

**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 June 30, 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

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

New York

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(State or other jurisdiction of incorporation or organization)

20-0646362

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

211 Irving Avenue, Port Chester, New York 10573

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(Address of principal executive offices)

(914) 939-3700

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(Issuer's telephone number)

N/A

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(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 August 13, 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

June 30, 2007 (unaudited) and December 31, 2006

	June 30, 2007	December 31, 2006
<b>ASSETS</b>		
Cash and due from banks	\$ 5,573,981	\$ 4,458,792
Federal funds sold and overnight investments	22,588,736	20,645,089
Cash and cash equivalents	28,162,717	25,103,881
Held to maturity securities, at amortized cost (fair value \$1,548,101 in 2007 and \$1,747,994 in 2006)	1,544,424	1,730,612
Available for sale securities, at fair value	38,705,771	6,217,273
Total investment securities	40,250,195	7,947,885
Loans held for sale, at fair value	3,759,600	1,461,948
Loans, net of the allowance for loan losses of \$766,000 in 2007 and \$703,000 in 2006	72,556,459	69,120,358
Leasehold improvements and equipment, net	849,872	739,652
Accrued interest receivable	747,188	566,913
Other assets	3,123,650	645,145
<b>Total assets</b>	<b>\$ 149,449,681</b>	<b>\$ 105,585,782</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Liabilities</b>		
Deposits		
Noninterest bearing deposits	\$ 8,102,616	\$ 3,980,294
Interest bearing deposits	111,883,892	74,131,328
Total deposits	119,986,508	78,111,622
Securities sold under repurchase agreements	4,000,000	
Accrued expenses and other liabilities	1,031,576	907,618
<b>Total liabilities</b>	<b>125,018,084</b>	<b>79,019,240</b>
Commitments and Contingencies		
<b>Shareholders' Equity</b>		
Common stock, par value \$2; 5,750,000 shares authorized, issued and outstanding at June 30, 2007, and December 31, 2006, respectively	11,500,000	11,500,000
Additional paid-in capital	21,116,774	21,116,774
Accumulated deficit	(8,012,953)	(6,017,998)
Accumulated other comprehensive loss – net unrealized loss on available for sale securities	(172,224)	(32,234)
<b>Total shareholders' equity</b>	<b>24,431,597</b>	<b>26,566,542</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 149,449,681</b>	<b>\$ 105,585,782</b>

See Accompanying Notes to Financial Statements

**USA BANK**  
**STATEMENTS OF OPERATIONS**  
For the Three and Six Months Ended June 30, 2007, and June 30, 2006 (unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
<b>Interest Income</b>				
Interest on Federal funds sold	\$ 453,049	\$ 186,638	\$ 664,382	\$ 398,421
Interest on loans	1,393,424	205,083	2,761,577	241,874
Interest on investments	258,573	-	365,596	-
Interest on loans held for sale	52,351	-	74,919	-
<b>Total interest income</b>	<u>2,157,397</u>	<u>391,721</u>	<u>3,866,474</u>	<u>640,295</u>
<b>Interest Expense</b>				
Interest expense on deposits	1,219,983	141,016	2,124,538	208,758
Interest expense on securities sold under repurchase agreements	18,378	-	18,378	-
<b>Total interest expense</b>	<u>1,238,361</u>	<u>141,016</u>	<u>2,142,916</u>	<u>208,758</u>
<b>Net interest income</b>	919,036	250,705	1,723,558	431,537
<b>Provision (recovery) for loan losses</b>	(108,000)	131,000	63,000	185,000
<b>Net interest income after provision (recovery) for loan losses</b>	<u>1,027,036</u>	<u>119,705</u>	<u>1,660,558</u>	<u>246,537</u>
<b>Noninterest Income</b>				
Gains on sales of loans	310,891	-	343,210	-
Service charges	9,620	8,581	26,283	11,848
Other	16,129	-	38,592	-
<b>Total noninterest income</b>	<u>336,640</u>	<u>8,581</u>	<u>408,085</u>	<u>11,848</u>
<b>Noninterest Expense</b>				
Salaries, commissions and employee benefits	919,030	696,933	2,118,798	1,245,535
Occupancy and equipment	154,446	124,323	324,467	199,892
Professional fees	140,813	58,668	423,591	88,193
Legal	122,469	37,540	290,857	67,305
Contract services	109,953	28,626	163,489	41,694
Printing, stationery and supplies	19,411	44,536	54,661	66,422
Advertising	99,448	125,000	191,887	200,000
Data and item processing	83,792	69,923	180,798	141,788
Other	195,302	116,168	315,050	170,603
<b>Total noninterest expense</b>	<u>1,844,664</u>	<u>1,301,717</u>	<u>4,063,598</u>	<u>2,221,432</u>
<b>Net loss</b>	<u>\$ (480,988)</u>	<u>\$ (1,173,431)</u>	<u>\$ (1,994,955)</u>	<u>\$ (1,963,047)</u>
Basic and diluted loss per share	<u>\$ (0.08)</u>	<u>\$ (0.49)</u>	<u>\$ (0.35)</u>	<u>\$ (0.83)</u>

See Accompanying Notes to Financial Statements

**USA BANK**  
**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**For the Six Months Ended June 30, 2007, and June 30, 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
Issuance of common stock	3,416,666	6,833,332	12,162,519			18,995,851
Comprehensive loss:						
Net loss				(1,963,047)	-	(1,963,047)
<b>Total comprehensive loss</b>						(1,963,047)
Balance, June 30, 2006	<u>5,750,000</u>	<u>\$ 11,500,000</u>	<u>\$ 21,199,339</u>	<u>\$ (3,472,363)</u>	<u>\$ -</u>	<u>\$ 29,226,976</u>
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				(1,994,955)		(1,994,955)
Unrealized holding gains on available for sale securities					(139,990)	(139,990)
<b>Total comprehensive loss</b>						(2,134,945)
Balance, June 30, 2007	<u>5,750,000</u>	<u>\$11,500,000</u>	<u>\$ 21,116,774</u>	<u>\$ (8,012,953)</u>	<u>\$ (172,224)</u>	<u>\$ 24,431,597</u>

See Accompanying Notes to Financial Statements

**USA BANK**  
**STATEMENTS OF CASH FLOWS**  
For the Six Months Ended June 30, 2007, and June 30, 2006 (unaudited)

	<b>Six Months Ended June 30,</b>	
	<b>2007</b>	<b>2006</b>
<b>Cash Flows from Operations</b>		
Net loss	\$ (1,994,955)	\$ (1,963,047)
Adjustments to reconcile net loss to net cash used in operating activities		
Amortization and accretion of premiums and discounts on investments, net	(8,098)	-
Provision for loan losses	63,000	185,000
Loans originated for sale, net of principal payments received	(13,531,464)	(435,000)
Proceeds from sale of loans held for sale	29,833,416	-
Net gains on sale of loans	(343,210)	-
Depreciation and amortization	104,084	89,327
Changes in assets and liabilities:		
Decrease (increase) in deferred loan costs	221,442	(159,202)
Increase in accrued interest receivable	(180,275)	(99,287)
Increase in other assets	(2,478,505)	(97,611)
Increase in accrued expenses and other liabilities	123,958	925,010
<b>Net cash provided by (used in) operating activities</b>	<b>11,809,393</b>	<b>(1,554,810)</b>
<b>Cash Flows from Investing Activities</b>		
Purchase of available for sale securities	(33,502,226)	-
Principal repayments on available for sale securities	876,863	-
Purchase of held to maturity securities	-	(1,906,162)
Principal repayments on held to maturity securities	191,161	-
Increase in loans receivable	(21,976,937)	(20,854,188)
Purchase of leasehold improvements and equipment	(214,304)	(415,880)
<b>Net cash used in investing activities</b>	<b>(54,625,443)</b>	<b>(23,176,230)</b>
<b>Cash Flows from Financing Activities</b>		
Net increase in time deposits	3,860,949	12,742,975
Net increase in other deposits	38,013,937	12,693,171
Net increase in repurchase agreements	4,000,000	-
Decrease in advances from organizers	-	(1,953,006)
Net proceeds from sale of common stock	-	18,995,851
<b>Net cash provided by financing activities</b>	<b>45,874,886</b>	<b>42,478,991</b>
<b>Net increase in cash and cash equivalents</b>	<b>3,058,836</b>	<b>17,747,951</b>
Cash and cash equivalents		
Beginning	25,103,881	15,800,433
Ending	<b>\$ 28,162,717</b>	<b>\$ 33,548,384</b>

See Accompanying Notes to Financial Statements

**USA BANK**  
**STATEMENTS OF CASH FLOWS (continued)**  
**For the Six Months Ended June 30, 2007, and June 30, 2006 (unaudited)**

	<u>June 30,</u> <u>2007</u>	<u>June 30,</u> <u>2006</u>
<b>Supplemental Disclosure of Cash Flow Information</b>		
Cash paid for:		
Interest	<u>\$ 2,105,139</u>	<u>\$180,457</u>
<b>Supplemental disclosure of noncash investing and financing activities:</b>		
Unrealized holding losses on available for sale securities arising during the period	<u>\$ (139,990)</u>	<u>\$ -</u>
Transfer of loans receivable to loans held for sale	<u>\$18,256,394</u>	<u>\$ -</u>

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 \$1,504,146 (including financial advisory fees and selling commissions aggregating \$1,174,756) resulting in net proceeds of \$18,995,851 which were applied to augment the Bank’s capital.

**Note 2. Basis of Financial Statement Presentation**

Summary of Significant Accounting Policies

Segment Reporting

The Bank’s only business segment is Community Banking. During the years ended December 31, 2006 and 2005 and the six months ended June 30, 2007, this segment represented all of the revenues and income of the Bank and, therefore, is the only reported segment as defined by SFAS No. 131, “*Disclosures about Segments of an Enterprise and Related Information.*”

Representations and Warranties Reserves

The Bank’s representations and warranties reserves relate to potential losses that could be incurred related to the repurchase of sold loans or losses incurred as a result of early payment defaults or breaches of representations and warranties customary to the mortgage banking industry. Loans may be repurchased due to factors such as delinquency and other violations of representations and warranties as stated in the Bank’s agreements with institutions to which loans are sold. The amount of losses the Bank expects to incur is estimated based upon such

factors as the expected frequency of early payment defaults, the creditworthiness of borrowers and other economic factors. To the extent actual losses related to repurchase activity differ from the Bank's estimates, the fair value of the repurchase reserve will be adjusted accordingly. See Note 14 under "Commitments and Contingencies."

The interim financial statements and notes thereto have been prepared in conformity with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-QSB and Item 310(b) of Regulation S-B. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles 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 and six months ended June 30, 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 June 30, 2007, and December 31, 2006, are as follows:

#### June 30, 2007

Available for sale securities	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government Sponsored Agencies	\$ 30,638,444	\$ 64,053	\$ (156,265)	\$ 30,546,232
Mortgage backed securities	8,239,551	-	(80,012)	8,159,539
<b>Total available for sale</b>	<b>\$ 38,877,995</b>	<b>\$ 64,053</b>	<b>\$ (236,277)</b>	<b>\$ 38,705,771</b>

#### Held to maturity securities

U.S Government Sponsored Agencies	\$ 1,544,424	\$ 3,677	\$ -	\$ 1,548,101
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#### December 31, 2006

Available for sale securities	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government Sponsored Agencies	\$ 6,249,507	\$ -	\$ (32,234)	\$ 6,217,273

#### Held to maturity securities

U.S Government Sponsored Agencies	\$ 1,730,612	\$ 17,382	\$ -	\$ 1,747,994
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At June 30, 2007, gross unrealized holding losses on available for sale securities totaled \$236,277. The gross unrealized losses have primarily existed for a period of less than twelve months. Management does not believe that any of the unrealized losses as of June 30, 2007, are other than temporary, as they primarily relate to mortgage backed securities issued by U.S. Government sponsored agencies and non-agency mortgage backed securities with average FICO scores in excess of 700 and these unrealized losses have 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 at each date presented are pledged as collateral for municipal deposits. At June 30, 2007, \$11.5 million of the available for sale securities have been pledged as collateral for municipal deposits and securities sold under agreements to repurchase. There were no sales of investment securities during the three months and six months ended June 30, 2007 and 2006.

**Note 4. Loans and Allowance for Loan Losses**

A summary of the Bank's loan portfolio as of June 30, 2007, and December 31, 2006, is as follows:

	<u>June 30, 2007</u>	<u>December 31, 2006</u>
Real estate loans		
Residential mortgages	\$ 12,893,912	\$ 9,268,306
Commercial real estate	30,159,558	22,757,228
Construction	20,500,167	14,520,641
Home equity	4,220,225	15,094,296
Total real estate loans	<u>67,773,862</u>	<u>61,640,471</u>
Commercial and industrial loans	<u>3,969,693</u>	<u>4,609,467</u>
Consumer	<u>1,608,117</u>	<u>3,381,191</u>
Total gross loans	73,351,672	69,631,129
Deferred loan (fees) costs, net	(29,213)	192,229
Allowance for loan losses	<u>(766,000)</u>	<u>(703,000)</u>
Loans receivable, net	<u>\$ 72,556,459</u>	<u>\$ 69,120,358</u>

### Allowance for Loan Losses

The following represents the activity in the allowance for loan losses for the six months ended June 30, 2007, and June 30, 2006:

	For the Period Ended June 30,	
	2007	2006
Balance at beginning of period	\$ 703,000	\$ -
Provision for loan losses	63,000	185,000
Balance at end of period	<u>\$ 766,000</u>	<u>\$ 185,000</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:

	June 30, 2007	December 31, 2006
Loans delinquent over 90 days and still accruing	\$ -	\$ -
Non-accrual Loans	49,997	-
Total nonperforming loans	<u>\$ 49,997</u>	<u>\$ -</u>
% of Total Loans	0.07%	0.00%
% of Total Assets	0.03%	0.00%
Ratio of allowance for loan losses to nonperforming loans	1,532.09%	0.00%

The Bank did not have any non-accrual loans, loans ninety days or more past due and still accruing interest or loans considered “troubled debt restructurings” as of or during the quarter ended June 30, 2007, or 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 \$300,000 and \$1.0 million was outstanding at June 30, 2007, and December 31, 2006, respectively. The loan is current and in compliance with all financial covenants. As of December 31, 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. In June 2007, the litigation against the borrower was settled, and therefore the Bank upgraded this loan to other assets especially mentioned which resulted in a favorable impact on the provision for loan losses as well as the provision for possible credit losses on the available line of credits during the second quarter of 2007.

**Note 5. Deposits**

At June 30, 2007, and December 31, 2006, deposits consisted of the following:

	<u>June 30, 2007</u>	<u>December 31, 2006</u>
Noninterest bearing deposits	\$ 8,102,616	\$ 3,980,294
Interest bearing deposits		
NOW and money market	30,937,459	3,515,554
Savings	<u>17,844,042</u>	<u>11,374,332</u>
NOW, money market and savings	<u>48,781,501</u>	<u>14,889,886</u>
Time Certificates under \$100,000	19,907,122	41,875,948
Time Certificates over \$100,000	<u>43,195,269</u>	<u>17,365,494</u>
Time deposits	<u>63,102,391</u>	<u>59,241,442</u>
Total interest bearing deposits	<u>111,893,892</u>	<u>74,131,328</u>
Total deposits	<u>\$ 119,986,508</u>	<u>\$ 78,111,622</u>

Included in time deposits at June 30, 2007, and December 31, 2006, were brokered deposits totaling \$19.9 million and \$ 43.4 million, respectively. Brokered deposits at June 30, 2007, have original maturities of six months to five years. Brokered deposits at December 31, 2006, had original maturities of from four weeks to thirteen weeks.

**Note 6. Securities Sold Under Agreements to Repurchase**

The following table summarizes the securities sold under agreements to repurchase:

	<u>June 30, 2007</u>	<u>December 31, 2006</u>
Securities sold under agreements to repurchase	\$ 4,000,000	\$ -

Securities sold under agreements to repurchase were collateralized by mortgage backed securities. The amount outstanding as of June 30, 2007, is structured to be callable at the option of the counterparty. The cost of funds on the repurchase agreement at June 30, 2007, was 4.28%. It has an original maturity of ten years with a no call provision during the first six months. The average outstanding balances were \$1,720,430 and \$860,215 for the three month and six month periods ended June 30, 2007, respectively.

**Note 7. 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 June 30, 2007, or December 31, 2006.

## **Note 8.       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 six months ended June 30, 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 June 30, 2007. At June 30, 2007, the Bank had a net operating loss carryforward of approximately \$6.0 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 adopted the provisions of FIN 48 and 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 return, 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 9. Loss per Share**

The Bank's loss per share for the three months and six months ended June 30, 2007 and 2006 was calculated by dividing the net loss for the respective periods by the weighted average shares outstanding. The calculation of the loss per share for the three months and six months ended June 30, 2007 and 2006 appears below:

	<b>Three Months Ended June 30, 2007</b>	<b>Three Months Ended June 30, 2006</b>
Net Loss	<u>\$ (480,988)</u>	<u>\$ (1,173,431)</u>
Weighted Average Shares	<u>5,750,000</u>	<u>2,370,880</u>
Basic and diluted loss per share	<u>\$ (0.08)</u>	<u>\$ (0.49)</u>
	<b>Six Months Ended June 30, 2007</b>	<b>Six Months Ended June 30, 2006</b>
Net Loss	<u>\$ (1,994,955)</u>	<u>\$ (1,963,047)</u>
Weighted Average Shares	<u>5,750,000</u>	<u>2,352,211</u>
Basic and diluted loss per share	<u>\$ (0.35)</u>	<u>\$ (0.83)</u>

**Note 10. 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 \$ -0- and \$959,509 at June 30, 2007, and December 31, 2006, respectively.

Related party deposits aggregated approximately \$740,454 and \$1,314,584 as of June 30, 2007, and December 31, 2006, respectively. The Bank paid \$18,000 during the six months ended June 30, 2007, for information technology related services to an IT consulting company, a principal of which is a director of the Bank. The Bank also paid rent for its main branch at 211 Irving Avenue, Port Chester, New York, of \$39,000 during the six months ended June 30, 2007, to a company owned by certain directors, management and others. This was on a sublease basis and the related company only charged the Bank the actual costs it incurred to lease the property from its owner.

**Note 11. Business Developments**

In April 2007, the Bank received regulatory approval from the Connecticut Department of Banking to open a mortgage banking 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. Regulatory approvals have not as yet been granted. When and if approved, this office is anticipated to be located at 36 Sherwood Place, Greenwich, CT.

The Bank's application to transfer its main office from 211 Irving Avenue, Port Chester, New York, to 601 North Main Street, Port Chester, New York, is currently pending regulatory approval.

**Note 12. 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 June 30, 2007, (unaudited) and December 31, 2006:

	<u>2007</u>	<u>2006</u>
Commitments to extend credit:		
Future loan commitments	\$23,716,600	\$ 9,042,622
Unused lines of credit	19,516,138	15,162,276
Undisbursed construction loans	15,395,702	6,513,427
Financial standby letters of credit	300,000	300,000
	<u>\$58,928,440</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. All guarantees issued or modified 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 June 30, 2007, and December 31, 2006, was not significant.

### **Note 13. 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. The Bank meets the quantitative measures to be considered well capitalized.

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 June 30, 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 1 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. Based on the findings of the Regulators, the Bank understands that the Regulators have determined that formal enforcement action in the form of parallel orders to cease and desist are necessary to address the Bank's problems. The preceding statement has not been reviewed for accuracy or relevance by the Regulators.

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 has an extensive regulatory background and is also now serving on the audit committee, was approved in April 2007. In December 2006, the Bank hired an experienced Loan Operations Manager and an experienced Commercial Loan Officer, in June 2007, the Bank hired a senior Compliance Consultant who had previously been a Compliance Examiner with the Federal Deposit Insurance Corporation for 28 years and, in July 2007, the Bank hired another experienced Commercial Loan Officer. In December 2007, the Bank hired a senior Compliance Officer. The Bank has also begun developing a five-year strategic plan with the assistance of a nationally recognized independent consulting firm.

In July 2007, the election of Ronald J. Gentile as the Bank's President and Chief Executive Officer and a director of the Bank became effective. Mr. Gentile served as President and Chief Executive Officer and a director of Community Bank of Orange, Middletown, New York, for the period from October 2004 to March 2007. When Mr. Gentile arrived at Community Bank of Orange it was subject to a Memorandum of Understanding with the Office of the Comptroller of the Currency. Within fifteen months of Mr. Gentile's becoming President and Chief Executive Officer, the Memorandum of Understanding was removed. From December 1997 to October 2004, Mr. Gentile served as President and Chief Operating Officer and a director of The Warwick Savings Bank and Warwick Community Bancorporation in Warwick, New York. From April 1990 to December 1997, he served as the Executive Vice President and Chief Operating Officer of the Warwick Savings Bank. From April 1971 to April 1990, Mr. Gentile served as a Senior Bank Examiner for the Federal Deposit Insurance Corporation.

#### **Note 14. Commitments and Contingencies**

##### Representations and Warranties Reserves

In the normal course of business, the Bank maintains recourse with standard representations and warranties customary to the mortgage sales activities. Violations of these representations and warranties may require the Bank to repurchase loans previously sold. A liability has been established related to the potential loss on repurchase of loans previously sold of \$44,000 and \$-0- at June 30, 2007 and December 31, 2006, respectively. On an ongoing basis, the Bank monitors the adequacy of the representations and warranties reserve liability, which is established upon the initial sale of the loans, and is included in accrued expenses and other liabilities in the balance sheet.

## Legal Proceedings

On May 7, 2007, two actions were begun in the Supreme Court of the State of New York. One naming the Bank as the defendant was brought by Salvatore Pane, Lisa Vitale and Perry Winter, and the other naming Fred DeCaro, Jr., and the Bank as defendants was brought by Salvatore Pane and First Lincoln Mortgage Corp. The first suit, which purports to be brought by the plaintiffs as shareholders and as representatives of a class of shareholders, alleges that the offering materials used by the Bank in connection with its offerings of stock in 2005 and 2006 contained various representations that were untrue and that various payments were made to related parties, and that various loans were improperly made. While the plaintiffs seek monetary judgments and other relief from Mr. DeCaro, the only judgment demanded against the Bank is “such other relief as to the Court may seem just and proper.”

The suit against the Bank only alleges that the Bank had entered into an agreement to acquire USA Mortgage Bankers of America, Inc., and that the Bank “abandoned” the plan and breached the agreement. The plaintiffs seek damages in an unspecified amount.

The Bank believes that the claims are without merit and intends to defend itself vigorously. The Bank has filed motions to dismiss these suits. While the Bank recognizes that these suits may constitute loss contingencies within the meaning of Statement of Financial Accounting Standards No. 5 (“*SFAS No. 5*”), an estimate of the amount thereof cannot be made. After reviewing the requirements of Item 103 or Regulation S-B concerning obligations to disclose material legal proceedings, the Bank has concluded that these suits need not be described thereunder.

## **Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion and analysis is intended to assist 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 and six months ended June 30, 2007, and June 30, 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 June 30, 2007, the Bank had \$149.4 million in total assets, which primarily consisted of \$28.2 million in cash and equivalents, \$40.3 million in investment securities, and \$72.6 million in loans, net of the allowance for loan losses. Funding for these assets was primarily derived from deposits of \$120.0 million and shareholders’ equity of \$24.4 million. The Bank’s Tier 1 Leverage Capital Ratio as of June 30, 2007, was 21.34%. Net interest margin for the three and six months ended June 30, 2007, was 2.97% and 3.13%, respectively, compared to 3.71% and 3.53% for the three and six months ended June 30, 2006, respectively. The Bank had a net loss of \$480,988 (or basic and diluted loss per share of \$0.08) for the three months ended June 30, 2007, compared to a net loss of \$1,173,431 (or basic and diluted loss per share of \$0.49) for the three months ended June 30, 2006. The Bank had a net loss of \$1,994,955 (or basic and diluted loss per share of \$0.35) for the six months ended June 30, 2007, compared to a

net loss of \$1,963,047 (or basic and diluted loss per share of \$0.83) for the six months ended June 30, 2006.

The results for the three and six months ended June 30, 2007, primarily reflect a significant growth in earning assets and gains on mortgage loans sold throughout the six-month period, gains on sales of HELOC portfolio loans during the second quarter, and a reduction in staffing at the beginning of the second quarter of 2007. The Bank has a staffing complement of 48.5 full time equivalent employees in place to generate loans for portfolio and the origination of mortgage and other loans for sale, and to bring in relationship deposits to accommodate the significant growth experienced during the Bank's first eighteen months of operation.

During the first six months of 2006, the Bank was in the early stages of gathering deposits and approving loans. The Bank had not as 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 six months ended June 30, 2007, and June 30, 2006, the Bank had no loan charge-offs or recoveries.

While the Bank had no classified or impaired loans exceeding \$50,000 at June 30, 2007, the Bank's ongoing allowance for loan losses analysis will result in an allowance for loan losses that 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 \$766,000 or 1.04% of gross loans at June 30, 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**

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.

### **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 operation.

### **Comparison of Financial Condition as of June 30, 2007, versus December 31, 2006**

#### **General**

The Bank's total assets were \$149.4 million at June 30, 2007, an increase of \$43.8 million (41.5%) from \$105.6 million at December 31, 2006. Earning assets as of June 30, 2007, were \$139.9 million, an increase of \$40.0 million (40%) from \$99.9 million at December 31, 2006. The growth in earning assets primarily reflects growth in all earning asset categories. By category these increases were: Investments increased \$32.3 million (406.4%), Federal funds sold and overnight investments increased \$1.9 million (9.41%), total loans increased \$3.4 million (4.92%) and loans held for sale increased \$2.3 million (157.2%). The total loan increase noted above is after considering the sale of \$18.3 million of HELOC portfolio loans. The funding for the \$40.0 million growth in earning assets came from the \$41.9 million (53.6%) increase in total deposits. The overall deposit growth includes \$27.0 million relating to short-term deposits by two customers which are expected to be withdrawn within two months.

#### **Federal funds sold and short term investments**

The balance in federal funds sold and overnight investments was \$22.6 million at June 30, 2007, compared to \$20.6 million at December 31, 2006. These funds provide a source of liquidity to fund portfolio loan growth, mortgages held for sale, as well as to cover fluctuations in deposits as they mature in keeping with the guidelines established by the Bank's Asset and Liability Management Committee.

#### **Loans**

Total gross loans reached \$73.4 million at June 30, 2007. The loan portfolio consisted of commercial real estate loans of \$30.2 million, construction loans of \$20.5 million, residential mortgages of \$12.9 million, home equity lines of credit of \$4.2 million, commercial and industrial loans of \$4.0 million and consumer loans of \$1.6 million. The ratio of gross loans to deposits as of June 30, 2007, was 61.1%, down from the December 31, 2006, ratio of 89.1% and below the Bank's targeted ratio of 80% to 90%. It reflects the sale of \$18.3 million of HELOC

portfolio loans, which are anticipated to be replaced by higher yielding commercial real estate and construction loans from the Bank's existing loan pipeline.

### **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 \$63,000 and totaled \$766,000 at June 30, 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 June 30, 2007, there were six loans thirty days or more past due totaling \$1.2 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 June 30, 2007, and June 30, 2006.

	<b>For the Periods Ended</b>	
	<b>June 30,</b>	
	<b>2007</b>	2006
Balance at beginning of period	\$ 703,000	\$ -
Provision for loan losses	63,000	185,000
Balance at end of period	<u>\$ 766,000</u>	<u>\$ 185,000</u>

### **Non-Accrual, Past Due and Restructured Loans**

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

	<b>June 30,</b>	<b>December 31,</b>
	<b>2007</b>	<b>2006</b>
Loans delinquent over 90 days and still accruing	\$ -	\$ -
Non-accrual loans	49,997	-
Total nonperforming loans	<u>\$ 49,997</u>	<u>\$ -</u>
% of Total Loans	0.07%	0.00%
% of Total Assets	0.03%	0.00%
Ratio of allowance for loan losses to nonperforming loans	1,532.09%	0.00%

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

### **Potential Problem Loans**

At June 30, 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 whose loan rating was upgraded in June 2007 from substandard to other assets especially mentioned as a result of the borrower's settling a lawsuit. As a result of the loan rating upgrade, the related specific allowance for loan

losses was reduced, which was the primary reason for the credit balance of the provision for loan losses for the second quarter of 2007.

In October 2006, the Bank entered into a \$2.5 million credit facility secured by receivables, of which \$300,000 and \$1.0 million was outstanding at June 30, 2007, and December 31, 2006, respectively. The loan is current and in compliance with all financial covenants. As of December 31, 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. In June 2007, the litigation against the borrower was settled, and therefore the Bank upgraded this loan to other assets especially mentioned which resulted in a favorable impact on the provision for loan losses as well as the provision for possible credit losses on the available line of credit during the second quarter of 2007.

### **Deposits**

Deposits were \$120.0 million at June 30, 2007, an increase of \$41.9 million from the \$78.1 million in deposits at December 31, 2006. Noninterest bearing deposits were \$8.1 million at June 30, 2007, an increase of \$4.1 million (103.6%) from the \$4.0 million in noninterest bearing deposits at December 31, 2006. Interest bearing deposits were \$111.9 million at June 30, 2007, an increase of \$37.8 million (50.9%) over the \$74.1 million in interest bearing deposits at December 31, 2006. The primary growth in total deposits was in NOW and money market accounts which were \$30.9 million at June 30, 2007, an increase of \$27.4 million from the \$3.5 million at December 31, 2006. The overall deposit growth includes \$27.0 million relating to short-term deposits by customers which are expected to be withdrawn within two months. Higher costing brokered deposits were \$19.9 million or 16.6% of total deposits at June 30, 2007, down from \$43.4 million or 55.6% of total deposits at December 31, 2006.

### **Accrued expenses and other liabilities**

Accrued expenses and other liabilities increased \$124,000 to \$1,032,000 at June 30, 2007, from \$908,000 at December 31, 2006. The increase reflects a \$109,000 increase in accrued legal fees for counsel hired by the Bank to review certain issues as recommended by the Bank's regulators, a \$44,000 increase in the reserve for representations and warranties on loan sales and \$87,000 in deferred loan fees relating to loans awaiting to be closed. A \$131,000 reduction in the allowance for possible losses on available lines of credit due primarily to the upgrading of one loan partially offsets these increases.

### **Results of Operations – Comparison of Results for the Three and Six Months Ended June 30, 2007, and June 30, 2006**

#### **General**

The Bank experienced a net loss of \$480,988 during the three months ended June 30, 2007, as compared to a net loss of \$1,173,431 for the three months ended June 30, 2006. The net loss for the six months ended June 30, 2007, was \$1,994,955 as compared to a net loss of \$1,963,047 for the six months ended June 30, 2006. The results for the three months and six months ended June 30, 2007, reflect gains on loan sales of \$310,891 and \$343,210, respectively. These periods also reflect significantly increased operating expenses to include a full staffing complement to operate a one branch bank as well as to staff the loan origination and loan sale

function with related system costs. The three months and six months ended June 30, 2007, also include significantly higher expenses related to occupancy, professional and legal fees as compared to the Bank's initial three and six months of operation in 2006. The operating results for the three months ended June 30, 2006, reflects staffing only for the one branch commercial banking function. As the three-month and six-month periods ended June 30, 2006, marked the Bank's beginning stages of operations, the overhead costs during such period as compared to the Bank's significant growth through June 30, 2007, were less 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 yield on earning assets and the cost of funds on interest bearing liabilities for the periods presented were impacted by the three 0.25% increases in prime during the first six months of 2006 which fully impacted the corresponding periods of 2007.

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 three and six months ended June 30, 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 \$1,504,146. The net proceeds from both of these offerings coupled with the Bank's deposit growth during the entire year 2006 and through the first two quarters of 2007 have been invested primarily in interest-earning assets.

For the three months ended June 30, 2007, net interest income was \$919,036 versus \$250,705 for the three months ended June 30, 2006, a \$668,331 increase. This increase was primarily the result of the significant growth experienced by the Bank since the quarter ended June 30, 2006, its second full quarter of operation. The increase in net interest income is primarily the result of the \$96.8 million increase in average interest earning assets which reached \$123.8 million for the three months ended June 30, 2007, as compared to an average balance of \$27.0 million during the three months ended June 30, 2006. The major component of this overall average interest earning asset growth was the Bank's loan portfolio which increased on average \$56.7 million or 472.9% from \$12.0 million (44.4% of average interest earning assets) for the three months ended June 30, 2006, to \$68.7 million (55.5% of average interest earning assets) for the three months ended June 30, 2007.

The net interest spread increased from 1.68% for the three months ended June 30, 2006, the Bank's first full quarter of operation, to 1.91% for the three months ended June 30, 2007. The yield on earning assets reached 6.97% for the three months ended June 30, 2007, as compared to 5.80% for the three months ended June 30, 2006. This increase reflects the growth of the Bank's loan portfolio which yielded 8.11% during the three months ended June 30, 2007, as compared to a yield of 6.84% for the quarter ended June 30, 2006. The Bank's cost of funds was 4.12% for the three months ended June 30, 2006, as compared to a cost of funds of 5.06%

for the three months ended June 30, 2007. The increase in the cost of funds primarily reflects the growth in time deposits which reached an average balance of \$58.6 million (59.9% of total average interest bearing liabilities) with an average cost of funds 5.44% as compared to an average balance of \$3.2 million (23.5% of total average interest bearing liabilities) with an average cost of funds of 5.19% during the three months ended June 30, 2006.

For the six months ended June 30, 2007, net interest income was \$1,723,558 versus \$431,537 for the six months ended June 30, 2006, a \$1,292,021 increase. This increase was primarily the result of the significant growth experienced by the Bank since June 30, 2006, its second full quarter of operation. The increase in net interest income is primarily the result of the \$85.6 million increase in average interest earning assets which were \$110.2 million for the six months ended June 30, 2007, as compared to an average balance of \$24.4 million for the six months ended June 30, 2006. The major component of this overall average interest earning asset growth was the Bank's loan portfolio which increased by \$62.9 million or 876.2% from \$7.2 million (29.4% of average interest earning assets) for the six months ended June 30, 2006, to \$70.1 million (63.6% of average interest earning assets) for the six months ended June 30, 2007.

The net interest spread increased from 1.32% for the six months ended June 30, 2006, the Bank's first six months of operation, to 1.94% for the six months ended June 30, 2007. The yield on earning assets reached 7.02% for the six months ended June 30, 2007, as compared to 5.25% for the six months ended June 30, 2006. This increase reflects the Bank's growth of the loan portfolio which yielded 7.88% for the six months ended June 30, 2007, as compared to a yield of 6.74% for the six months ended June 30, 2006. The Bank's cost of funds was 3.93% for the six months ended June 30, 2006, as compared to a cost of funds of 5.08% for the six months ended June 30, 2007. The increase in the cost of funds primarily reflects the growth in time deposits which reached an average balance of \$54.7 million (64.8% of total average interest bearing liabilities) with an average cost of funds 5.43% as compared to an average balance of \$1.7 million (15.7% of total average interest bearing liabilities) with an average cost of funds of 5.21% during the six months ended June 30, 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 June 30, 2007, and June 30, 2006.

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

	Three months ended June 30, 2007			Three months ended June 30, 2006			Fluctuations in Interest Income/ Expense Total
	Average Balance	Interest Income/ Expense	Average Rate	Average Balance	Interest Income/ Expense	Average Rate	
Interest earning assets							
Loans	\$68,744,876	\$1,393,424	8.11%	\$11,998,966	\$205,083	6.84%	\$1,188,341
Investments	17,923,201	258,573	5.77%	-	-	0.00%	258,573
Federal funds sold and overnight investments	34,071,424	453,049	5.32%	15,028,806	186,638	4.97%	266,411
Loans held for sale	3,057,470	52,351	6.85%	-	-	0.00%	52,351
Total interest earning assets	123,796,971	2,157,397	6.97%	27,027,772	391,721	5.80%	1,765,676
Cash and due from banks	3,013,967			1,401,256			
Premise and equipment, net	751,387			681,856			
Allowance for loan losses	(799,109)			(85,427)			
Other	1,931,485			919,496			
Total Assets	<u>\$128,694,701</u>			<u>\$29,944,953</u>			
Interest bearing liabilities							
Saving deposits	\$ 17,328,052	\$ 191,282	4.42%	\$ 8,969,284	\$ 89,958	4.01%	\$ 101,324
Money market and NOW	20,273,008	231,625	4.57%	1,505,829	9,249	2.46%	222,376
Time deposits	58,616,007	797,076	5.44%	3,221,828	41,809	5.19%	755,267
Repurchase agreement	1,720,430	18,378	4.27%	-	-	0.00%	18,378
Total interest bearing Deposits	97,937,497	1,238,361	5.06%	13,696,941	141,016	4.12%	1,097,345
Non-interest bearing deposits	4,865,819			2,991,334			
Accrued expenses and Other liabilities	1,098,069			2,154,628			
Shareholders' equity	24,793,316			11,102,050			
Total liabilities and equity	<u>\$128,694,701</u>			<u>\$29,944,953</u>			
Net interest income		<u>\$ 919,036</u>			<u>\$250,705</u>		<u>\$ 668,331</u>
Interest spread			<u>1.91%</u>			<u>1.68%</u>	
Interest margin			<u>2.97%</u>			<u>3.71%</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 June 30, 2007, and June 30, 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.

	<b>Three months ended June 30, 2007, versus 2006</b>		
	<b>Increase or (Decrease)</b>	<b>Due to Change in Average</b>	
		<b>Volume</b>	<b>Rate</b>
<b>Interest earning assets</b>			
Loans	\$1,188,341	\$1,143,449	\$ 44,892
Investments	257,982	257,965	17
Federal funds sold and overnight investments	267,002	186,833	80,169
Loans held for sale	52,351	52,351	-
<b>Total interest earning assets</b>	<b>1,765,676</b>	<b>1,640,598</b>	<b>125,078</b>
<b>Interest bearing liabilities</b>			
Savings deposits	101,324	91,307	10,017
Money market and NOW	222,376	208,057	14,319
Time deposits	755,267	753,157	2,110
Repurchase agreement	18,378	18,378	-
<b>Total interest bearing liabilities</b>	<b>1,097,345</b>	<b>1,070,899</b>	<b>26,446</b>
<b>Net interest income</b>	<b>\$ 668,331</b>	<b>\$ 569,699</b>	<b>\$ 98,632</b>

## 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 six months ended June 30, 2007, and June 30, 2006.

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

	Six months ended June 30, 2007			Six months ended June 30, 2006			Fluctuations in Interest Income/Expense Total
	Average Balance	Interest Income/ Expense	Average Rate	Average Balance	Interest Income/ Expense	Average Rate	
Interest earning assets							
Loans	\$ 70,055,071	\$ 2,761,577	7.88%	\$ 7,176,448	\$241,874	6.74%	\$2,519,703
Investments	12,802,616	365,596	5.71%	-	-	0.00%	365,596
Federal funds sold and overnight investments	25,098,002	664,382	5.29%	17,238,847	398,421	4.62%	265,961
Loans held for sale	2,207,438	74,919	6.79%	-	-	0.00%	74,919
Total interest earning assets	110,163,127	3,866,474	7.02%	24,415,295	640,295	5.25%	3,226,179
Cash and due from banks	3,168,690			1,319,864			
Premise and equipment, net	748,219			558,410			
Allowance for loan losses	(752,005)			(47,530)			
Other	1,965,015			759,582			
Total Assets	<u>\$115,293,046</u>			<u>\$27,005,621</u>			
Interest bearing liabilities							
Saving deposits	\$ 17,050,165	\$ 376,895	4.42%	\$7,789,139	\$151,592	3.89%	\$ 225,303
Money market and NOW	11,824,660	262,836	4.45%	1,159,075	13,845	2.39%	248,991
Time deposits	54,679,838	1,484,807	5.43%	1,664,414	43,321	5.21%	1,441,486
Repurchase agreement	860,215	18,378	4.27%	-	-	0.00%	18,378
Total interest bearing deposits	84,414,878	2,142,916	5.08%	10,612,628	208,758	3.93%	1,934,158
Non-interest bearing deposits	4,429,586			2,637,071			
Accrued expenses and other liabilities	901,214			2,218,718			
Shareholders' equity	25,547,368			11,537,204			
Total liabilities and equity	<u>\$115,293,046</u>			<u>\$27,005,621</u>			
Net interest income		<u>\$ 1,723,558</u>			<u>\$431,537</u>		<u>\$1,292,021</u>
Interest spread			<u>1.94%</u>			<u>1.32%</u>	
Interest margin			<u>3.13%</u>			<u>3.53%</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 six months ended June 30, 2007, and June 30, 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.

	<b>Six months ended</b>		
	<b>June 30, 2007 versus 2006</b>		
	<b>Increase or (Decrease)</b>	<b>Due to Change in Average</b>	
<b>Volume</b>		<b>Rate</b>	
<b>Interest earning assets</b>			
Loans	\$2,519,703	\$2,471,983	\$ 47,720
Investments	365,596	365,585	11
Federal funds sold and overnight investments	265,961	(77,263)	343,224
Loans held for sale	74,919	74,919	-
<b>Total interest earning assets</b>	<u>3,226,179</u>	<u>2,835,224</u>	<u>390,955</u>
<b>Interest bearing liabilities</b>			
Savings deposits	225,303	201,748	23,555
Money market and NOW	248,991	234,993	13,998
Time deposits	1,441,486	1,439,664	1,822
Repurchase agreements	18,378	18,378	-
<b>Total interest bearing liabilities</b>	<u>1,934,158</u>	<u>1,894,783</u>	<u>39,375</u>
<b>Net interest income</b>	<u>\$1,292,021</u>	<u>\$940,441</u>	<u>\$351,580</u>

**Provision for Loan Losses**

The provision for loan losses for the three months ended June 30, 2007, and June 30, 2006, was a credit of \$108,000 and a provision of \$131,000, respectively. The credit to the provision in 2007 reflects the impact of upgrading one loan from substandard to other assets especially mentioned as a result of the borrower's settling a lawsuit in its favor. The provision for loan losses for the six months ended June 30, 2007, and June 30, 2006, was \$63,000 and \$185,000, respectively. The amount credited or charged to the provision 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 \$766,000 or 1.04% of total loans as of June 30, 2007.

**Noninterest income**

Noninterest income was \$337,000 and \$9,000 for the three months ended June 30, 2007, and June 30, 2006, respectively. This \$328,000 increase primarily reflects the gain on the sale of loans of \$311,000 which occurred during the three months ended June 30, 2007, with no such loan sales in 2006. For the six months ended June 30, 2007 and June 30, 2006 noninterest

income was \$408,000 and \$12,000, respectively. Again, the primary cause of the increase was the gain on the sale of loans of \$343,000 in 2007 compared to no such loan sales in 2006.

### **Noninterest expense**

Total noninterest expense was \$1,845,000 for the three months ended June 30, 2007, versus \$1,302,000 for the same period in 2006, an increase of \$543,000. 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 loan sale functions.

Staff expense was \$919,000 for the three months ended June 30, 2007, an increase of \$222,000 when compared to the \$697,000 of staff expense during the three months ended June 30, 2006. This increase reflects the growth in full time equivalent employees from 32 at June 30, 2006, to 49 at June 30, 2007, and an increased amount of commissions earned by loan representatives for loan closings, which was \$132,000 for the three months ended June 30, 2007, as compared to no such commissions incurred for the three months ended June 30, 2006. Also during the three months ended June 30, 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 June 30, 2006.

For the six months ended June 30, 2007, staff expense was \$2.1 million compared to \$1.2 million for the same period of 2006. This was again due to the increase in full time equivalent employees, the increase of \$210,000 in commission expense incurred for loan closings in 2007 versus no such expense in 2006 and the impact of the sign-on bonuses of \$203,000 noted above.

Occupancy expense was \$154,000 for the three months ended June 30, 2007, an increase of approximately \$30,000 over the \$124,000 incurred during the three months ended June 30, 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 and fully impacted the second quarter 2007.

For the six months ended June 30, 2007, occupancy expense was \$324,000 as compared to \$200,000 for the six months ended June 30, 2006.

Other operating expense was \$771,000 for the three months ended June 30, 2007, an increase of \$291,000 compared to \$480,000 for the three months ended June 30, 2006. A portion of this overall increase is directly related to the Bank's growth. The other primary contributors to the increase in other operating expense was an increased amount of professional fees, legal fees and contract services which increased \$82,000, \$85,000 and \$81,000, respectively. The professional fee increase primarily reflects costs incurred for the implementation of Sarbanes-Oxley Compliance and internal and external audit services. The increase in legal fees primarily reflects regulatory related legal fees. The increase in contract services primarily relates to services related to the origination and sale of loans.

For the six months ended June 30, 2007, other operating expense was \$1,620,000, an increase of \$844,000 compared to \$776,000 for the six months ended June 30, 2006. A portion of this overall increase is due to the Bank's growth and a portion relates to one-time costs.

Professional fees increased by \$336,000 from \$88,000 for the six months ended June 30, 2006, to \$424,000 for the six months ended June 30, 2007. This increase reflects the cost of the 2006 annual audit, which was performed primarily during the first three months of 2007, the cost for services relating to the implementation of Sarbanes-Oxley Compliance performed to-date, and upfront costs for the five-year strategic planning process. Legal expense increased by \$224,000 from \$67,000 for the six months ended June 30, 2006, to \$291,000 for the six months ended June 30, 2007. Legal expense increased primarily due to regulatory related legal fees and the costs related to developing a motion to dismiss a lawsuit. Contract services increased \$121,000 from \$42,000 for the first six months of 2006 to \$163,000 for the six months ended June 30, 2007. This increase primarily reflects services required to support the loan origination and loan sale function.

### **Return on Average Equity and Average Assets**

The returns on average equity reflecting losses for the three months and six months ended June 30, 2007, were (7.8%) and (15.6%), respectively. For the three and six months ended June 30, 2006, the returns on average equity were (42.3%) and (34.0%), respectively. The returns on average assets reflecting losses for the three and six months ended June 30, 2007, were (1.5%) and (3.46%), respectively. For the three months and six months ended June 30, 2006, the returns on average assets were (15.7%) and (14.5%), 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 \$59.1 million (39.6% of total assets) at June 30, 2007 and \$32.8 million (31.0%) 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 \$1,504,146 (including financial advisory fees and selling commissions aggregating \$1,174,756) resulting in net proceeds of \$18,995,851, which were applied to augment the Bank's capital.

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

	<b>June 30, 2007</b>		<b>December 31, 2006</b>	
	<b><u>Amount</u></b>	<b><u>Ratio</u></b>	<b><u>Amount</u></b>	<b><u>Ratio</u></b>
	(Dollars in thousands)			
Tier 1 (Leverage) Capital to Average Assets	\$24,604	21.34%	\$26,599	26.45%
Tier 1 Capital to Risk-Weighted Assets	\$24,604	26.64%	\$26,599	57.27%
Total Capital to Risk-Weighted Assets	\$25,414	27.51%	\$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 June 30, 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 June 30, 2007, that could significantly affect these controls subsequent to the evaluation referenced in paragraph (a) above.

**PART II**  
**Other Information**

**Item 1. Legal Proceedings**

The Bank is not a party to any legal proceedings requiring disclosure under Item 103 of Regulation S-B.

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

Not applicable – During the quarter ended June 30, 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**

Not applicable.

**Item 5 Other Information**

Not applicable.

**Item 6. Exhibits**

Exhibit No.	Description
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: August 13, 2007

\_\_\_\_\_/s/ Ronald J. Gentile  
Name: Ronald J. Gentile  
President and Chief Executive Officer

Date: August 13, 2007

\_\_\_\_\_/s/ Paul V. Erwin  
Name: Paul V. Erwin  
Senior Vice President and Chief Financial  
Officer and Secretary

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

I, Ronald J. Gentile, 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.

/s/ Ronald J. Gentile  
Ronald J. Gentile  
President and Chief Executive Officer  
(Principal executive officer)

August 13, 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.

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

August 13, 2007



