

**UNITED STATES
FEDERAL DEPOSIT INSURANCE CORPORATION**

WASHINGTON, D.C. 20329-9900

FORM 10-QSB

Quarterly report under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2007

Transition report under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

FDIC Certificate No.: 58072

USA BANK

(Exact name of small business issuer as specified in its charter)

New York

(State or other jurisdiction of incorporation or organization)

20-0646362

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

211 Irving Avenue, Port Chester, New York 10573

(Address of principal executive offices)

(914) 939-3700

(Issuer's telephone number)

N/A

(Former name, former address and former fiscal year, if changed since last report)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 shell company (as defined in Rule 12b-2 of the Exchange Act. Yes No

As of May 11, 2007, 5,750,000 shares of the Issuer's common stock, \$2.00 par value, were issued and outstanding.

Transitional Small Business Disclosure Format (check one): Yes No

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Item 1. Financial Statements

USA BANK

BALANCE SHEETS

March 31, 2007 (unaudited) and December 31, 2006

	March 31, 2007	December 31, 2006
ASSETS		
Cash and due from banks	\$ 3,434,578	\$ 4,458,792
Federal funds sold and overnight investments	17,652,924	20,645,089
Cash and cash equivalents	21,087,502	25,103,881
Held to maturity securities, at amortized cost (fair value \$1,659,174 in 2007 and \$1,747,994 in 2006)	1,636,237	1,730,612
Available for sale securities, at fair value	5,748,995	6,217,273
Total investment securities	7,385,232	7,947,885
Loans held for sale, at fair value	2,614,561	1,461,948
Loans, net of the allowance for loan losses of \$874,000 in 2007 and \$703,000 in 2006	75,056,477	69,120,358
Leasehold improvements and equipment, net	744,460	739,652
Accrued interest receivable	599,220	566,913
Other assets	758,406	645,145
Total assets	\$ 108,245,858	\$ 105,585,782
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Noninterest bearing deposits	\$ 4,671,199	\$ 3,980,294
Interest bearing deposits	77,328,831	74,131,328
Total deposits	82,000,030	78,111,622
Accrued expenses and other liabilities	1,171,472	907,618
Total liabilities	83,171,502	79,019,240
Commitments and Contingencies		
Shareholders' Equity		
Common stock, par value \$2; 5,750,000 shares authorized, issued and outstanding at March 31, 2007 and December 31, 2006, respectively	11,500,000	11,500,000
Additional paid-in capital	21,116,774	21,116,774
Accumulated deficit	(7,531,965)	(6,017,998)
Accumulated other comprehensive loss - net unrealized loss on available for sale securities	(10,453)	(32,234)
Total shareholders' equity	25,074,356	26,566,542
Total liabilities and shareholders' equity	\$ 108,245,858	\$ 105,585,782

See Accompanying Notes to Financial Statements

USA Bank
STATEMENTS OF OPERATIONS
For the Three Months Ended March 31, 2007 and 2006 (unaudited)

	Three Months Ended	
	March	
	2007	2006
Interest Income		
Interest on Federal funds sold	\$ 211,333	\$ 211,783
Interest on loans	1,368,153	36,791
Interest on investments	107,023	-
Interest on loans held for sale	22,568	-
Total interest income	1,709,077	248,574
Interest Expense		
Interest expense on deposits	904,555	67,742
Total interest expense	904,555	67,742
Net interest income	804,522	180,832
Provision for loan losses	171,000	54,000
Net interest income after provision for loan losses	633,522	126,832
Noninterest Income		
Gains on sales of loans	32,319	-
Other noninterest income	39,126	3,267
Total noninterest income	71,445	3,267
Noninterest Expense		
Salaries, commissions and employee benefits	1,199,768	548,602
Occupancy and equipment	170,021	75,569
Professional fees	282,778	29,525
Legal	168,388	29,765
Contract services	53,536	13,068
Printing, stationery and supplies	35,250	21,886
Advertising	92,439	75,000
Data and item processing	97,006	71,865
Other	119,748	54,435
Total noninterest expense	2,218,934	919,715
Net loss	\$ (1,513,967)	\$ (789,616)
Basic and diluted loss per share	\$ (0.26)	\$ (0.34)
See Accompanying Notes to Financial Statements		

USA BANK
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the Three Months Ended March 31, 2007 and 2006 (unaudited)

	Number Of Shares	Common Stock	Additional Paid In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
Balance, December 31, 2005	2,333,334	\$ 4,666,668	\$ 9,036,820	\$ (1,509,316)	\$ -	\$ 12,194,172
Comprehensive loss:						
Net loss				(789,616)		(789,616)
Total comprehensive loss						(789,616)
Balance, March 31, 2006	2,333,334	\$ 4,666,668	\$ 9,036,820	\$ (2,298,932)	\$ -	\$ 11,404,556
Balance, December 31, 2006	5,750,000	\$11,500,000	\$ 21,116,774	\$ (6,017,998)	\$ (32,234)	\$ 26,566,542
Comprehensive loss:						
Net loss				(1,513,967)		(1,513,967)
Unrealized holding gains on available for sale securities					21,781	21,781
Total comprehensive loss						(1,492,186)
Balance, March 31, 2007	5,750,000	\$11,500,000	\$ 21,116,774	\$ (7,531,965)	\$ (10,453)	\$ 25,074,356

See Accompanying Notes to Financial Statements

USA BANK
STATEMENTS OF CASH FLOWS
For the Three Months Ended March 31, 2007 and 2006 (unaudited)

	Three Months Ended	
	March 31,	
	2007	2006
Cash Flows from Operations		
Net loss	\$ (1,513,967)	\$ (789,616)
Adjustments to reconcile net loss to net cash used in operating activities		
Amortization and accretion of premiums and discounts on investments, net	11,016	-
Provision for loan losses	171,000	54,000
Loans originated for sale, net of principal payments received	(7,694,370)	-
Proceeds from sales of loans	6,574,076	-
Gains on sales of loans	(32,319)	-
Depreciation and amortization	51,778	45,166
Changes in assets and liabilities:		
Decrease (increase) in deferred loan costs	29,653	(87,066)
Increase in accrued interest receivable	(32,307)	(20,088)
Increase in other assets	(113,261)	(387,025)
Increase (decrease) in accrued expenses and other liabilities	263,854	(271,146)
Net cash used in operating activities	(2,284,847)	(1,455,775)
Cash Flows from Investing Activities		
Principal repayments on available for sale securities	475,610	-
Principal repayments on held to maturity securities	97,808	-
Net increase in loans receivable	(6,136,772)	(5,952,150)
Purchase of leasehold improvements and equipment	(56,586)	(188,046)
Net cash used in investing activities	(5,619,940)	(6,140,196)
Cash Flows from Financing Activities		
Net (decrease) increase in time deposits	(3,773,828)	891,759
Net increase in other deposits	7,662,236	11,754,568
Net cash provided by financing activities	3,888,408	12,646,327
Net (decrease) increase in cash and cash equivalents	(4,016,379)	5,050,356
Cash and cash equivalents		
Beginning	25,103,881	15,800,433
Ending	\$ 21,087,502	\$ 20,850,789

See Accompanying Notes to Financial Statements

USA BANK
STATEMENTS OF CASH FLOWS (continued)
For the Three Months Ended March 31, 2007 and 2006 (unaudited)

	<u>March 31,</u> <u>2007</u>	<u>March 31,</u> <u>2006</u>
Supplemental Disclosure of Cash Flow Information		
Cash paid for:		
Interest	\$ 1,104,189	\$ 66,603
Supplemental disclosure of noncash investing activity:		
Unrealized holding gains on available for sale securities arising during the period	\$ 21,781	\$ -

See Accompanying Notes to Financial Statements

USA Bank
Notes to Financial Statements
(Unaudited)

Note 1. Nature of Operations

USA Bank (the “Bank”) is a State of New York chartered commercial bank whose deposits are insured by the Federal Deposit Insurance Corporation. The Bank offers traditional commercial banking services to customers through its main office in Port Chester, NY.

Formation of the Bank and development stage activities

On September 30, 2004, the Bank submitted an application to the State of New York Banking Department and commenced the development stage activities needed to form a bank. Prior to this date, certain costs were incurred by organizers on behalf of the Bank, which were included in operations. On February 5, 2005, the Bank submitted its Certificate of Merit to the State of New York Banking Department and its Organization Certificate was approved and filed by the State of New York Banking Department on August 17, 2005.

On December 21, 2005, the Bank completed the initial sale of its common stock. On December 22, 2005, the Bank received its Authorization Certificate from the State of New York Banking Department to operate as a commercial bank and obtained insurance from the Federal Deposit Insurance Corporation (the “FDIC”) and commenced business operations on December 23, 2005.

On June 30, 2006 the Bank sold an aggregate of 3,416,666 shares of its Common Stock at \$6.00 per share for an aggregate selling price of \$20,499,996 in cash. Stock issuance costs aggregated \$1,586,710 (including financial advisory fees and selling commissions aggregating \$1,174,756) resulting in net proceeds of \$18,913,286 which were applied to augment the Bank’s capital.

Note 2. Basis of Financial Statement Presentation

The interim financial statements and notes thereto have been prepared in conformity with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-QSB and Item 310(b) of Regulation SB. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Amounts in prior period financial statements are reclassified whenever necessary to conform to current period presentations. The results of operations for the three months ended March 31, 2007 are not necessarily indicative of the results which may be expected for the year as a whole. The accompanying financial statements and notes thereto should be read in conjunction with the audited financial statements of the Bank and notes thereto as of December 31, 2006, filed with the Federal Deposit Insurance Corporation on Form 10-KSB on April 9, 2007.

Note 3. Investments

The amortized cost, gross unrealized gains, gross unrealized losses and approximate fair values of available for sale and held to maturity securities at March 31, 2007 and December 31, 2006 are as follows:

March 31, 2007	Amortized	Gross Unrealized	Gross Unrealized	Fair
Available for sale securities	Cost	Gains	Losses	Value
U.S. Government Sponsored Agencies	\$ 5,759,448	\$ -	\$ (10,453)	\$ 5,748,995
<hr/>				
Held to maturity securities				
U.S Government Sponsored Agencies	\$ 1,636,237	\$ 22,937	\$ -	\$ 1,659,174
<hr/>				
December 31, 2006	Amortized	Gross Unrealized	Gross Unrealized	Fair
Available for sale securities	Cost	Gains	Losses	Value
U.S. Government Sponsored Agencies	\$ 6,249,507	\$ -	\$ (32,234)	\$ 6,217,273
<hr/>				
Held to maturity securities				
U.S Government Sponsored Agencies	\$ 1,730,612	\$ 17,382	\$ -	\$ 1,747,994

At March 31, 2007, gross unrealized holding losses on available for sale securities totaled \$10,453. The gross unrealized losses have existed for a period of less than six months. Management does not believe that any of the unrealized losses as of March 31, 2007 are other than temporary, as they relate to mortgage backed securities issued by U.S. Government sponsored agencies and resulted from changes in the interest rate environment. The Bank has the ability to hold these securities until fair value recovery or to maturity, if necessary, and expects to receive all contractual principal and interest related to these investments. As a result, management believes that these unrealized losses will not have a negative impact on future earnings or a permanent effect on capital.

At December 31, 2006, gross unrealized holding losses on available for sale securities totaled \$32,234. None of the unrealized losses on available for sale securities as of December 31, 2006 existed for a period of twelve months or longer.

The held to maturity securities for each of the periods presented are pledged as collateral for municipal deposits.

Note 4. Loans and Allowance for Loan Losses

A summary of the Bank's loan portfolio as of March 31, 2007 and December 31, 2006 is as follows:

	<u>March 31,</u> <u>2007</u>	<u>December 31,</u> <u>2006</u>
Real estate loans:		
Residential mortgages	\$ 13,029,639	\$ 9,268,306
Commercial real estate	22,006,936	22,757,228
Construction	16,517,246	14,520,641
Home equity	17,854,196	15,094,296
Total real estate loans	<u>69,408,017</u>	<u>61,640,471</u>
Commercial and industrial loans	<u>4,228,472</u>	<u>4,609,467</u>
Consumer	<u>2,131,412</u>	<u>3,381,191</u>
Total gross loans	75,767,901	69,631,129
Net deferred loan costs	162,576	192,229
Allowance for loan losses	<u>(874,000)</u>	<u>(703,000)</u>
Loans receivable, net	<u>\$ 75,056,477</u>	<u>\$ 69,120,358</u>

Allowance for Loan Losses

The following represents the activity in the allowance for loan losses for the three months ended March 31, 2007 and 2006:

	<u>For the Period Ended March 31,</u>	
	<u>2007</u>	<u>2006</u>
Balance at beginning of period	\$ 703,000	\$ -
Provision for loan losses	<u>171,000</u>	<u>54,000</u>
Balance at end of period	<u>\$ 874,000</u>	<u>\$ 54,000</u>

There were no charge-offs or recoveries of loans during the periods presented.

Non-Accrual, Past Due and Restructured Loans

The following is a summary of non-accrual and past due loans:

	<u>March 31,</u> <u>2007</u>	<u>December 31,</u> <u>2006</u>
Loans delinquent over 90 days and still accruing	\$ 1,981,255	\$ -
Non-accrual loans	<u>49,997</u>	<u>-</u>
Total nonperforming loans	<u>\$ 2,031,252</u>	<u>\$ -</u>
% of Total Loans	2.7%	0.0%
% of Total Assets	1.9%	0.0%
Ratio of allowance for loan losses to nonperforming loans	43.0%	0.0%

The two loans which were delinquent over 90 days and still accruing in the table above totaling \$1,981,255 were brought to a current status in April 2007.

The Bank did not have any non-accrual loans, loans past due ninety days or more and still accruing interest or loans considered “troubled debt restructurings” as of or during the year ended December 31, 2006.

Potential Problem Loans

In October 2006 the Bank entered into a \$2.5 million credit facility secured by receivables of which \$1.5 million and \$1.0 million was outstanding at March 31, 2007 and December 31, 2006, respectively. The loan is current and in compliance with all financial covenants. As of year end 2006 the Bank classified this loan as substandard due to litigation pending against the borrower. As a result, the Bank increased the allowance for loan losses and the reserve for possible credit losses on the available line of credit related to this loan as of December 31, 2006. During the first three months of 2007, the Bank has adjusted both the allowance for loan losses and the reserve for possible credit losses established for this loan to provide for the increase in the loan balance outstanding, and the corresponding reduction in the available line since December 31, 2006.

Note 5. Deposits

At March 31, 2007 and December 31, 2006, deposits consisted of the following:

	March 31, 2007	December 31, 2006
Noninterest bearing deposits	<u>\$ 4,671,199</u>	<u>\$ 3,980,294</u>
Interest bearing deposits		
NOW and money market	3,391,900	3,515,554
Savings	18,469,317	11,374,332
NOW, money market and savings	<u>21,861,217</u>	<u>14,889,886</u>
Time Certificates under \$100,000	40,080,248	41,875,948
Time Certificates over \$100,000	15,387,366	17,365,494
Time deposits	<u>55,467,614</u>	<u>59,241,442</u>
Total interest bearing deposits	<u>77,328,831</u>	<u>74,131,328</u>
Total deposits	<u>\$ 82,000,030</u>	<u>\$ 78,111,622</u>

Included in time deposits at March 31, 2007 and December 31, 2006 were brokered deposits totaling \$28.9 million and \$ 43.4 million, respectively. Brokered deposits with original maturities of four to thirteen weeks totaled \$19.0 million and \$33.5 million at March 31, 2007 and December 31, 2006, respectively.

Note 6. Available Borrowings

The Bank has established a secured line of credit facility with M&T Bank. The Bank has the ability to borrow up to \$5 million on an overnight basis from M&T Bank using investments as collateral at 125% of the borrowed amount. There were no borrowings outstanding under this line of credit at March 31, 2007 or December 31, 2006.

Note 7. Income Taxes

A reconciliation of the anticipated income tax benefit (computed by applying the statutory Federal income tax rate (34%) to the loss before income taxes) to the amount reported on the statement of operations for the three months ended March 31, 2007 (unaudited) is not presented since the only significant reconciling item is the change in the valuation allowance to adjust the deferred tax asset to \$ - 0 -, which is the amount considered by management more likely than not to be realized as of March 31, 2007. At March 31, 2007, the Bank had a net operating loss carryforward of approximately \$5.3 million, expiring at various dates through 2026.

In July 2006, the FASB issued Interpretation No. 48 (“FIN 48”) *Accounting for Uncertainty in Income Taxes*. FIN 48 applies to all positions related to income taxes subject to SFAS No. 109, *Accounting for Income Taxes*. This includes tax positions considered to be “routine” as well as those with a high degree of uncertainty. FIN 48 utilizes a two-step approach for evaluating tax positions. Recognition (step one) occurs when an enterprise concludes that a tax position, based solely on its technical merits, is more-likely-than-not to be sustained upon examination. Measurement (step two) is only addressed if step one has been satisfied (i.e., the position is more-than-likely-than not to be sustained). FIN 48 clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position must meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition.

Effective January 1, 2007, the Bank has adopted the provisions of FIN 48 and has analyzed its federal and significant state filing positions. The periods subject to examination for the Bank’s federal returns are the tax years 2004 through 2006. The periods subject to examination for the Bank’s significant state returns, which is New York, are the tax years 2004 through 2006. The Bank believes that its income tax filing positions and deductions will be sustained on examination and does not anticipate any adjustments that will result in a material change on its financial statements. As a result, no reserves for uncertain income tax positions have been recorded pursuant to FIN 48 nor was there a cumulative effect related to adopting FIN 48 recorded.

The Bank’s policy for recording interest and penalties related to uncertain tax positions is to record such items as part of its provision for federal and state income taxes.

Note 8. Loss per Share

The Bank's loss per share for the three months ended March 31, 2007 and 2006 was calculated by dividing the loss for the respective periods by the weighted average shares outstanding. The calculation of the loss per share for the three months ended March 31, 2007 and 2006 appears below:

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
Net Loss	<u>\$ (1,513,967)</u>	<u>\$ (789,616)</u>
Weighted Average Shares	<u>5,750,000</u>	<u>2,333,334</u>
Basic and diluted loss per share	<u>\$ (0.26)</u>	<u>\$ (0.34)</u>

Note 9. Related Party Transactions

In the normal course of business, the Bank may grant loans to executive officers, directors and members of their immediate families, as defined, and to entities in which these individuals have more than a 10% equity ownership. Such loans are transacted at terms including interest rates, substantially the same as those available to unrelated customers. The aggregate dollar amount of advances to related parties was \$1,082,509 and \$959,509 at March 31, 2007 and December 31, 2006, respectively.

Related party deposits aggregated approximately \$694,353 and \$1,314,584 as of March 31, 2007 and December 31, 2006, respectively.

Note 10. Business Developments

In April 2007, USA MBA, Inc., a Connecticut corporation and a wholly-owned subsidiary of the Bank, received regulatory approval from the Connecticut Department of Banking to open a mortgage brokerage office in Greenwich, CT. Approval from the State of New York Banking Department had previously been received subject to the approval of the Connecticut Department of Banking. It is anticipated that this office will open for business in the second quarter of 2007, and will be located at 36 Sherwood Place, Greenwich, CT.

Note 11. Financial Instruments with Off-Balance Sheet Risk

In the normal course of business the Bank is a party to financial instruments with off-balance-sheet risk to meet the financing needs of its customers. These financial instruments include commitments to extend credit and involve, to varying degrees, elements of credit and interest rate risk in excess of amounts recognized in the financial statements. The contractual amounts of these instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

The contractual amounts of commitments to extend credit represents the amounts of potential accounting loss should: the contract be fully drawn upon; the customer default; and the value of any existing collateral become worthless. The Bank uses the same credit policies and procedures in making commitments and conditional obligations as it does for on-balance-sheet instruments and evaluates each customer's creditworthiness on a case by case basis. Management believes that the Bank controls the credit risk of these financial instruments through credit approvals, credit limits, monitoring procedures and the receipt of collateral as deemed necessary.

Financial instruments whose contract amounts represent credit risk are as follows at March 31, 2007 (unaudited) and December 31, 2006:

	<u>2007</u>	<u>2006</u>
Commitments to extend credit:		
Future loan commitments	\$40,956,198	\$19,042,622
Unused lines of credit	10,512,166	15,162,276
Undisbursed construction loans	10,772,701	6,513,427
Financial standby letters of credit	300,000	300,000
	<u>\$62,541,065</u>	<u>\$41,018,325</u>

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments to extend credit generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. Since these commitments could expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of the collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the counter party. Collateral held varies, but may include residential and commercial property, deposits and securities.

Standby letters of credit are written commitments issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Since the Bank began operation on December 23, 2005, newly issued or modified guarantees that are not derivative contracts have been recorded on the Bank's balance sheet at their fair value at inception. The liability related to guarantees recorded at March 31, 2007 and December 31, 2006 was not significant.

Note 12. Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by the Federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory – and possibly additional discretionary – actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's

capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes that as of March 31, 2007 and December 31, 2006, the Bank meets all capital adequacy requirements to which it is subject.

The FDIC categorizes banks, based on certain capital ratios under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based, and Tier leverage ratios. The FDIC has not yet notified the Bank of its capital category as the Bank commenced operations on December 23, 2005.

The Authorization Certificate issued by the State of New York Banking Department requires the Bank to maintain a risk-based ratio of Tier 1 capital to assets of not less than eight percent for a period for a period of three years.

Potential Supervisory Action

Commencing in late 2006, representatives of the FDIC and the New York State Banking Department (collectively, the “Regulators”) have been involved in discussions with the Bank’s board and management regarding a number of issues of concern to the Regulators. The Regulators have been critical of the fact that the Bank has operated without a fully-constituted Audit Committee, due to the lack of approved director candidates satisfying the strict independence requirements for audit committee members. The Regulators have also indicated that there have been material deviations from the Bank’s business plan without necessary approvals from the Regulators. An example is the Regulators’ view that the implementation of the Bank’s effort to increase its mortgage brokerage activities significantly was an action requiring prior consent of the Regulators. In addition, the Regulators have expressed the view that the Bank needs to implement more comprehensive procedures in various areas, including loan review, deposit review and credit administration. The Bank believes there is a likelihood that the Regulators will pursue some form of supervisory action against the Bank.

The Bank has been addressing the concerns raised by the Regulators and will continue to do so. Two directors whose applications were submitted to the Regulators in September 2006 for approval have since been approved. One of these new directors, who was approved in February 2007, is qualified as an audit committee financial expert and is now the Chairman of the Audit Committee. The other applicant, who was approved in April 2007, has an extensive regulatory background and is also now serving on the audit committee. Two additional directors were elected by the shareholders at the Bank’s Annual Meeting in April 2007 and, upon approval of the Regulators, a majority of the Directors will be independent. In December 2006, the Bank hired an experienced Loan Operations Manager and an experienced Commercial Loan Officer. In March 2007, the Bank hired a senior Compliance Officer and a compliance consultant, who was formerly an FDIC Supervisory Compliance Examiner was also hired in April 2007. The

Bank has also begun developing a five-year strategic plan with the assistance of a nationally recognized independent consulting firm.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis is intended to assist you in understanding the financial condition and results of operations of the Bank. This discussion should be read in conjunction with the accompanying unaudited financial statements as of and for the three months ended March 31, 2007 and 2006, along with the audited financial statements as of and for the year ended December 31, 2006, included in the Bank's Annual Report on Form 10-KSB filed with the Federal Deposit Insurance Corporation on April 9, 2007.

Summary

As of March 31, 2007 the Bank had \$108.2 million in total assets, \$21.1 million in cash and equivalents, \$7.4 million in investment securities, \$75.1 million in loans, net of the allowance for loan losses, and \$82.0 million in deposits. Total equity capital at March 31, 2007 was \$25.1 million, representing a Tier 1 Leverage Capital Ratio of 24.62%. Net interest margin for the three months ended March 31, 2007 was 3.33%. The Bank had a net loss of \$1,514,000 (or \$0.26 per share) for the three months ended March 31, 2007 compared to a net loss of \$790,000 (or \$0.34 per share) for the three months ended March 31, 2006.

The results of operations for the three months ended March 31, 2007 reflects a one branch commercial bank with fifty full time equivalent employees in its thirteenth to fifteenth full months of operation. It includes a staffing complement in place to generate both loans for portfolio growth and the origination of loans held for sale. It also reflects relationship deposits as well as the purchase of higher costing brokered deposits necessary to accommodate the significant growth experienced during the Bank's first fifteen full months of operation.

During the first three months of 2006, the Bank was in the early stages of gathering deposits and approving loans. The Bank had not yet developed its loan origination and loan sale functions, and the Bank's management had committed substantial resources during this period to raising additional capital.

Critical Accounting Policy

In the ordinary course of business, the Bank has made a number of estimates and assumptions relating to reporting results of operations and financial condition in preparing its financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ significantly from those estimates under different assumptions and conditions. The Bank's management believes the following discussion addresses the Bank's only critical accounting policy, which is the policy that is most important to the portrayal of the Bank's financial condition and results of operations and requires management's most difficult, subjective and complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. The Bank's management has reviewed this critical accounting policy and the resulting estimate with its loan committee. Refer to the discussion below under "Allowance for Loan Losses."

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to operations. Loans are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. For the three months ended March 31, 2007 and 2006, the Bank had no loan charge offs or recoveries.

While the Bank had no impaired loans at March 31, 2007, the Bank's ongoing allowance for loan losses consists of specific, general and unallocated components. The specific component relates to loans that are classified loss, substandard or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component may be maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

The allowance for loan losses is evaluated on a regular basis by management and is based on management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

Based upon this evaluation, management believes the allowance for loan losses of \$874,000 or 1.15% of gross loans at March 31, 2007 to be adequate, under prevailing economic conditions, to absorb losses on existing loans. At December 31, 2006, the allowance was \$703,000 or 1.01% of gross loans outstanding.

The accrual of interest income on loans is discontinued whenever reasonable doubt exists as to its collectibility and generally is discontinued when loans are past due 90 days as to either principal or interest, or are otherwise considered impaired. When the accrual of interest income is discontinued, all previously accrued and uncollected interest is reversed against interest income. The accrual of interest on loans past due 90 days or more may be continued if the loan is well secured, and it is believed all principal and accrued interest income due on the loan will be realized, and the loan is in the process of collection. A non-accrual loan is restored to accrual status when it is no longer delinquent and collectibility of interest and principal is no longer in doubt.

Management considers all non-accrual loans, other loans past due 90 days or more, based on contractual terms, and restructured loans to be impaired. In most cases, loan payments that are past due less than 90 days and the related loans are not considered to be impaired. The Bank considers consumer installment loans to be pools of smaller balance homogeneous loans, which are collectively evaluated for impairment.

Recent Accounting Changes

There were no recent accounting changes that impacted the Bank's procedures during the three months ended March 31, 2007.

Recently Issued Accounting Standards

In February 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 159, *The Fair Value for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 155* (SFAS 159). SFAS 159 provides companies with an option to report selected financial assets and liabilities at fair value. SFAS 159 is effective for us beginning January 1, 2008. Management is evaluating the impact of the adoption of SFAS 159 on the Bank's financial position and results of operations.

Comparison of Financial Condition as of March 31, 2007 versus December 31, 2006

General

The Bank's total assets were \$108.2 million at March 31, 2007, an increase of \$2.6 million (3%) from \$105.6 million at December 31, 2006. Earning assets as of March 31, 2007 were \$103.4 million, an increase of \$3.7 million (4%) from \$99.7 million at December 31, 2006. The growth in earning assets primarily reflects total loan growth of \$6.0 million (9%) partially offset by a reduction in Federal funds sold of \$2.9 million (14%). The funding for this earning asset growth came primarily from the \$7.1 million increase in savings deposits which also permitted the pay down of \$3.8 million of higher costing time certificates of deposit as they matured in 2007.

Federal funds sold and short term investments

The balance in Federal funds sold and overnight investments was \$17.7 million at March 31, 2007, which is a decrease of \$2.9 million as compared to the \$20.6 million balance at December 31, 2006. As Federal funds sold are invested overnight, this liquidity provides a source of income as well as funding for loans for the portfolio and mortgages held for sale in keeping with the guidelines established by the Bank's Asset and Liability Management Committee.

Loans

Loans, net of the allowance for loan losses, reached \$75.1 million at March 31, 2007. The gross loan portfolio consisted of commercial real estate loans of \$22.0 million, home equity lines of credit of \$17.8 million, construction loans of \$16.5 million, residential mortgages of \$13.0 million, commercial and industrial loans of \$4.3 million and consumer loans of \$2.1 million. The ratio of gross loans to deposits as of March 31, 2007 was 92.4%, up from the December 31, 2006 ratio of 89.1%. The March 31, 2007 loan to deposit ratio is slightly above the Bank's targeted ratio of 80% to 90%.

Allowance for Loan Losses and Non-Accrual, Past Due and Restructured Loans

The allowance for loan losses consists solely of the balance at the beginning of the period plus the current year provision of \$171,000 and totaled \$874,000 at March 31, 2007. The Bank has not experienced any charge offs or recoveries of loans, nor has it experienced troubled debt

restructurings since its inception. As of March 31, 2007 there were eight loans thirty days or more past due totaling \$4.3 million, of which one \$50,000 loan is ninety days or more past due, and such loan has been put on non-accrual status in accordance with the Bank's policy.

The following represents the activity in the allowance for loan losses for the three months ended March 31, 2007 and 2006.

	For the Periods Ended	
	March 31,	
	<u>2007</u>	<u>2006</u>
Balance at beginning of period	\$ 703,000	\$ -
Provision for loan losses	171,000	54,000
Balance at end of period	<u>\$ 874,000</u>	<u>\$ 54,000</u>

Non-Accrual, Past Due and Restructured Loans

The following is a summary of non-accrual and past due loans:

	<u>March 31,</u> <u>2007</u>	<u>December 31,</u> <u>2006</u>
Loans delinquent over 90 days and still accruing	\$ 1,981,255	\$ -
Non-accrual loans	49,997	-
Total nonperforming loans	<u>\$ 2,031,252</u>	<u>\$ -</u>
% of Total Loans	2.7%	0.0%
% of Total Assets	1.9%	0.0%
Ratio of allowance for loan losses to nonperforming loans	43.0%	0.0%

The two loans which were delinquent over 90 days and still accruing in the table above totaling \$1,981,255 were brought to a current status in April 2007.

The Bank did not have any non-accrual loans, loans past due ninety days or more and still accruing interest or loans considered "troubled debt restructurings" as of or during the year ended December 31, 2006.

Potential Problem Loans

At March 31, 2007, the Bank had no loans, other than the non-accrual loan disclosed in the table above and the loan described in the following paragraph, as to which management has significant doubts as to the ability of the borrower to comply with the present repayment terms. The loan discussed in the paragraph below relates to a company that is profitable and current with respect to loan payments.

In October 2006 the Bank entered into a \$2.5 million credit facility secured by receivables of which \$1.5 million and \$1.0 million was outstanding at March 31, 2007 and December 31, 2006, respectively. The loan is current and in compliance with all financial covenants. As of year end 2006 the Bank classified this loan as substandard due to litigation pending against the borrower. As a result the Bank increased the allowance for loan losses and the reserve for possible credit losses on the available line of credit related to this loan as of

December 31, 2006. During the first three months of 2007, the Bank has adjusted both the allowance for loan losses and the reserve for possible credit losses established for this loan to provide for the increase in the loan balance outstanding, and the corresponding reduction in the available line since December 31, 2006.

Deposits

Deposits were \$82.0 million at March 31, 2007, an increase of \$3.9 million from the \$78.1 million in deposits at December 31, 2006. Noninterest bearing deposits were \$4.7 million at March 31, 2007, an increase of \$700,000 (17%) from the \$4.0 million in noninterest bearing deposits at December 31, 2006. Interest bearing deposits were \$77.3 million at March 31, 2007, an increase of \$3.2 million (4%) over the \$74.1 million in interest bearing deposits at December 31, 2006. The primary growth in total deposits was in savings accounts which were \$18.5 million at March 31, 2007, an increase of \$7.1 million from the \$11.4 million in savings accounts at December 31, 2006. Higher costing brokered deposits were \$28.9 million or 35.2% of total deposits at March 31, 2007 down from \$43.4 million or 55.6% of total deposits at December 31, 2006. The reduction in brokered deposits has essentially been more than replaced by increases in demand deposits, savings deposits and time certificates of deposit.

Accrued expenses and other liabilities

Accrued expenses and other liabilities increased \$263,900 to \$1,171,000 at March 31, 2007 from \$907,600 at December 31, 2006. The increase in the professional fees accrual primarily reflects the increase in the accrual for audit services provided by the Bank's external auditors during the first quarter 2007 relating to the audit of the 2006 financial statements and review of the 2006 Form 10-KSB. The increase in the legal accrual reflects the accrual for counsel hired by the Bank to review certain issues as recommended by the Bank's regulators.

Results of Operations – Comparison of Results for the Three Months Ended March 31, 2007 and March 31, 2006

General

The Bank experienced a net loss of \$1,514,000 during the three months ended March 31, 2007 as compared to a net loss of \$790,000 for the first three months of 2006. The results for the three months ended March 31, 2007 include a full staffing complement to operate a one branch bank as well as to staff a loan origination and loan sale function with related system costs. The loan origination and sale function is anticipated to contribute positively to our future results of operations. The first quarter of 2007 also includes significantly higher expenses related to occupancy, professional and legal fees as compared to the Bank's first full quarter of operation in 2006. The operating results for the three months ended March 31, 2006 reflects staffing only for the one branch commercial banking function. As the March 31, 2006 quarter was the Bank's first full quarter of operation, the overhead costs during such period as compared to the Bank's significant growth in the first quarter of 2007 was minimal by comparison.

Net interest income

The Bank's net interest income is dependent primarily upon the difference or spread between the average yield earned on loans and investment securities and the average rate paid on deposits and borrowings as well as the relative amounts of such interest earning assets and

interest bearing liabilities. The Bank, like other banking institutions, is subject to interest rate risk to the degree that its interest bearing liabilities reprice at different times than its interest earning assets.

The Bank began its operations in late December of 2005 after raising \$14.0 million in capital before stock issuance costs of \$296,516 and invested such funds primarily in Federal funds sold. The spread between interest earnings on Federal funds sold and its equity capital, which has no interest expense component, contributed significantly to net interest income during the first quarter of 2006. The Bank completed its second stock offering on June 30, 2006 in which it raised an additional \$20.5 million in capital, before stock issuance costs of \$1,586,710. The net proceeds from both of these offerings coupled with the Bank's deposit growth during the entire year 2006 and through the first quarter of 2007 have been invested primarily in interest-earning assets.

For the three months ended March 31, 2007, net interest income was \$805,000 versus \$181,000 for the three months ended March 31, 2006, a \$624,000 increase. This increase was primarily the result of the significant growth experienced by the Bank since the quarter ended March 31, 2006, its first full quarter of operation. This increase in net interest income is primarily the result of the \$73.8 million increase in average interest earning assets which reached \$96.5 million during the first three months of 2007 as compared to \$21.8 million during the first three months of 2006.

The net interest spread increased from 0.97% during three months ended March 31, 2006, the Bank's first full quarter of operation, to 1.98% for the three months ended March 31, 2007. The yield on earning assets reached 7.08% for the three months ended March 31, 2007 as compared to 4.56% for the three months ended March 31, 2006. This increase reflects the Bank's growth of the loan portfolio which reached an average balance of \$71.4 million during the quarter ended March 31, 2007 with an average yield of 7.67% compared to an average volume of \$2.4 million with a yield of 6.25% for the quarter ended March 31, 2006. The Bank's cost of funds was 3.59% during the three months ended March 31, 2006 as compared to a cost of funds of 5.10% for the three months ended March 31, 2007. The increase in the cost of funds primarily reflects the growth in time deposits which reached an average balance of \$50.7 million and an average cost of funds of 5.42% during the quarter ended March 31, 2007 as compared to an average balance of \$107,000 during the three months ended March 31, 2006.

Average Balances, Yields and Rates

The following table presents average balance sheets (daily averages), interest income, interest expense, and the corresponding annualized rates on earning assets and rates paid on interest bearing liabilities for the three months ended March 31, 2007 and March 31, 2006.

Distribution of Assets, Liabilities and Shareholders' Equity: Interest Rates and Interest Differential

	Three months Ended March 31, 2007			Three months Ended March 31, 2006			Fluctuations in Interest Income/Expense Total
	Average Balance	Interest Income/ Expense	Average Rate	Average Balance	Interest Income/ Expense	Average Rate	
(Dollars in thousands)							
Interest earning assets							
Loans	\$ 71,365,265	\$ 1,368,153	7.67%	\$ 2,353,929	\$ 36,791	6.25%	\$1,331,362
Investments	7,682,031	107,023	5.57%	-	-	0.00%	107,023
Federal funds sold and overnight investments	16,124,580	211,333	5.24%	19,448,889	211,783	4.36%	(450)
Loans Held For Sale	1,357,406	22,568	6.65%	-	-	0.00%	22,568
Total interest earning assets	96,529,282	1,709,077	7.08%	21,802,818	248,574	4.56%	1,460,503
Cash and due from banks	3,323,413			1,238,472			
Premise and equipment, net	745,050			435,964			
Allowance for loan losses	(704,900)			(9,633)			
Other	1,998,545			598,668			
Total Assets	<u>\$101,891,390</u>			<u>\$24,066,289</u>			
Interest bearing liabilities							
Saving deposits	\$ 16,772,276	185,609	4.43%	\$ 6,608,993	61,642	3.73%	123,967
Money market and NOW	3,376,313	31,215	3.70%	812,321	4,588	2.26%	26,627
Time deposits	50,743,668	687,731	5.42%	107,000	1,512	5.65%	686,219
Total interest bearing liabilities	70,892,257	904,555	5.10%	7,528,314	67,742	3.59%	836,813
Non-interest bearing deposits	3,993,353			2,282,808			
Accrued expenses and other liabilities	704,360			2,331,388			
Shareholders' equity	26,301,420			11,923,779			
Total liabilities and equity	<u>\$101,891,390</u>			<u>\$24,066,289</u>			
Net interest income		<u>\$ 804,522</u>			<u>\$ 180,832</u>		<u>\$ 623,690</u>
Interest spread			<u>1.98%</u>			<u>0.97%</u>	
Interest margin			<u>3.33%</u>			<u>3.32%</u>	

Changes in Assets and Liabilities and Fluctuations in Interest Rates

The following table summarizes the variance in interest income and interest expense for the three months ended March 31, 2007 and 2006 resulting from changes in assets and liabilities and fluctuations in interest rates earned and paid. The changes in interest attributable to both rate and volume have been allocated to both rate and volume on a pro rata basis.

	Increase or (Decrease)	Three months ended March 31, 2007 versus 2006	
		Due to Change in Average	
		Volume	Rate
Interest earning assets			
Loans	\$ 1,331,362	\$ 1,321,124	\$ 10,238
Investments	107,023	107,023	-
Federal funds sold & overnight investments	(450)	(39,446)	38,996
Loans Held for Sale	22,568	22,568	-
Total interest earning assets	<u>1,460,503</u>	<u>1,411,269</u>	<u>49,234</u>
Interest bearing liabilities			
Savings deposits	123,967	115,402	8,565
Money market and NOW	26,627	23,084	3,543
Time deposits	686,219	686,278	(59)
Total interest bearing liabilities	<u>836,813</u>	<u>824,764</u>	<u>12,049</u>
Net interest income	<u>\$ 623,690</u>	<u>\$ 586,505</u>	<u>\$ 37,185</u>

Provision for Loan Losses

The provision for loan losses for the three months ended March 31, 2007 and March 31, 2006 was \$171,000 and \$54,000, respectively. This represents the amount considered necessary by management to maintain an adequate allowance for loan losses based on management's analysis of loan risk ratings and other factors.

The allowance for loan losses totaled \$874,000 or 1.15% of total loans as of March 31, 2007 and \$703,000 or 1.01% of total loans as of December 31, 2006.

Noninterest income

Noninterest income was \$71,000 and \$3,000 for the three months ended March 31, 2007 and March 31, 2006, respectively. This \$68,000 increase primarily reflects the gain on the sale of loans of \$32,000 and broker fee income of \$17,000 on loans originated during the first three months of 2007 with no comparable sales or brokering of loans during the three months ended March 31, 2006. Service charges on deposits also increased during the three months ended March 31, 2007 due to the growth in the number of deposit accounts.

Noninterest expense

Total noninterest expense was \$2,219,000 for the three months ended March 31, 2007 versus \$920,000 for the same period in 2006, an increase of \$1,299,000. Due to the significant growth in assets, staff, occupancy and other expense categories increased in order to both service this growth and to develop the loan origination and sale of loan functions. Staff expense was \$1.2 million for the three months ended March 31, 2007, an increase of \$651,000 when compared to the \$549,000 of staff expense during the three months ended March 31, 2006. This increase reflects the growth in full time equivalent employees from 24 at March 31, 2006 to 50 at March 31, 2007. During the three months ended March 31, 2007, a \$203,000 expense relating to sign-on bonuses in the form of guaranteed commissions was incurred to attract additional loan origination and loan sale function management personnel. No such bonuses were incurred during the three months ended March 31, 2006.

Occupancy expense was \$170,000 for the three months ended March 31, 2007, an increase of approximately \$94,000 over the \$76,000 incurred during the three months ended March 31, 2006. The primary cause of the increase in occupancy expense was rent expense related to the administrative office facility in Rye Brook, New York, which commenced in the second quarter of 2006.

Other operating expense was \$849,000 for the three months ended March 31, 2007, an increase of \$554,000 compared to \$295,000 for the three months ended March 31, 2006. The Bank's growth contributed to these increased costs. The primary contributors to the increase in other operating expense was an increased amount of professional fees, which amounted to \$283,000 for the three months ended March 31, 2007 as compared to \$30,000 during the three months ended March 31, 2006. This \$253,000 increase in professional fees relates specifically to the increased external audit fees incurred in the three months ended March 31, 2007 relating to the year end 2006 audit and the consulting fees related to beginning the implementation of Sarbanes-Oxley compliance and developing the five year strategic plan. Legal expense increased by \$138,000 from \$30,000 during the three months ended March 31, 2006 to \$168,000 during the three months ended March 31, 2007, primarily due to regulatory related legal fees. Contract services and data and item processing fees increased by \$41,000 and \$25,000, respectively, primarily due to the Bank's loan and deposit growth and development of the loan origination and loan sale functions.

Return on Average Equity and Average Assets

The returns on average equity reflecting losses for the three months ended March 31, 2007 and March 31, 2006 were (23.0)% and (26.5)%, respectively. The returns on average assets reflecting losses for the three months ended March 31, 2007 and March 31, 2006 were (5.94)% and (13.12)%, respectively.

Liquidity

The liquidity ratio is defined as the percentage of liquid assets to total assets. The following categories of assets in the accompanying balance sheet are considered liquid assets: cash and due from banks, federal funds sold and overnight investments, available for sale investments (which have not been pledged to secure municipal deposits) and loans held for sale.

Liquidity is a measure of the Bank's ability to generate adequate cash to meet financial obligations. The principal cash requirements of a financial institution are to cover downward fluctuations in deposits and increases in its loan portfolio. In addition to the liquid assets on the balance sheet, the Bank has in place a \$5.0 million overnight secured line of credit to meet daily liquidity needs, if necessary. No borrowings have been made against this line.

Management believes that the Bank's short term assets provide excess liquidity with liquid assets of approximately \$29.5 million (27.25% of total assets) at March 31, 2007 and \$32.8 million (31.05% of total assets) at December 31, 2006. The existing excess liquidity will be used to fund new loans for portfolio and for sale, and to purchase investment securities as collateral to secure municipal deposits as well as to meet potential fluctuations in deposits. As the Bank begins to fund loans at higher rates than liquid assets, the liquidity ratio will be reduced to a targeted level of approximately 10% of total assets.

Capital

On December 21, 2005, the Bank completed the offering of its common stock through the sale of 2,333,334 shares of its \$2.00 par value common stock at an offering price of \$6.00 per share. The net proceeds of the offering amounted to \$13,703,488, net of stock issuance costs of \$296,516. The par value of the shares issued, \$4,666,668, was credited to common stock and the excess of the net proceeds over the par value of the shares, \$9,036,820, was credited to additional paid-in capital.

On June 30, 2006, the Bank completed a stock offering of 3,416,666 shares of its Common Stock at \$6.00 per share, resulting in gross proceeds of \$20,499,996. Stock issuance costs aggregated \$1,586,710 (including financial advisory fees and selling commissions aggregating \$1,174,756) resulting in net proceeds of \$18,913,286, which were applied to augment the Bank's capital.

The following table illustrates the Bank's regulatory capital ratios at the dates indicated:

	March 31, 2007		December 31, 2006	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
	(Dollars in thousands)			
Tier 1 (Leverage) Capital to Average Assets	\$ 25,084	24.62%	\$ 26,599	26.45%
Tier 1 Capital to Risk- Weighted Assets	\$ 25,084	30.58%	\$ 26,599	57.27%
Total Capital to Risk- Weighted Assets	\$ 26,084	31.79%	\$ 27,477	59.16%

Capital adequacy is one of the most important factors used to determine the safety and soundness of individual banks. Based on the above ratios, the Bank is considered to be "well

capitalized” under applicable regulations. To be considered “well capitalized” an institution must generally have a leverage capital ratio of at least 5%, a Tier 1 risk-based capital ratio of at least 6% and a total risk-based ratio of at least 10%.

Market Risk

Market risk is defined as the sensitivity of income to fluctuations in interest rates, foreign exchange rates, equity prices, commodity prices and other market-driven rates or prices. Based on the nature of the Bank’s business, market risk is primarily limited to interest rate risk, defined as the impact of changing interest rates on current and future earnings.

The Bank’s goal is to maximize long-term profitability, while minimizing its exposure to interest rate fluctuations. The first priority is to structure and price the Bank’s assets and liabilities to maintain an acceptable interest rate spread, while reducing the net effect of changes in interest rates. In order to reach an acceptable interest rate spread, the Bank must generate loans and seek acceptable long-term investments to replace lower yielding balances in Federal funds sold. The focus also must be on maintaining a proper balance between the timing and volume of assets and liabilities re-pricing within the balance sheet. One method of achieving this balance is to originate variable rate loans for the portfolio to offset the short-term re-pricing of the liabilities. In fact, a number of interest bearing deposit products have no contractual maturity. Customers may withdraw funds from their accounts at any time and deposit balances may therefore run off unexpectedly due to changing market conditions.

The exposure to interest rate risk is monitored by the Bank’s Senior Management and is reported to the Bank’s Asset and Liability Management Committee on a quarterly basis. Management reviews the interrelationships within the balance sheet to maximize net interest income within acceptable levels of risk.

Impact of Inflation and Changing Prices

The Bank’s financial statements have been prepared in terms of historical dollars, without considering changes in the relative purchasing power of money over time due to inflation. Unlike most individual companies, virtually all of the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates have a more significant impact on a financial institution’s performance than the effect of general levels of inflation. Interest rates do not necessarily move in the same direction or in the same magnitude as the prices of goods and services. Notwithstanding this fact, inflation can directly affect the value of loan collateral, in particular, real estate. Inflation, or disinflation, could significantly affect the Bank’s earnings in future periods.

“Safe Harbor” Statement Under Private Securities Litigation Reform Act of 1995

Some of the statements under “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere in this Report on Form 10-QSB may include forward-looking statements which reflect our current views with respect to future events and financial performance. Statements which include the words “expect,” “intend,” “plan,” “believe,” “project,” “anticipate” and similar statements of future or forward-looking nature

identify forward-looking statements for purposes of the federal securities laws or otherwise. All forward-looking statements address matters that involve risks and uncertainties. Accordingly, there are or will be important factors that could cause actual results to differ materially from those indicated in these statements or that could adversely affect the holders of our common stock. These factors include, but are not limited to, (1) changes in prevailing interest rates which would affect the interest earned on the Bank's interest earning assets and interest paid on its interest bearing liabilities, (2) the timing of re-pricing of the Bank's interest earning assets and interest bearing liabilities, (3) the effect of changes in governmental monetary policy, (4) the effect of changes in regulations applicable to the Bank and the conduct of its business, (5) changes in competition among financial service companies, including possible further encroachment of non-banks on services traditionally provided by banks and the impact of recently enacted federal legislation, (6) the ability of competitors which are larger than the Bank to provide products and services which are impractical for the Bank to provide, (7) the effect of the loss of any executive officer, key personnel or director, (8) the effect of the Bank's opening branches and the receipt of regulatory approval to complete such actions, (9) concentration of the Bank's business in its market area, (10) the concentration of the Bank's loan portfolio in commercial loans to small-to-medium sized businesses, which may be affected more severely than larger businesses during periods of economic weaknesses and (11) the lack of seasoning in the Bank's loan portfolio, which may increase risk for future credit defaults.

Although the Bank believes that it offers the loan and deposit products and has the resources needed for success, future revenues and interest spreads and yields cannot be reliably predicted. These trends may cause the Bank to adjust its operations in the future. Because of the foregoing and other factors, recent results should not be considered reliable indicators of future financial results.

Item 3. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

The Bank's disclosure controls have been effective according to the Bank's Chief Executive Officer and its Chief Financial Officer based upon an evaluation as of March 31, 2007 of the Bank's disclosure controls and procedures.

As used herein, "disclosure controls and procedures" mean controls and other procedures of the Bank that are designed to ensure that information, required to be disclosed by the Bank in the reports that it files or submits under the Securities Exchange Act, is recorded, processed, summarized and reported, within the time periods specified in the applicable rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Bank in the reports that it files or submits under the Securities Exchange Act is accumulated and communicated to the Bank's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

(b) Changes in Internal Control over Financial Reporting

There have not been any significant changes in the Bank's internal controls or in other factors that occurred during the quarter ended March 31, 2007 that could significantly affect these controls subsequent to the evaluation referenced in paragraph (a) above.

PART II
Other Information

Item 1. Legal Proceedings

Not applicable.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not applicable – During the quarter ended March 31, 2007, the Bank had no unregistered sales of securities.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Submission of Matters to a Vote of Security Holders

On April 26, 2007, the Bank held its 2007 Annual Meeting of Stockholders. At the meeting, the stockholders voted on (i) the election of 10 directors of the Bank to hold office until the Annual Meeting of Stockholders in 2008 and until their successors are duly elected and qualified, (ii) a proposal to amend Article II, Section 2.2 of the Bank's Bylaws, and (iii) a proposal to ratify the appointment of McGladrey & Pullen, LLP as independent auditor for the year ending December 31, 2007.

The stockholders voted in favor of the election of the following individuals to serve as directors and cast the number of votes set forth opposite the name of each in favor of, or withheld from voting on, such election:

Name	Number of Votes For	Number of Shares Withheld
Fred A. DeCaro, Jr.	2,785,151	118,766
Peter Keller	2,755,351	148,566
Gene R. Branca	2,794,851	109,066
Patrick DeAngelis	2,735,451	110,466
Fred A. DeCaro, III	2,848,851	113,066
Rocco Magnotta	2,790,451	110,466
Robert W. Reeves	2,792,851	111,066
James G. Verrillo	2,792,851	111,066
William D. Zeidenberg	2,792,451	110,466
Richard D. Zeisler	2,792,851	111,066

The stockholders voted to approve an amendment of Article II, Section 2.2 of the Bank's Bylaws to provide that the number of directors shall be not less than seven nor more than thirty and to provide that the Board shall have the power to remove any director for cause. The results of the voting were 2,446,217 shares were voted in favor of the proposal, 141,150 shares were voted against the proposal and 75,050 shares abstained from voting on the proposal.

The stockholders voted to ratify the appointment of McGladrey & Pullen, LLP as independent auditor for the year ending December 31, 2007. The results of the voting were 2,881,006 shares were voted in favor of the proposal, 6,861 shares were voted against the proposal and 16,050 shares abstained from voting on the proposal.

Item 5 Other Information

(a) Not applicable.

Item 6. Exhibits

Exhibit No.	Description
3 (ii)	Bylaws of the Bank, as amended to April 26, 2007
31.1	Certification by Chief Executive Officer Pursuant to Rule 13a-14.
31.2	Certification by Chief Financial Officer Pursuant to Rule 13a-14.
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

USA Bank

Date: May 11, 2007

Name: Fred A. DeCaro, Jr.
Chairman and Chief Executive Officer

Date: May 11, 2007

Name: Paul V. Erwin
Senior Vice President and Chief Financial Officer
and Secretary

**CERTIFICATION
BY PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO RULE 13a-14**

I, Fred A. DeCaro, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-QSB of USA Bank;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;
4. The small business issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the small business issuer and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) [Omitted as permitted by Exchange Act Release No. 47986];
 - (c) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Fred A. DeCaro, Jr.
Chairman and Chief Executive Officer
(Principal executive officer)

May 11, 2007

**CERTIFICATION
BY PRINCIPAL FINANCIAL OFFICER
PURSUANT TO RULE 13a-14**

I, Paul V. Erwin, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of USA Bank;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;
4. The small business issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the small business issuer and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) [Omitted as permitted by Exchange Act Release No. 47986];
 - (c) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Paul V. Erwin
Senior Vice President and Chief Financial
Officer
(Principal financial officer)

May 11, 2007

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES –OXLEY ACT OF 2002

In connection with the Quarterly Report of USA BANK (the “*Bank*”) on Form 10-QSB for the period ended March 31, 2007 as transmitted for filing with the Federal Deposit Insurance Corporation on the date hereof (the “*Report*”), I, Fred A. DeCaro, Jr., the Chief Executive Officer of the Bank, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Bank.

May 11, 2007

Fred A. DeCaro, Jr.
Chairman and Chief Executive Officer

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES – OXLEY ACT OF 2002

In connection with the Quarterly Report of USA BANK (the “*Bank*”) on Form 10-QSB for the period ended March 31, 2007 as transmitted for filing with the Federal Deposit Insurance Corporation on the date hereof (the “*Report*”), I, Paul V. Erwin, the Chief Financial Officer of the Bank, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Bank.

May 11, 2007

Paul V. Erwin
Senior Vice President and Chief Financial
Officer