UNITY BANCORP INC /NJ/
Form 10-Q
August 10, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x	**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2007**
	OR
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM TO .**

Commission file number 1-12431

Unity Bancorp, Inc.

(Exact Name of Registrant as Specified in Its Charter)

New Jersey (State or Other Jurisdiction of Incorporation or Organization)	**22-3282551** (I.R.S. Employer Identification No.)
64 Old Highway 22, Clinton, NJ (Address of Principal Executive Offices)	**08809** (Zip Code)

Registrant s Telephone Number, Including Area Code **(908) 730-7630**

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934, as amended, during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Exchange Act Rule 12b-2) Large accelerated filer o Accelerated filer o Non-accelerated filer x

Indicate by check mark whether the registrant is a shell company as defined in Rule 12b-2 of the Exchange Act Yes o No x

The number of shares outstanding of each of the registrant s classes of common equity stock, as of August 1, 2007 common stock, no par value: 6,872,290 shares outstanding

Part 1.-Consolidated Financial Information

Item 1.-Consolidated Financial Statements (unaudited)

Unity Bancorp, Inc.

Consolidated Balance Sheets

(unaudited)

(In thousands)	**06/30/07**	**12/31/06**	**06/30/06**
Assets			
Cash and due from banks	**$ 14,696**	$ 14,727	$ 13,709
Federal funds sold and interest bearing deposits	**51,063**	40,709	42,631
Securities:			
Available for sale	**66,199**	65,595	68,104
Held to maturity (market value of $35,523, $42,449 and $39,700, respectively)	**36,531**	42,815	40,875
Total securities	**102,730**	108,410	108,979
Loans:			
SBA held for sale	**8,914**	12,273	24,384
SBA held to maturity	**66,634**	66,802	59,111
Commercial	**342,328**	312,195	297,826
Residential mortgage	**69,417**	63,493	55,966
Consumer	**54,092**	52,927	47,335
Total loans	**541,385**	507,690	484,622
Less: Allowance for loan losses	**7,997**	7,624	7,257
Net loans	**533,388**	500,066	477,365
Premises and equipment, net	**11,614**	11,610	10,954
Bank owned life insurance	**5,467**	5,372	5,279
Accrued interest receivable	**3,687**	3,926	3,460
Loan servicing asset	**2,289**	2,294	2,424
Goodwill and other intangibles	**1,596**	1,603	1,611
Other assets	**5,873**	5,389	4,458
Total assets	**$ 732,403**	$ 694,106	$ 670,870
Liabilities and Shareholders Equity			
Liabilities:			
Deposits			
Noninterest bearing demand deposits	**$ 74,731**	$ 79,772	$ 81,721
Interest bearing checking	**84,107**	105,382	116,497
Savings deposits	**218,273**	205,919	187,841
Time deposits, under $100,000	**138,440**	111,070	124,652
Time deposits, $100,000 and over	**80,542**	64,322	65,665
Total deposits	**596,093**	566,465	576,376
Borrowed funds	**60,000**	55,000	40,000
Subordinated debentures	**24,744**	24,744	9,279
Accrued interest payable	**595**	475	313
Accrued expense and other liabilities	**2,729**	1,194	1,948
Total liabilities	**684,161**	$ 647,878	$ 627,916
Commitments and contingencies			
Shareholders equity			
Common stock, no par value, 12,500 shares authorized	**49,087**	44,343	43,866
Retained earnings	**1,435**	2,951	1,063
Treasury stock (102 shares at June 30, 2007 and 24 shares at December 31, 2006 and June 30, 2006)	**(1,121)**	(242)	(242)
Accumulated other comprehensive loss	**(1,159)**	(824)	(1,733)
Total Shareholders Equity	**48,242**	46,228	42,954
Total Liabilities and Shareholders Equity	**$ 732,403**	$ 694,106	$ 670,870

Issued common shares	**7,122**	6,973	6,932
Outstanding common shares	**7,020**	6,949	6,908

See Accompanying Notes to the Consolidated Financial Statements

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Unity Bancorp

Consolidated Statements of Income

(unaudited)

(In thousands, except per share amounts)	For the three months ended June 30, 2007	2006	For the six months ended June 30, 2007	2006
Interest income:				
Fed funds sold and interest on deposits	**$ 221**	$ 354	**$ 483**	$ 561
Securities:				
Available for sale	**778**	709	**1,558**	1,417
Held to maturity	**478**	467	**1,018**	943
Total securities	**1,256**	1,176	**2,576**	2,360
Loans:				
SBA loans	**2,202**	2,179	**4,542**	4,332
Commercial loans	**6,378**	5,368	**12,366**	10,260
Residential mortgage loans	**967**	788	**1,855**	1,608
Consumer loans	**951**	779	**1,855**	1,523
Total loan interest income	**10,498**	9,114	**20,618**	17,723
Total interest income	**11,975**	10,644	**23,677**	20,644
Interest expense:				
Interest-bearing demand deposits	**477**	653	**1,029**	1,347
Savings deposits	**2,122**	1,704	**4,293**	2,896
Time deposits	**2,153**	1,671	**4,123**	3,170
Borrowed funds and subordinated debentures	**1,136**	583	**2,126**	1,145
Total interest expense	**5,888**	4,611	**11,571**	8,558
Net interest income	**6,087**	6,033	**12,106**	12,086
Provision for loan losses	**350**	250	**550**	550
Net interest income after provision for loan losses	**5,737**	5,783	**11,556**	11,536
Noninterest Income:				
Service charges on deposit accounts	**339**	409	**688**	842
Service and loan fee income	**380**	406	**746**	801
Gain on sales of SBA loans, net	**824**	558	**1,503**	1,258
Gain on sales of mortgage loans	**19**	110	**28**	172
Gain on sales of other loans				82
Net security gains			**10**	
Bank owned life insurance	**46**	47	**95**	94
Other income	**140**	117	**357**	400
Total noninterest income	**1,748**	1,647	**3,427**	3,649
Noninterest expense:				
Compensation and benefits	**2,723**	2,664	**5,678**	5,389
Occupancy	**644**	646	**1,317**	1,294
Processing and communications	**563**	553	**1,113**	1,080
Furniture and equipment	**394**	381	**794**	774
Professional services	**162**	151	**298**	283
Loan servicing costs	**169**	55	**259**	156
Advertising	**105**	148	**199**	318
Deposit insurance	**16**	16	**34**	33
Other expenses	**491**	387	**992**	930
Total noninterest expense	**5,267**	5,001	**10,684**	10,257
Net income before provision for income taxes	**2,218**	2,429	**4,299**	4,928
Provision for income taxes	**676**	792	**1,306**	1,634
Net income	**$ 1,542**	$ 1,637	**$ 2,993**	$ 3,294
Net income per common share - Basic	**$ 0.22**	$ 0.24	**$ 0.43**	$ 0.48
Net income per common share - Diluted	**0.21**	0.23	**0.41**	0.45
Weighted average shares outstanding Basic	**6,985**	6,903	**6,981**	6,893

Weighted average shares outstanding	Diluted	**7,295**	7,250	**7,298**	7,246

See Accompanying Notes to the Unaudited Consolidated Financial Statements

Unity Bancorp, Inc.

Consolidated Statements of Changes in Shareholders Equity

For the six months ended June 30, 2007 and 2006

(unaudited)

(In thousands)	Outstanding Shares	Common Stock	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total Shareholders Equity
Balance, December 31, 2005	6,863	$ 38,423	$ 3,897	$ (242)	$ (1,149)	$ 40,929
Cumulative effect of adjustments resulting from the adoption of SAB No. 108, net of tax			(492)			(492)
Adjusted balance at December 31, 2005	6,863	$ 38,423	$ 3,405	$ (242)	$ (1,149)	$ 40,437
Comprehensive income:						
Net Income			3,294			3,294
Unrealized holding loss on securities arising during the period, net of tax benefit of $358					(584)	
Net unrealized holding loss on securities arising during the period, net of tax benefit of $358					(584)	(584)
Total comprehensive income						2,710
Cash dividends declared on common stock of $.10 per share			(644)			(644)
5% Stock Dividend, including cash-in-lieu of fractional shares		4,987	(4,992)			(5)
Issuance of common stock:						
Employee benefit plans	45	456				456
Balance, June 30, 2006	6,908	$ 43,866	$ 1,063	$ (242)	$ (1,733)	$ 42,954

(In thousands)	Outstanding Shares	Common Stock	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total Shareholders Equity
Balance, December 31, 2006	**6,949**	**$ 44,343**	**$ 2,951**	**$ (242)**	**$ (824)**	**$ 46,228**
Comprehensive income:						
Net Income			**2,993**			**2,993**
Unrealized holding gain on securities arising during the period, net of tax benefit of $202					**(328)**	
Less: Reclassification adjustment for gains included in net income, net of tax of $3					**7**	
Net unrealized holding gain on securities arising during the period, net of tax benefit of $205					**(335)**	**(335)**
Total comprehensive income						**2,658**
Cash dividends declared on common stock of $.10 per share			**(686)**			**(686)**
Treasury stock purchased	**(78)**			**(879)**		**(879)**
5% Stock Dividend, including cash-in-lieu of fractional shares		**3,820**	**(3,823)**			**(3)**
Issuance of common stock:						
Employee benefit plans	**149**	**924**				**924**

Balance, June 30, 2007	**7,020**	**$ 49,087**	**$ 1,435**	**$ (1,121)**	**$ (1,159)**	**$ 48,242**

See Accompanying Notes to the Unaudited Consolidated Financial Statements.

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Unity Bancorp, Inc.

Consolidated Statements of Cash Flows

(unaudited)

(In thousands)	**For the six months ended June 30, 2007**		**2006**	
Operating activities:				
Net income	**$ 2,993**		$ 3,294	
Adjustments to reconcile net income to net cash provided by operating activities:				
Provision for loan losses	**550**		550	
Depreciation and amortization	**387**		425	
Decrease in deferred income taxes	**(341**	)	(91	)
Net gain on sale of securities	**(10**	)		
Gain on sale of SBA loans held for sale	**(1,503**	)	(1,258	)
Gain on sale of mortgage loans	**(28**	)	(172	)
Gain on sale of other loans			(82	)
Origination of mortgage loans held for sale	**(1,614**	)	(11,237	)
Origination of SBA loans held for sale	**(21,894**	)	(18,514	)
Proceeds from the sale of mortgage loans held for sale	**1,642**		11,409	
Proceeds from the sale of SBA loans	**26,756**		18,455	
Net change in other assets and liabilities	**2,168**		(54	)
Net cash provided by operating activities	**9,106**		2,725	
Investing activities:				
Purchases of securities held to maturity			(4,360	)
Purchases of securities available for sale	**(6,104**	)	(7,808	)
Maturities and principal payments on securities held to maturity	**6,264**		4,182	
Maturities and principal payments on securities available for sale	**4,953**		4,309	
Proceeds from the sale of other real estate owned	**267**		239	
Net increase in loans	**(37,472**	)	(35,107	)
Purchases of premises and equipment	**(529**	)	(855	)
Net cash used in investing activities	**(32,620**	)	(39,400	)
Financing activities:				
Net increase in deposits	**29,628**		54,516	
Proceeds from new borrowings	**15,000**			
Repayments of borrowings	**(10,000**	)		
Proceeds from the issuance of common stock	**756**		370	
Purchase of treasury stock	**(879**	)		
Dividends paid	**(668**	)	(630	)
Net cash provided by financing activities	**33,837**		54,256	
Increase in cash and cash equivalents	**10,323**		17,581	
Cash and cash equivalents at beginning of year	**55,436**		38,759	
Cash and cash equivalents at end of period	**$ 65,759**		$ 56,340	
Supplemental disclosures:				
Cash:				
Interest paid	**$ 11,451**		**$ 8,519**	
Income taxes paid	**1,839**		**2,462**	
Non-Cash investing activities:				
Transfer of loan to Other Real Estate Owned	**423**		**61**	

See Accompanying Notes to the Consolidated Financial Statements.

Unity Bancorp, Inc.

Notes to the Consolidated Financial Statements (Unaudited)

June 30, 2007

NOTE 1. Summary of Significant Accounting Policies

The accompanying consolidated financial statements include the accounts of Unity Bancorp, Inc. (the Parent Company) and its wholly-owned subsidiary, Unity Bank (the Bank , or when consolidated with the Parent Company, the Company), and reflect all adjustments and disclosures which are generally routine and recurring in nature, in the opinion of management, necessary for a fair presentation of interim results. Unity Investment Services, Inc. a wholly-owned subsidiary of the Bank, is used to hold part of the Bank s investment portfolio. Unity Participation Company, Inc. a wholly-owned subsidiary of the Bank is used to hold part of the Bank s loan portfolio. All significant inter-company balances and transactions have been eliminated in consolidation. Certain reclassifications have been made to prior period amounts to conform to the current year presentation. The financial information has been prepared in accordance with U.S. generally accepted accounting principles and has not been audited. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the dates of the statements of financial condition and revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Estimates that are particularly susceptible to significant changes relate to the determination of the allowance for loan losses. Management believes that the allowance for loan losses is adequate. While management uses available information to recognize losses on loans, future additions to the allowance for loan losses may be necessary based on changes in economic conditions in the market. The interim unaudited consolidated financial statements included herein have been prepared in accordance with instructions for Form 10-Q and the rules and regulations of the Securities and Exchange Commission (SEC). The results of operations for the three months and six months ended June 30, 2007 are not necessarily indicative of the results which may be expected for the entire year. As used in this Form 10-Q, we and us and our refer to Unity Bancorp, Inc. and its consolidated subsidiary, Unity Bank, depending on the context. Interim financial statements should be read in conjunction with the Company s consolidated financial statements and notes thereto for the year ended December 31, 2006, included in the Company s Annual Report on Form 10-K for the year ended December 31, 2006.

Stock-Based Compensation

On April 26, 2007, the Company announced a 5 percent stock dividend, which was paid on June 29, 2007 to all shareholders of record as of June 15, 2007 and accordingly, all share amounts have been restated to include the effect of the distribution.

Option Plans

As of January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123R, Share-Based Payment (Statement 123R) using the modified prospective application. Statement 123R requires public companies to recognize compensation expense related to stock-based compensation awards over the period during which an employee is required to provide service for the award. The provisions apply to all awards granted after the required effective date including existing awards not vested, modified, repurchased or canceled. Prior to January 1, 2006, the Company applied Accounting Principles Board Opinion 25 and related Interpretations in accounting for its Option Plans. No stock-based compensation cost was reflected in net income, as all options granted under those plans had an exercise price equal to the market value of their underlying common stock on the date of grant.

The Company has incentive and non-qualified option plans, which allow for the grant of options to officers, employees and members of the Board of Directors. The period during which the option is vested is generally 3 years, but no option may be exercised after 10 years from the date of the grant. The exercise price of each option is the market price on the date of grant. As of June 30, 2007, 1,448,123 shares have been reserved for issuance upon the exercise of options, 704,335 option grants are outstanding, and 535,089 option grants have been exercised, forfeited or expired leaving 208,699 shares available for grant.

Compensation expense related to stock-based compensation awards totaled $28 thousand and $6 thousand for the three months ended June 30, 2007 and 2006, respectively and $57 thousand and $12 thousand for the six months ended June 30, 2007 and 2006, respectively. The following table presents the impact of SFAS 123R on the Company s financial statements for the quarter and six month periods ended June 30, 2007.

Under SFAS 123R	**Quarter**	**YTD**
Net income before provision for income taxes	$ 2,218	$ 4,299
Net income	1,542	2,993
Net income per common share Basic	0.22	0.43
Net income per common share Diluted	0.21	0.41

During the six months ended June 30, 2007 and 2006, the fair value of the options granted during each period was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	Six Months Ended June 30, 2007	**2006**
Number of Shares Granted	63,788	16,538
Weighted Average Exercise Price	$ 13.19	$ 12.70
Weighted Average Fair Value	$ 3.62	$ 2.84
Expected life	4.01	4.19
Expected volatility	29.72 %	23.50 %
Risk-free interest rate	4.86 %	3.99 %
Dividend yield	1.45 %	1.36 %

There were no stock options granted during the quarters ended June 30, 2007 and 2006.

Transactions under the Company s stock option plans during the six months ended June 30, 2007 are summarized as follows:

	Number of Shares	**Exercise Price per Share**	**Weighted Average Exercise Price**	**Weighted Average Remaining Contractual Life (in years)**	**Aggregate Intrinsic Value**
Outstanding at December 31, 2006	766,646	$ 2.20 14.71	$ 5.80		
Options Granted	63,788	11.81 13.25	13.19		
Options Exercised	(119,420)	2.84 9.30	4.93		
Options Expired	(6,679)	10.79 13.25	12.75		
Outstanding at June 30, 2007	704,335	$ 2.20 14.71	$ 6.55	5.37	$ 3,621,222
Exercisable at June 30, 2007	619,980	$ 2.20 12.70	$ 5.63	4.82	$ 3,619,141

The following table summarizes nonvested stock option activity for the six months ended June 30, 2007:

	Shares	**Average Grant Date Fair Value**
Nonvested stock options at December 31, 2006	36,501	$ 3.18
Granted	63,788	3.62
Vested	(9,255)	2.28
Forfeited	(6,679)	3.45
Nonvested stock options at June 30, 2007	84,355	3.59

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As of June 30, 2007, there was approximately $243 thousand of unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Company s stock incentive plans. This cost is expected to be recognized over a weighted-average period of 1.3 years.

The total intrinsic value (spread between the market value and exercise price) of the stock options exercised during the three months ended June 30, 2007 and 2006 was $331 thousand and $38 thousand, respectively. The total intrinsic value of the stock options exercised during the six months ended June 30, 2007 and 2006 was $420 thousand and $122 thousand, respectively.

Restricted Stock Awards

In addition, restricted stock is issued under the stock bonus program to reward employees and directors and to retain them by distributing stock over a period of time. These shares vest over a period of 4 years and are recognized as compensation to the employees over the vesting period. Restricted stock awards during the first six months of 2007 and 2006 were as follows:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2007	**2006**	**2007**	**2006**
Number of Shares Granted	500	0	18,613	8,655
Weighted Average Fair Market Value	$ 11.63	$ 0.00	$ 13.17	$ 13.45
Vested as of Period End	8,677	1,734	8,677	1,734

Compensation expense related to the restricted stock awards totaled $52 thousand and $17 thousand for the three months ended June 30, 2007 and 2006, respectively. Compensation expense related to the restricted stock awards totaled $88 thousand and $41 thousand for the six months ended June 30, 2007 and 2006, respectively. As of June 30, 2007, 115,763 shares of restricted stock were reserved for issuance, of which 53,895 shares are outstanding, 1,200 shares have been issued and 60,668 shares are available for grant.

Transactions under the Company s restricted stock award plans during the six months ended June 30, 2007 are summarized as follows:

	Number of Shares	**Price per Share**	**Weighted Average Price**	**Weighted Average Remaining Contractual Life (in years)**	**Aggregate Intrinsic Value**
Outstanding at December 31, 2006	37,473	$ 11.13 14.71	$ 12.53		
Granted	18,613	11.63 - 13.52	13.17		
Issued	(1,200)	11.13 13.45	11.88		
Canceled	(991)	11.13 13.45	12.10		
Outstanding at June 30, 2007	53,895	$ 11.13 14.71	$ 12.77	8.85	$ 1,650
Vested at June 30, 2007	8,677	$ 11.13 13.45	$ 12.27	8.27	$ 733

Income Taxes

The Company accounts for income taxes according to the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using the enacted tax rates applicable to taxable income for the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation reserves are established against certain deferred tax assets when it is more likely than not that the deferred tax assets will not be realized. Increases or decreases in the valuation reserve are charged or credited to the income tax provision.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that ultimately would be sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more-likely-than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. The evaluation of a tax position taken is

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considered by itself and not offset or aggregated with other positions. Tax positions that meet the more-likely-than not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Interest and penalties associated with unrecognized tax benefits are recognized in income tax expense on the income statement.

NOTE 2. Litigation

From time to time, the Company is subject to legal proceedings and claims in the ordinary course of business. The Company currently is not aware of any such legal proceedings or claims that it believes will have, individually or in the aggregate, a material adverse effect on the business, financial condition, or the results of the operation of the Company.

NOTE 3. Earnings per share

The following is a reconciliation of the calculation of basic and diluted earnings per share. Basic net income per common share is calculated by dividing net income to common shareholders by the weighted average common shares outstanding during the reporting period. Diluted net income per common share is computed similarly to that of basic net income per common share, except that the denominator is increased to include the number of additional common shares that would have been outstanding if all potentially dilutive common shares, principally stock options, were issued during the reporting period utilizing the Treasury stock method.

	Three Months ended June 30,				**Six Months ended June 30,**			
(In thousands, except per share data)	**2007**		**2006**		**2007**		**2006**	
Net Income to common shareholders	**$ 1,542**		$ 1,637		**$ 2,993**		$ 3,294	
Basic weighted-average common shares outstanding	**6,985**		6,903		**6,981**		6,893	
Plus: Common stock equivalents	**310**		347		**317**		353	
Diluted weighted average common shares outstanding	**7,295**		7,250		**7,298**		7,246	
Net Income per Common share:								
Basic	**$ 0.22**		$ 0.24		**$ 0.43**		$ 0.48	
Diluted	**0.21**		0.23		**0.41**		0.45	
Return on average assets	**0.89**	**%**	1.03	%	**0.88**	**%**	1.05	%
Return on average common equity	**13.14**	**%**	15.39	%	**12.94**	**%**	15.82	%
Efficiency ratio*	**67.22**	**%**	65.12	%	**68.83**	**%**	65.19	%

* Noninterest expense divided by net interest income plus noninterest income less securities gains

NOTE 4. Income Taxes

The Company adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48), on January 1, 2007. There were no unrecognized tax benefits recognized as a result of the implementation of FIN 48.

The tax years 2003-2006 remain open to examination by the major taxing jurisdictions to which we are subject.

NOTE 5. Recent accounting pronouncements

In February 2007, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS No. 159), which allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on a contract-by-contract basis. Subsequent changes in fair value of these financial assets and liabilities would be recognized in earnings when they occur. SFAS 159 further establishes certain additional disclosure requirements. SFAS 159 is effective for the Company s financial statements for the year beginning on January 1, 2008, with earlier adoption permitted. Management is currently evaluating the impact of the adoption of SFAS 159 will have on the Company s financial condition and results of operations.

In September 2006, the FASB issued SFAS no. 157 Fair Value Measurements. This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the

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FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. The Statement is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company does not expect the adoption of Statement No. 157 to have a material impact on its financial statements.

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48 Accounting for Uncertainty in Income Taxes . The Interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with FASB Statement No. 109 Accounting for Income Taxes . This Interpretation presents a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Interpretation is effective for fiscal years beginning after December 15, 2006. The adoption of Interpretation No. 48 did not have a material impact on its financial statements.

In March 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 156, Accounting for Servicing of Financial Assets. SFAS No. 156 amends Statement 140 to require that all separately recognized servicing assets and servicing liabilities be initially measured at fair value, if practicable. This Statement permits, but does not require, the subsequent measurement of separately recognized servicing assets and servicing liabilities at fair value. An entity that uses derivative instruments to mitigate the risks inherent in servicing assets and servicing liabilities is required to account for those derivative instruments at fair value. Under this Statement, an entity can elect subsequent fair value measurement to account for its separately recognized servicing assets and servicing liabilities. By electing that option, an entity may simplify its accounting because this Statement permits income statement recognition of the potential offsetting changes in fair value of those servicing assets and servicing liabilities and derivative instruments in the same accounting period. The Statement is effective in the first fiscal year beginning after September 15, 2006 with earlier adoption permitted. The adoption of Statement No. 156 did not have a material impact on the Company s financial statements.

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

The following discussion and analysis of financial condition and results of operations should be read in conjunction with the 2006 consolidated audited financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2006. When necessary, reclassifications have been made to prior period data throughout the following discussion and analysis for purposes of comparability. This Quarterly Report on Form 10-Q contains certain forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, which may be identified by the use of such words as believe , expect , anticipate , should , planned , estimated and potential . Examples of forward looking statements include, but are not limited to, estimates with respect to the financial condition, results of operations and business of Unity Bancorp, Inc. that are subject to various factors which could cause actual results to differ materially from these estimates. These factors include, in addition to those items contained in the Company s Annual Report on Form 10-K under Item IA-Risk factors, the following: changes in general, economic, and market conditions, legislative and regulatory conditions, or the development of an interest rate environment that adversely affects Unity Bancorp, Inc. s interest rate spread or other income anticipated from operations and investments.

Overview

Unity Bancorp, Inc. (the Parent Company) is incorporated in New Jersey and is registered as a bank holding company under the Bank Holding Company Act of 1956, as amended. It s wholly-owned subsidiary, Unity Bank (the Bank or, when consolidated with the Parent Company, the Company) was granted a charter by the New Jersey Department of Banking and Insurance and commenced operations on September 13, 1991. The Bank provides a full range of commercial and retail banking services through 15 branch offices located in Hunterdon, Somerset, Middlesex, Union and Warren counties in New Jersey, Northampton County in Pennsylvania and a loan production office in Long Island, New York. These services include the acceptance of demand, savings, and time deposits and the extension of consumer, real estate, Small Business Administration and other commercial credits. Unity Investment Services, Inc., a wholly-owned subsidiary of the Bank, is used to hold part of the Bank s investment portfolio. Unity Participation Company, Inc., a wholly-owned subsidiary of the Bank is used for holding and administering certain loan participations.

Unity (NJ) Statutory Trust I is a statutory Business Trust and wholly-owned subsidiary of Unity Bancorp, Inc. On September 26, 2002, the trust issued $9.0 million of capital securities to investors. Unity (NJ) Statutory Trust II is a statutory Business Trust and wholly owned subsidiary of Unity Bancorp, Inc. On July 24, 2006, the Trust issued $10.0 million of trust preferred securities to investors. Unity (NJ) Statutory Trust III is a statutory Business Trust and wholly owned subsidiary of Unity Bancorp, Inc. On December 19, 2006, the Trust issued $5.0 million of trust preferred securities to investors. These floating rate securities are treated as subordinated debentures on the Company s financial statements. However, they qualify as Tier I Capital for regulatory capital compliance purposes, subject to certain limitations. In accordance with Financial Accounting Interpretation No. 46,

Consolidation of Variable Interest Entities, as revised December 2003, the Company does not consolidate the accounts and related activity of Unity (NJ) Statutory Trust I, Unity (NJ) Statutory Trust II or Unity (NJ) Statutory Trust III.

Earnings Summary

Net income for the three months ended June 30, 2007 was $1.5 million, a decrease of $95 thousand or 5.8 percent, compared to net income of $1.6 million for the same period in 2006. During the quarter, the Company reported increased net interest income, noninterest income and a lower tax provision, which was offset by higher operating expenses and provision for loan losses. However, quarterly net income increased $91 thousand or 6.3 percent compared to the first quarter of 2007.

Financial performance ratios for the quarters included:

- Earnings per basic share equaled $0.22, $0.21 and $0.24 for the quarters ended June 30, 2007, March 31, 2007 and June 30, 2006, respectively (after 5 percent stock dividend paid on June 29, 2007).

- Earnings per diluted share equaled $0.21, $0.20 and $0.23 for the quarters ended June 30, 2007, March 31, 2007 and June 30, 2006, respectively (after 5 percent stock dividend paid on June 29, 2007).

- Return on average assets equaled 0.89 percent, 0.87 percent and 1.03 percent for each of the quarters ended June 30, 2007, March 31, 2007 and June 30, 2006, respectively.

- Return on average common equity equaled 13.14 percent, 12.74 percent and 15.39 percent for the quarters ended June 30, 2007, March 31, 2007 and June 30, 2006, respectively.

- The efficiency ratio equaled 67.22 percent, 70.46 percent and 65.12 percent for the quarters ended June 30, 2007, March 31, 2007 and June 30, 2006, respectively.

Net income for the six months ended June 30, 2007 was $3.0 million, a decrease of $301 thousand or 9.1 percent, compared to net income of $3.3 million for the same period in 2006. This was the result of relatively flat net interest income and a lower provision for loan losses, offset by lower noninterest income and higher operating expenses.

Year to date performance highlights include:

- Earnings per basic share declined to $0.43 for the six months ended June 30, 2007 compared to $0.48 for the same period in 2006.

- Earnings per diluted share decreased to $0.41 for the six months ended June 30, 2007 compared to $0.45 for the same period a year ago.

- Return on average assets equaled 0.88 percent and 1.05 percent for each of the six month periods ended June 30, 2007 and 2006, respectively.

- Return on average common equity equaled 12.94 percent and 15.82 percent for the six months ended June 30, 2007 and 2006, respectively.

- The efficiency ratio equaled 68.83 percent for the six months ended June 30, 2007 compared to 65.19 percent for the same period a year ago.

During the first six months of 2007, there continued to be a flat and at times inverted yield curve, with short term rates equaling or exceeding longer term rates. As this challenging interest rate environment continues, it has become more difficult to grow net interest income as the shape of the yield curve combined with the highly competitive pricing of deposits in the New Jersey and Eastern Pennsylvania markets has increased the Company s cost of funds and constricted the net interest margin.

Net interest income, our largest component of operating income, increased $54 thousand or 0.9 percent to $6.1 million for the three months ended June 30, 2007 compared to the same period in 2006. This increase was the result of a $54 million increase in average earning assets partially offset by a reduced net interest margin and spread. Net interest margin (net interest income as a percentage of average interest earning assets) decreased 28 basis points to 3.71 percent for the current quarter compared to 3.99 percent for the same period a year ago. Over the same period, net interest spread (the difference between the rate earned on average interest-earning assets and the rate paid on average interest-bearing liabilities) decreased 33 basis points to 3.13 percent from 3.46 percent a year ago. For the six months ended June 30, 2007 and 2006, net interest income was flat at $12.1 million. The net interest margin decreased 32 basis points to 3.73 percent for the six months ended June 30, 2007 compared to the same period a year ago.

Noninterest income increased $101 thousand or 6.1 percent to $1.7 million for the three months ended June 30, 2007 compared to $1.6 million for the three months ended June 30, 2006. This increase was due primarily to increased gains on the sale of Small Business Administration (SBA) loans and service and loan fee income, partially offset by decreased SBA servicing income, gains on Mortgage loan sales and service charges on deposits. For the six months ended June 30, 2007, noninterest income was $3.4 million, a decrease of $222 thousand or 6.1 percent compared to $3.6 million during the same period a year ago. This decrease was due primarily to decreased service and loan fee income, service charges on deposits, gains on Mortgage loan sales and other income, partially offset by increased gains on the sale of SBA loans.

Noninterest expense was $5.3 million for the three months ended June 30, 2007, an increase of $266 thousand or 5.3 percent compared to $5.0 million for the same period a year ago. For the six-month period ended June 30, 2007, noninterest expense increased $427 thousand or 4.2 percent to $10.7 million compared to the six-month period ended June 30, 2006. The increase in both periods was due primarily to increased compensation and benefits, loan servicing costs and other operating expenses, partially offset by lower advertising expenses.

For the quarter ended June 30, 2007, the provision for income taxes was $676 thousand compared to $792 thousand for the same period a year ago. The provision for income taxes decreased $328 thousand to $1.3 million for the six months ended June 30, 2007 compared to the same period a year ago. The current 2007 tax provision represents an effective tax rate of approximately 30.4 percent as compared to 33.2 percent for the prior year. The lower effective tax rate for 2007 is related to a higher proportion of revenue being generated at a subsidiary with a lower effective tax rate. Management anticipates an effective rate of approximately 30.5 percent for the remainder of 2007.

Net Interest Income

Tax-equivalent interest income totaled $12.0 million for the three months ended June 30, 2007, an increase of $1.3 million or 12.6 percent, compared to $10.7 million a year ago. Of the $1.3 million increase in interest income, $1.0 million was due to an increase in the volume of interest-earning assets, while $314 thousand was attributed to an increase in the yield on interest-earning assets. The average volume of interest-earning assets increased $53.7 million to $660.3 million at June 30, 2007 compared to $606.6 million at June 30, 2006. This was due to a $63.2 million increase in average total loans plus a $1.5 million increase in average total securities, offset in part by an $11.0 million decrease in average total federal funds sold and interest bearing deposits.The tax-equivalent yield on interest-earning assets increased to 7.28 percent for the three months ended June 30, 2007 compared to 7.04 percent for the prior year s quarter. This increase was due to the impact of the Federal Reserve Board s last two rate hikes of this cycle during the second quarter of 2006 which totaled 50 basis points. The impact of the higher interest rate environment in the second quarter of 2007 was evident as rates increased on variable rate instruments such as SBA loans, commercial loans and consumer home equity lines of credit, as well as the yield on mortgage loans and investment securities. Key interest rate increases during the quarter included:

- The average interest rate earned on Consumer loans increased 22 basis points to 6.91 percent for the three months ended June 30, 2007 compared to 6.69 percent for the same period a year ago due to the re-pricing of Prime based home equity products.

- The average interest rate earned on SBA loans equaled 10.60 percent during the quarter, an increase of 19 basis points over the comparable quarter in 2006, due to the quarterly re-pricing of these loans with changes in the Prime rate.

- The average interest rate earned on Commercial loans was 7.63 percent for the quarter, an increase of 13 basis points over the comparable quarter in 2006.

- The average interest rate earned on Mortgage loans was 5.93 percent for the quarter, an increase of 51 basis points over the comparable quarter in 2006.

- The average interest rate earned on securities was 5.01 percent for the quarter, an increase of 31 basis points over the comparable quarter in 2006.

Quarter over quarter, the higher interest rate environment and competitive New Jersey and Eastern Pennsylvania marketplaces contributed to increased interest expense and a higher cost of funds. Total interest expense was $5.9 million for the three months ended June 30, 2007, an increase of $1.3 million or 27.7 percent, compared to $4.6 million for the same period a year ago. Of the $1.3 million increase in interest expense, $772 thousand is related to an increase in average interest-bearing liabilities while $505 thousand is due to an increase in the cost of funds. Quarter over quarter, average interest-bearing liabilities increased $51.8 million as average interest-bearing deposits increased $13.2 million and borrowed funds and subordinated debentures increased $38.5 million. Total interest-bearing deposits were $480.9 million on average, an increase of $13.2 million or 2.8 percent compared to $467.7 million from the same period a year ago. The increase in average interest-bearing deposits was as a result of increases in the savings and time deposit categories, partially offset by a decline in interest-bearing checking accounts. Average borrowed funds and subordinated debentures increased $38.5 million to $87.8 million as of June 30, 2007 due to the addition of a $15.5 million in subordinated debentures and $23 million FHLB borrowings. The rate paid on interest bearing liabilities increased 57 basis points to 4.15 percent for the three months ended June 30, 2007 from 3.58 percent in the same period in 2006. The cost of interest-bearing deposits increased 51 basis points to 3.96 percent as the rates paid on all deposit products increased while the cost of borrowed funds and subordinated debentures increased 44 basis points to 5.19 percent. The high cost of deposits in the marketplace combined with a shift in our average interest bearing deposit base from 25 percent interest bearing checking, 39 percent savings and 36 percent time deposits in the second quarter of 2006 to 18 percent, 44 percent and 38 percent in the second

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quarter of 2007, respectively, contributed to an increase in our cost of funds for the quarter. The change in the deposit portfolio reflects the transfer of balances from interest bearing demand into the higher cost variable rate savings product.

Tax-equivalent net interest income increased $71 thousand to $6.12 million for the quarter ended June 30, 2007 compared to $6.05 million for the same period a year ago. Net interest margin constricted 28 basis points to 3.71 percent compared to 3.99 percent for the same period a year ago. The tighter net interest margin was primarily the result of the higher cost of deposits to fund loan growth. The net interest spread was 3.13 percent for the three months ended June 30, 2007 compared to 3.46 percent for the same period a year ago.

Tax-equivalent interest income totaled $23.7 million for the six months ended June 30, 2007, an increase of $3.1 million or 14.8 percent, compared to $20.7 million a year ago. Of the $3.1 million increase in interest income, $2.0 million is due to an increase in the volume of earning assets, while $1.1 million is attributable to an increase in the yield on interest-earning assets. The average volume of interest-earning assets increased $54.9 million to $652.5 million at June 30, 2007 compared to $597.6 million at June 30, 2006. This was due to a $57.6 million increase in average total loans plus a $2.3 million increase in average total securities partially offset by a $4.9 million decrease in average total federal funds sold and interest bearing deposits. Key interest rate increases during the six months ended June 30, 2007 included:

- The average interest rate earned on federal funds sold and interest bearing deposits increased 34 basis points to 4.91 percent for the six months ended June 30, 2007 compared to 4.57 percent for the same period a year ago.

- The average interest rate earned on SBA loans equaled 11.02 percent for the six months ended June 30, 2007, an increase of 80 basis points over the comparable period in 2006, due to the quarterly re-pricing of these loans with changes in the Prime rate.

- The average interest rate earned on Consumer loans increased 30 basis points to 6.89 percent for the six months ended June 30, 2007 compared to 6.59 percent for the same period a year ago due to the re-pricing of Prime based home equity products.

- The average interest rate earned on Commercial loans was 7.63 percent for the six months ended June 30, 2007, an increase of 22 basis points over the comparable period in 2006.

- The average interest rate earned on Mortgage loans was 5.79 percent for the six months ended June 30, 2007, an increase of 40 basis points over the comparable period in 2006.

Total interest expense was $11.6 million for the six months ended June 30, 2007, an increase of $3.0 million or 35.2 percent, compared to $8.6 million for the same period a year ago. Of the $3.0 million increase in interest expense, $1.5 million is related to an increase in average interest-bearing liabilities while $1.5 million is due to an increase in the cost of funds. Comparing the six-month periods ended June 30, 2007 and 2006, average interest bearing liabilities increased $53.9 million in the current year as average interest bearing deposits increased $21.7 million and borrowed funds and subordinated debentures increased $32.2 million. Total interest-bearing deposits were $480.0 million on average, an increase of $21.7 million or 4.7 percent compared to $458.3 million from the same period a year ago. The increase in average interest-bearing deposits was a result of increases in the savings and time deposit categories, partially offset by a decline in interest-bearing checking accounts. Average borrowed funds increased $32.2 million to $81.5 million as of June 30, 2007 due to the addition of $15.5 million in subordinated debentures and $16.7 million in FHLB advances. The rate paid on interest bearing liabilities increased 76 basis points to 4.16 percent for the six months ended June 30, 2007 from 3.40 percent in the same period in 2006. The cost of interest bearing deposits increased 71 basis points to 3.97 percent as the rates paid on all deposit products increased. It is expected that the cost of deposits will continue to rise due to the upward repricing in the time deposit portfolio and competitive pricing in the New Jersey and Eastern Pennsylvania marketplace. The cost of borrowed funds and subordinated debentures increased 57 basis points to 5.26 percent for the six months ended June 30, 2007 compared to 2006. The high cost of deposits in the marketplace combined with a shift in our average interest bearing deposit base from 27 percent interest bearing checking, 37 percent savings and 36 percent time deposits in the first six months of 2006 to 19 percent, 44 percent and 37 percent in the first six months of 2007, respectively, contributed to an increase in our cost of funds for the period. The change in the deposit portfolio reflects the transfer of balances from interest bearing demand into the higher cost variable rate savings product.

Tax-equivalent net interest income increased $54 thousand to $12.2 million for the six months ended June 30, 2007 compared to $12.1 million for the same period a year ago. Net interest margin contracted 32 basis points to 3.73 percent compared to 4.05 percent for the same period a year ago. The tighter net interest margin was primarily the result of the high cost of deposits in the market place. The net interest spread was 3.16 percent for the six months ended June 30, 2007 compared to 3.55 percent for the same period a year ago.

Unity Bancorp, Inc.

Consolidated Average Balance Sheets with resultant Interest and Rates

(unaudited)

(Tax-equivalent basis, dollars in thousands)

	Three Months Ended June 30, 2007				June 30, 2006			
	Balance	Interest	Rate/ Yield		Balance	Interest	Rate/ Yield	
Assets								
Interest-earning assets:								
Federal funds sold and interest-bearing deposits with banks	**$ 19,029**	**$ 221**	**4.66**	**%**	$ 30,005	$ 354	4.73	%
Securities:								
Available for sale	**65,132**	**790**	**4.85**		62,831	722	4.60	
Held to maturity	**37,501**	**496**	**5.29**		38,283	467	4.88	
Total securities	**102,633**	**1,286**	**5.01**		101,114	1,189	4.70	
Loans, net of unearned discount:								
SBA loans	**83,080**	**2,202**	**10.60**		83,708	2,179	10.41	
Commercial	**335,081**	**6,378**	**7.63**		286,943	5,368	7.50	
Residential mortgages	**65,256**	**967**	**5.93**		58,135	788	5.42	
Consumer	**55,227**	**951**	**6.91**		46,690	779	6.69	
Total loans	**538,644**	**10,498**	**7.81**		475,476	9,114	7.68	
Total interest-earning assets	**660,306**	**12,005**	**7.28**		606,595	10,657	7.04	
Noninterest-earning assets:								
Cash and due from banks	**12,170**				12,535			
Allowance for loan losses	**(8,022)**				(7,478)			
Other assets	**29,092**				28,355			
Total noninterest-earning assets	**33,240**				33,412			
Total Assets	**$ 693,546**				$ 640,007			
Liabilities and Shareholders Equity								
Interest-bearing deposits:								
Interest-bearing checking	**$ 84,729**	**477**	**2.26**		$ 116,303	653	2.25	
Savings deposits	**211,478**	**2,122**	**4.02**		184,168	1,704	3.71	
Time deposits	**184,727**	**2,153**	**4.67**		167,245	1,671	4.01	
Total interest-bearing deposits	**480,934**	**4,752**	**3.96**		467,716	4,028	3.45	
Borrowed funds and subordinated debentures	**87,815**	**1,136**	**5.19**		49,279	583	4.75	
Total interest-bearing liabilities	**568,749**	**5,888**	**4.15**		516,995	4,611	3.58	
Noninterest-bearing liabilities:								
Demand deposits	**75,469**				78,764			
Other liabilities	**2,262**				1,589			
Total noninterest-bearing liabilities	**77,731**				80,353			
Shareholders equity	**47,066**				42,659			
Total Liabilities and Shareholders Equity	**$ 693,546**				$ 640,007			
Net interest spread		**6,117**	**3.13**	**%**		6,046	3.46	%
Tax-equivalent basis adjustment		**(30)**				(13)		
Net interest income		**6,087**				6,033		
Net interest margin			**3.71**	**%**			3.99	%

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Unity Bancorp, Inc

Consolidated Average Balance Sheets with resultant Interest and Rates

(unaudited)

(Tax-equivalent basis, dollars in thousands)

	Six months ended June 30, 2007				June 30, 2006			
	Balance	Interest	Rate/ Yield		Balance	Interest	Rate/ Yield	
Assets								
Interest-earning assets:								
Federal funds sold and interest-bearing deposits with banks	**$ 19,835**	**$ 483**	**4.91**	**%**	$ 24,778	$ 561	4.57	%
Securities:								
Available for sale	**65,019**	**1,582**	**4.87**		63,816	1,443	4.52	
Held to maturity	**39,881**	**1,054**	**5.29**		38,784	943	4.86	
Total securities	**104,900**	**2,636**	**5.03**		102,600	2,386	4.65	
Loans, net of unearned discount:								
SBA loans	**82,435**	**4,542**	**11.02**		84,813	4,332	10.22	
Commercial	**326,905**	**12,366**	**7.63**		279,176	10,260	7.41	
Residential mortgages	**64,086**	**1,855**	**5.79**		59,622	1,608	5.39	
Consumer	**54,328**	**1,855**	**6.89**		46,596	1,523	6.59	
Total loans	**527,754**	**20,618**	**7.86**		470,207	17,723	7.58	
Total interest-earning assets	**652,489**	**23,737**	**7.32**		597,585	20,670	6.95	
Noninterest-earning assets:								
Cash and due from banks	**12,199**				12,119			
Allowance for loan losses	**(7,950)**				(7,317)			
Other assets	**29,292**				27,605			
Total noninterest-earning assets	**33,541**				32,407			
Total Assets	**$ 686,030**				$ 629,992			
Liabilities and Shareholders Equity								
Interest-bearing deposits:								
Interest-bearing checking	**$ 91,114**	**1,029**	**2.28**		$ 122,194	1,347	2.22	
Savings deposits	**211,180**	**4,293**	**4.10**		171,185	2,896	3.41	
Time deposits	**177,657**	**4,123**	**4.68**		164,902	3,170	3.88	
Total interest-bearing deposits	**479,951**	**9,445**	**3.97**		458,281	7,413	3.26	
Borrowed funds and subordinated debentures	**81,509**	**2,126**	**5.26**		49,279	1,145	4.69	
Total interest-bearing liabilities	**561,460**	**11,571**	**4.16**		507,560	8,558	3.40	
Noninterest-bearing liabilities:								
Demand deposits	**75,346**				78,473			
Other liabilities	**2,593**				1,961			
Total noninterest-bearing liabilities	**77,939**				80,434			
Shareholders equity	**46,631**				41,998			
Total Liabilities and Shareholders Equity	**$ 686,030**				$ 629,992			
Net interest spread		**12,166**	**3.16**	**%**		12,112	3.55	%
Tax-equivalent basis adjustment		**(60)**				(26)		
Net interest income		**12,106**				$ 12,086		
Net interest margin			**3.73**	**%**			4.05	%

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The rate volume table below presents an analysis of the impact on interest income and expense resulting from changes in average volume and rates over the periods presented. Changes that are not due to volume or rate variances have been allocated proportionally to both, based on their relative absolute values. Amounts have been computed on a full tax-equivalent basis, assuming a federal income tax rate of 34.0 percent.

Rate Volume Table

	Amount of Increase (Decrease) Three months ended June 30, 2007 versus June 30, 2006 Due to change in:			Six months ended June 30, 2007 versus June 30, 2006 Due to change in:		
	Volume	**Rate**	**Total**	**Volume**	**Rate**	**Total**
Interest Income						
SBA	$ (16)	$ 39	$ 23	$ (124)	$ 334	$ 210
Commercial	915	95	1,010	1,794	312	2,106
Residential mortgage	101	78	179	124	123	247
Consumer	145	27	172	261	71	332
Total Loans	1,145	239	1,384			