects of the business combination. The adoption of SFAS 141(R) is not expected to have a material impact on the Company's results of operations or financial condition.

In March 2008, FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities." SFAS 161 requires enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance and cash flows. Specifically, it requires that objectives for using derivatives instruments be disclosed in terms of underlying risk and accounting designation, disclosing the fair values of derivative instruments and their gains and losses in a tabular format, disclosure about credit-risk-related contingent features and cross-referencing within the footnotes. It is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, or January 1, 2009 as to the Company, with early application encouraged. The Company is currently assessing the impact of the adoption of this statement on its financial statement disclosures.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The objective of the Company's Internal Control Program is to allow the Bank and management to comply with Part 363 of the FDIC's regulations ("FDICIA") and to allow the Company to comply with Section 302 of the Sarbanes-Oxley Act of 2002 (the "Act"). In November 2005, the FDIC amended Part 363 of its regulations by raising the asset-size threshold from $500 million to $1 billion for internal control assessments by management and external auditors. The final rule was effective December 28, 2005.

Section 302 of the Act requires the CEOs and CFOs 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 (i) report on internal control over financial reporting, (ii) assess the effectiveness of such internal controls, and (iii) obtain an external auditor's report on management's assessment of its internal control. The Company is not an accelerated filer as defined in Rule 12b-2 of the Securities Exchange Act of 1934. Therefore, the Company was first required to comply with Section 404 for the fiscal year ended 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, and its subsidiaries. All references to earnings per share, unless stated otherwise, refer to earnings per diluted share. 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 accounting and reporting policies of the Company conform with accounting principles generally accepted in the United States of America and general practices within the financial services industry. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and the assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ from those estimates.

The Company considers that the determination of the allowance for loan losses involves a higher degree of judgment and complexity than any of its other significant accounting policies. The allowance for loan losses is calculated with the objective of maintaining a reserve level believed by management to be sufficient to absorb estimated credit losses. Management's determination of the adequacy of the allowance is based on periodic evaluations of the loan portfolio and other relevant factors. However, this evaluation is inherently subjective as it requires material estimates, including, among others, expected default probabilities, loss given default, the amounts and timing of expected future cash flows on impaired loans, mortgages, and general amounts for historical loss experience. The process also considers economic conditions, uncertainties in estimating losses and inherent risks in the loan portfolio. All of these factors may be susceptible to significant change. To the extent actual outcomes differ from management estimates, additional provisions for loan losses may be required that would adversely impact earnings in future periods.

With the adoption of 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, 2007, the Company completed its annual testing, which determined that no impairment charge was necessary.

The Company recognizes deferred tax assets and liabilities for the future tax effects of temporary differences, net operating loss carryforwards and tax credits. Deferred tax assets are subject to management's judgment based upon available evidence that future realization is more likely than not. If management determines that the Company may be unable to realize all or part of net deferred tax assets in the future, a direct charge to income tax expense may be required to reduce the recorded value of the net deferred tax asset to the expected realizable amount.

The following table presents the total dollar amount of interest income from average interest-earning assets and the resultant yields, as well as the interest expense on average interest-bearing liabilities, expressed in both dollars and rates.

	FOR THE THREE MONTHS ENDED MARCH			
	2008			
	AVERAGE BALANCE	INTEREST AND DIVIDENDS	AVERAGE YIELD/RATE	AVERAGE BALANCE
	(Dollars in Thousands)			
INTEREST-EARNING ASSETS:				
Loans (1)	$ 447,020	$ 8,205	7.34%	$ 376,914
Investment securities	557,554	7,867	5.64	507,614
Other (2)(5)	25,887	224	3.46	54,382
Total interest-earning assets	1,030,461	16,296	6.33	938,910
Noninterest-earning assets	44,637			45,240
Total Assets	$1,075,098			$ 984,150
INTEREST-BEARING LIABILITIES:				
Interest bearing deposits	322,711	2,649	3.28%	273,132
Time deposits	447,907	5,084	4.54	424,970
Other borrowings	114,432	1,400	4.89	106,668
Total interest-bearing liabilities	885,050	9,133	4.13	804,770
Demand deposits	53,819			48,266
Noninterest-bearing liabilities	11,069			13,482
Stockholders' equity (5)	125,160			117,632
Total liabilities and stockholders' equity	$1,075,098			$ 984,150
Net interest income		$ 7,163		
Interest-rate spread (3)			2.20%	
Net interest margin (4)			2.78%	
Ratio of average interest-earning assets to average interest bearing liabilities	1.16			1.17

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(1) Includes nonaccrual loans.
(2) Includes interest-bearing deposits, federal funds sold and securities purchased under agreements to resell.
(3) Interest-rate spread represents the difference between the average yield on interest-earning assets and the average cost of interest bearing liabilities.
(4) Net interest margin is net interest income as a percentage of average interest-earning assets.
(5) Average balances are daily average balances except for the parent company which have been calculated on a monthly basis.

RESULTS OF OPERATIONS

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2008 COMPARED TO THE THREE MONTHS ENDED MARCH 31, 2007.

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 March 31, 2008 increased by $1.55 million to $2.65 million, or $.38 per share, from $1.10 million, or $.16 per share, for the three-month period ended March 31, 2007.

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.

NET INTEREST INCOME. The Company's primary source of revenue is net interest income, or the difference between interest income earned on earning assets, such as loans and investment securities, and interest expense on interest-bearing liabilities such as deposits and borrowings. The amount of interest income is dependent upon many factors including: (i) the amount of interest-earning assets that the Company can maintain based upon its funding sources; (ii) the relative amounts of interest-earning assets versus interest-bearing liabilities; and (iii) the difference between the yields earned on those assets and the rates paid on those liabilities. Non-performing loans adversely affect net interest income because they must still be funded by interest-bearing liabilities, but they do not provide interest income. Furthermore, when we designate an asset as non- performing, all interest which has been accrued but not actually received is deducted from current period income, further reducing net interest income.

For the quarter ended March 31, 2008, net interest income increased by $2.27 million to $7.16 million from $4.89 million for the quarter ended March 31, 2007. The quarter over quarter increase in net interest income was the result of the 47 basis point increase in the average yields earned on the average amounts of interest-earning assets to 6.33% in 2008 from 5.86% in 2007 and the the 28 basis point decrease in the average rates paid on the average amounts of interest-bearing liabilities to 4.13% in 2008 from 4.41% in 2007.

The Company's interest-rate spread, the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities, grew by 75 basis points to 2.20% in the 2008 quarter from 1.45% in the 2007 quarter.

NET INTEREST MARGIN. Net interest margin, or annualized net interest income as a percentage of average interest-earning assets, increased by 70 basis points to 2.78% in the first quarter of fiscal 2008 from 2.08% in the first quarter of fiscal 2007. 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. The increase in net interest margin is primarily due to the increase in net interest income, and 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 $70.11 million to $447.02 million in the quarter ended March 31, 2008 from $376.91 million in the quarter ended March 31, 2007. The average amount of investment securities

increased by $49.94 million, to $557.55 million in the three months ended March 31, 2008 from $507.61 million in the three months ended March 31, 2007, while the average yield on investment securities improved by 104 basis points, to 5.64% in 2008 from 4.60% in 2007.

INTEREST INCOME. Total interest income for the quarter ended March 31, 2008 increased by $2.54 million to $16.30 million from $13.76 million for the quarter ended March 31, 2007. The increase in total interest income was primarily due to the increase in the average yields earned on interest-earning assets and the increase in the average amount of such assets as discussed above.

The following table shows the composition of interest income.

	THREE MONTHS ENDED MARCH 31,			
	2008		2007	
	INTEREST INCOME	% OF TOTAL	INTEREST INCOME	% OF TOTAL
	(In thousands, except percentages)			
Loans	$ 8,205	50.35%	$ 7,238	52.60%
Investment Securities	7,867	48.28	5,835	42.41
Other	224	1.37	686	4.99
Total Interest Income	$16,296	100.00%	$13,759	100.00%

Loans, which are inherently risky and therefore command a higher return than our portfolio of investment securities and other interest-earning assets, increased to 43.38% of our total amount of average interest-earning assets during the three months ended March 31, 2008 from 40.14% of our total average interest-earning assets during the three months ended March 31, 2007. Investment securities remained relatively flat at 54.11% and 54.06% of total interest-earning assets in 2008 and 2007, respectively, and other interest-earning assets declined to 2.51% in 2008 from 5.79% in 2007. 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.

At March 31, 2008, our portfolio of investment securities included approximately $182.8 million of auction rate securities. These investments have high credit quality ratings of AA or AAA and are fully collateralized by bonds and other financial instruments. Auction rate securities are generally long-term debt instruments that provide liquidity through a Dutch auction process that resets the applicable interest rate at pre-determined calendar intervals, generally every 90 days for the securities in our portfolio.

Recent uncertainties in the credit markets have negatively impacted our ability to liquidate, if necessary, investments in auction rate securities because, in recent auctions, the amount of securities submitted for sale has exceeded the amount of purchase orders. We are not certain as to when the liquidity issues relating to these investments will improve. As a result of the timing of the recent auction failures beginning in February 2008, we recorded an unrealized loss net of tax in accordance with SFAS No. 115 "Accounting for Certain Debt and Equities Securities" totalling approximately $8.9 million as of March 31, 2008. Based on the fair market value of the auction rate securities and an analysis of other-than-temporary impairment factors, including, but not limited to, whether the credit ratings of the issuers or the insurers deteriorate, or the collateral of the securities deteriorates, we determined that none of the auction rate securities are other-than-temporarily impaired.

Based on our expected operating cash flows, and our other sources of cash, we do not expect the potential lack of liquidity in these investments to affect our capital, liquidity or ability to execute our current business plan.

INTEREST EXPENSE. Total interest expense for the quarter ended March 31, 2008 increased by $265,000 to $9.13 million from $8.87 million for the quarter ended March 31, 2007. The increase in interest expense was due primarily to the quarter over quarter increase in the average amount of interest-bearing liabilities, to $885.05 million in 2008 from $804.77 million in 2007, substantially offset by the decrease in rates paid on the average amount of interest-bearing liabilities, 4.13% in the 2008 quarter from 4.41% in the 2007 quarter.

The following table shows the composition of interest expense.

	THREE MONTHS ENDED MARCH 31,			
	2008		2007	
	INTEREST EXPENSE	% OF TOTAL	INTEREST EXPENSE	% OF TOTAL
	(In thousands, except percentages)			
Interest-Bearing Deposits	$ 2,649	29.00%	$ 2,321	26.17%
Time Deposits	5,084	55.67	5,123	57.77
Other Borrowings	1,400	15.33	1,424	16.06
Total Interest Expense	$ 9,133	100.00%	$ 8,868	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, 2008, total non-interest income decreased by $49,000, to $466,000 from $515,000 for the three months ended March 31, 2007. The decrease was primarily attributable to a decrease of $26,000 in service charges on deposit accounts and a $67,000 decrease in gains on investment securities, partially offset by an increase of $44,000 in other income.

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, 2008 increased by $457,000 to $3.91 million from $3.45 million for the three months ended March 31, 2007. The largest component of non-interest expense, approximately 61% of the total, are salaries and employee benefits which increased by $165,000 to $2.40 million in the 2008 quarter from $2.23 million in the 2007 quarter. The increase is due to the addition of personnel in our internal control and compliance departments, and the staff at our Washington Heights branch which opened in May 2007.

The following table shows the components of non-interest expense.

	THREE MONTHS ENDED MARCH 31,			
	2008		2007	
	NON-INTEREST EXPENSE	% OF TOTAL	NON-INTEREST EXPENSE	% OF TOTAL
	(In thousands, except percentages)			
Salaries and Employee Benefits	$ 2,399	61.36%	$ 2,234	64.70%
Net Occupancy Expense	538	13.76	476	13.79
Equipment Expense	95	2.43	102	2.95
FDIC Assessment	106	2.71	20	0.58
Data Processing Expense	111	2.84	96	2.78
Other	661	16.90	525	15.20
Total Non-Interest Expense	$ 3,910	100.00%	$ 3,453	100.00%

PROVISION FOR INCOME TAX. During the three-month periods ended March 31, 2008 and 2007, we recorded income tax expense of $920,000 and $778,000, respectively. The tax provisions for federal, state and local taxes recorded for the 2008 and 2007 periods represent effective tax rates of 25.78% and 41.43%, respectively. The decrease in the effective tax rate in the 2008 period compared to the 2007 period is primarily due to the tax-free income earned on certain of the auction rate securities in our investment portfolio.

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 March 31, 2008, the Company has purchased a total of 1,898,909 shares of its Common Stock. We did not repurchase shares of the Company's Common Stock during the first quarter of 2008. At March 31, 2008, there were 501,091 shares of Common Stock which may yet be purchased under our stock repurchase plan.

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 from time to time 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, when written, are entered into with major financial institutions.

The Company seeks to maximize its net interest margin within an acceptable level of interest rate risk. Interest rate risk can be defined as the amount of the forecasted net interest income that may be gained or lost due to favorable or unfavorable movements in interest rates. Interest rate risk, or sensitivity, arises when the maturity or repricing characteristics of assets differ significantly from the maturity or repricing characteristics of liabilities.

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

BERKSHIRE BANCORP IN
INTEREST RATE SENSITIVITY GAP AT
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		3 MONTHS OR LESS	3 THROUGH 12 MONTHS	1 THROUGH 3 YEARS
Federal funds sold		12,500	--	--
	(Rate)	2.25%		
Interest bearing deposits in banks		7,546	--	--
	(Rate)	2.13%		
Loans (1)(2)				
Adjustable rate loans		121,172	15,627	28,666
	(Rate)	6.86%	6.91%	6.75%
Fixed rate loans		13,645	19,857	40,471

	(Rate)	8.41%	6.51%	7.98%
Total loans		134,817	35,484	69,137
Investments (3)(4)		288,891	28,244	50,207
	(Rate)	5.78%	5.11%	4.93%
Total rate-sensitive assets		443,754	63,728	119,344
Deposit accounts (5)				
Savings and NOW		282,586	--	--
	(Rate)	3.14%		
Money market		33,162	--	--
	(Rate)	2.03%		
Time Deposits		210,449	241,310	313
	(Rate)	4.38%	3.99%	3.31%
Total deposit accounts		526,197	241,310	313
Repurchase Agreements		11,436	--	--
	(Rate)	2.88%		
Other borrowings		295	6,954	21,596
	(Rate)	4.18%	2.78%	5.49%
Total rate-sensitive liabilities		537,928	248,264	21,909
Interest rate caps		40,000	--	--
Gap (repricing differences)		(134,174)	(184,536)	97,435
Cumulative Gap		(134,174)	(318,710)	(221,275)
Cumulative Gap to Total Rate Sensitive Assets		(12.99)%	(30.86)%	(21.42)%

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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, principally "SFAS" No. 5, "Accounting for Contingencies" and SFAS No. 114, "Accounting by Creditors for Impairment of a Loan, an amendment to FASB Statements No. 5 and 15," as amended. Under the above accounting principles, 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, as a practical expedient for collateral-dependent loans, the fair value of the collateral adjusted for market conditions and selling expenses. The Bank considers its investment in one-to-four family real estate loans and consumer loans to be smaller balance homogeneous loans and therefore excluded from separate identification for evaluation of impairment. These homogeneous loan groups are evaluated for impairment on a collective basis under SFAS No. 5, "Accounting for Contingencies".

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 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 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.

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, 2008	THREE MONTHS ENDED MARCH 31, 2007
Average loans outstanding	$447,020	$376,914
Allowance at beginning of period	4,183	3,771
Charge-offs:		
Commercial and other loans	1	--
Total loans charged-off	1	--
Recoveries:		
Commercial and other loans	66	2
Total loans recovered	66	2
Net (charge-offs) recoveries	65	2
Provision for loan losses charged to operating expenses	150	75
Allowance at end of period	$ 4,398	$ 3,848
Ratio of net recoveries (charge-offs)		

to average loans outstanding	0.01%	0.00%
Allowance as a percent of total loans	0.98%	1.01%
Total loans at end of period	$446,797	$379,313

LOAN PORTFOLIO.

LOAN PORTFOLIO COMPOSITION. The Company's loans consist primarily of mortgage loans secured by residential and non-residential properties as well as commercial loans which are either unsecured or secured by personal property collateral. Most of the Company's loans are either made to individuals or personally guaranteed by the principals of the business to which the loan is made. At March 31, 2008 and December 31, 2007, the Company had loans, net of unearned income, of $445.41 million and $434.79 million, respectively, and allowances for loan losses of $4.40 million and $4.18 million, respectively. From time to time, the Bank may originate residential mortgage loans, sell them on the secondary market, normally recognizing fee income in connection with the sale.

Interest rates on loans are affected by the demand for loans, the supply of money available for lending, credit risks, the rates offered by competitors and other conditions. These factors are in turn affected by, among other things, economic conditions, monetary policies of the federal government, and legislative tax policies.

In order to manage interest rate risk, the Bank focuses its efforts on loans with interest rates that adjust based upon changes in the prime rate or changes in United States Treasury or similar indices. Generally, credit risks on adjustable-rate loans are somewhat greater than on fixed-rate loans primarily because, as interest rates rise, so do borrowers' payments, increasing the potential for default. The Bank seeks to impose appropriate loan underwriting standards in order to protect against these and other credit related risks associated with its lending operations.

In addition to analyzing the income and assets of its borrowers when underwriting a loan, the Bank obtains independent appraisals on all material real estate in which the Bank takes a mortgage. The Bank generally obtains title insurance in order to protect against title defects on mortgaged property.

COMMERCIAL AND MORTGAGE LOANS. The Bank originates commercial mortgage loans secured by office buildings, retail establishments, multi-family residential real estate and other types of commercial property. Substantially all of the properties are located in the New York City metropolitan area.

The Bank generally makes commercial mortgage loans with loan to value ratios not to exceed 75% and with terms to maturity that do not exceed 15 years. Loans secured by commercial properties generally involve a greater degree of risk than one- to four-family residential mortgage loans. Because payments on such loans are often dependent on successful operation or management of the properties, repayment may be subject, to a greater extent, to adverse conditions in the real estate market or the economy. The Bank seeks to minimize these risks through its underwriting policies. The Bank evaluates the qualifications and financial condition of the borrower, including credit history, profitability and expertise, as well as the value and condition of the underlying property. The factors considered by the Bank include net operating income; the debt coverage ratio (the ratio of cash net income to debt service); and the loan to value ratio. When evaluating the borrower, the Bank considers the financial resources and income level of the borrower, the borrower's experience in owning or managing similar property and the Bank's lending experience with the borrower. The Bank's policy requires borrowers to present evidence of the ability to repay the loan without having to resort to the sale of the mortgaged property. The Bank also seeks to focus its commercial mortgage loans on loans to companies with operating businesses, rather than passive real estate investors.

COMMERCIAL LOANS. The Bank makes commercial loans to businesses for inventory financing, working capital, machinery and equipment purchases, expansion, and other business purposes. These loans generally have higher yields than mortgages loans, with maturities of one year, after which the borrower's financial condition and the terms of the loan are re-evaluated. At March 31, 2008 and 2007, approximately $67.28 million and $64.38 million, respectively, or 15.06% and 16.97%, respectively, of the Company's total loan portfolio consisted of such loans.

Commercial loans tend to present greater risks than mortgage loans because the collateral, if any, tends to be rapidly depreciable, difficult to sell at full value and is often easier to conceal. In order to limit these risks, the Bank evaluates these loans based upon the borrower's ability to repay the loan from ongoing operations. The Bank considers the business history of the borrower and perceived stability of the business as important factors when considering applications for such loans. Occasionally, the borrower provides commercial or residential real estate collateral for such loans, in which case the value of the collateral may be a significant factor in the loan approval process.

RESIDENTIAL MORTGAGE LOANS (1 TO 4 FAMILY LOANS). The Bank makes residential mortgage loans secured by first liens on one-to-four family owner-occupied or rental residential real estate. At March 31, 2008 and 2007, approximately $139.26 million and $138.16 million, respectively, or 31.17% and 36.42%, respectively, of the Company's total loan portfolio consisted of such loans. The Bank offers both adjustable rate mortgages ("ARMS") and fixed-rate mortgage loans. The relative proportion of fixed-rate loans versus ARMs originated by the Bank depends principally upon current customer preference, which is generally driven by economic and interest rate conditions and the pricing offered by the Bank's competitors. At March 31, 2008 and 2007, approximately 12.50% and 17.74%, respectively, of the Bank's residential one-to-four family owner-occupied first mortgage portfolio were ARMs and approximately 87.50% and 82.26%, respectively, were fixed-rate loans. The percentage represented by fixed-rate loans tends to increase during periods of low interest rates. The ARMs generally carry annual caps and life-of-loan ceilings, which limit interest rate adjustments.

The Bank's residential loan underwriting criteria are generally comparable to those required by the Federal National Mortgage Association ("FNMA") and other major secondary market loan purchasers. Generally, ARM credit risks are somewhat greater than fixed-rate loans primarily because, as interest rates rise, the borrowers' payments rise, increasing the potential for default. The Bank's teaser rate ARMs (ARMs with low initial interest rates that are not based upon the index plus the margin for determining future rate adjustments) were underwritten based on the payment due at the fully-indexed rate.

In addition to verifying income and assets of borrowers, the Bank obtains independent appraisals on all residential first mortgage loans and title insurance is required at closing. Private mortgage insurance is required on all loans with a loan-to-value ratio in excess of 80% and the Bank requires real estate tax escrows on such loans. Real estate tax escrows are voluntary on residential mortgage loans with loan-to-value ratios of 80% or less.

Fixed-rate residential mortgage loans are generally originated by the Bank for terms of 15 to 30 years. Although 30 year fixed-rate mortgage loans may adversely affect our net interest income in periods of rising interest rates, the Bank originates such loans to satisfy customer demand. Such loans are generally originated at initial interest rates which exceed the fully indexed rate on ARMs offered at the same time. Fixed-rate residential mortgage loans originated by the Bank generally include due-on-sale clauses, which permit the Bank to demand payment in full if the borrower sells the property without the Bank's consent.

Due-on-sale clauses are an important means of adjusting the rates on the Bank's fixed-rate mortgage loan portfolio, and the Bank will generally exercise its rights under these clauses if necessary to maintain market yields.

ARMs originated in recent years have interest rates that adjust annually based upon the movement of the one year treasury bill constant maturity index, plus a margin of 2.00% to 2.75%. These loans generally have a maximum interest rate adjustment of 2% per year, with a lifetime maximum interest rate adjustment, measured from the initial interest rate, of 5.5% or 6.0%.

The Bank offers a variety of other loan products including residential single family construction loans to persons who intend to occupy the property upon completion of construction, home equity loans secured by junior mortgages on one-to-four family owner-occupied residences, and short-term fixed-rate consumer loans either unsecured or secured by monetary assets such as bank deposits and marketable securities or personal property. At March 31, 2008 and 2007, the Company's loan portfolio was comprised of $240.26 million and $176.77 million, respectively, or 53.17% and 46.60%, respectively, of other loan products.

CAPITAL ADEQUACY

Quantitative measures established by regulations to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk- weighted assets, and of Tier I capital to average assets. Management believes that, as of March 31, 2008, the Bank meets all capital adequacy requirements to which it is subject.

As of March 31, 2008, the Bank met all regulatory requirements for classification as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the following table. There are no conditions or events since that date that management believes have changed the Bank's category.

The following table set forth the actual and required regulatory capital amounts and ratios of the Company and the Bank as of March 31, 2008. (dollars in thousands):

FOR CAPITAL

	ACTUAL		ADEQUACY PURPOSES	
	AMOUNT	RATIO	AMOUNT	RATIO
MARCH 31, 2008				
Total Capital (to Risk-Weighted Assets)				
Company	$138,876	17.9%	$61,937	>8.0%
Bank	106,464	14.1%	60,356	>8.0%
Tier I Capital (to Risk-Weighted Assets)				
Company	134,478	17.4%	30,968	>4.0%
Bank	102,066	13.5%	30,178	>4.0%
Tier I Capital (to Average Assets)				
Company	134,478	12.5%	43,004	>4.0%
Bank	102,066	9.9%	41,208	>4.0%

LIQUIDITY

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

At March 31, 2008, our portfolio of investment securities included approximately $182.8 million of auction rate securities. These investments have high credit quality ratings of AA or AAA and are fully collateralized by bonds and other financial instruments. Auction rate securities are generally long-term debt instruments that provide liquidity through a Dutch auction process that resets the applicable interest rate at pre-determined calendar intervals, generally every 90 days for the securities in our portfolio.

Recent uncertainties in the credit markets have negatively impacted our ability to liquidate, if necessary, investments in auction rate securities because, in recent auctions, the amount of securities submitted for sale has exceeded the amount of purchase orders. We are not certain as to when the liquidity issues relating to these investments will improve; however, we have the ability to hold these available for sale securities to maturity, (predominately greater than 19 years after March 31, 2008) thereby recovering our investment. We have collected all income due us from the auction rate securities.

Based on our expected operating cash flows, and our other sources of cash, we do not expect the potential lack of liquidity in these investments to affect our capital, liquidity or our ability to execute our current business plan.

For the parent company, Berkshire Bancorp Inc., 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. 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, 2008, the Company had cash of approximately $11.8 million and investment securities with a fair market value of $9.6 million.

The Bank 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 $50.5 million at March 31, 2008, include commitments to extend credit, stand-by letters of credit and loan commitments. The Bank also had interest rate caps with a notional amount of $40.0 million.

At March 31, 2008, the Bank had outstanding commitments of approximately $494.16 million; including $37.59 million of long-term debt, $4.50 million of operating leases, and $452.07 million of time deposits. These commitments include $459.97 million that mature or renew within one year, $32.36 million that mature or renew after one year and within three years, $1.29 million that mature or renew after three years and within five years and $544,000 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 4T - CONTROLS AND PROCEDURES

DISCLOSURE CONTROLS AND PROCEDURES.

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"). 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 Securities and Exchange Commission'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.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING.

In accordance with SEC requirements, the CEO/CFO notes that during the fiscal quarter ended March 31, 2008, no changes in the Company's Internal Control have occurred that have materially affected or are reasonably likely to materially affect the Company's Internal Control.

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.

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS

Exhibit Number	Description
10.1	Amendment No.3 to Employment Agreement, dated January 1, 2001, by and between The Berkshire Bank and David Lukens. +
31	Certification of Principal Executive and Financial Officer pursuant to Section 302 Of The Sarbanes-Oxley Act of 2002.
32	Certification of Principal Executive and Financial Officer pursuant to Section 906 Of The Sarbanes-Oxley Act of 2002.

SIGNATURES

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

BERKSHIRE BANCORP INC.
(REGISTRANT)

Date: May 12, 2008

By: /s/ Steven Rosenberg
STEVEN ROSENBERG
PRESIDENT AND CHIEF
FINANCIAL OFFICER

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+ Denotes a management compensation plan or arrangement.