SLADES FERRY BANCORP
Form 10-Q
August 14, 2007

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

FORM 10-Q

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

For the quarterly period ended June 30, 2007

Commission file number 000-23904

SLADE'S FERRY BANCORP.
(Exact name of registrant as specified in its character)

Massachusetts	04-3061936
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
100 Slade's Ferry Avenue Somerset, Massachusetts	02726
(Address of principal executive offices)	(Zip code)

(508) 675-2121
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer [ ] Accelerated Filer [ ] 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 [ ] No [X]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date:

Common stock ($0.01 par value) 4,001,353 outstanding
shares as of July 31, 2007.

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ITEM 1

FINANCIAL STATEMENTS

SLADE'S FERRY BANCORP. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	June 30, 2007	Decembe
Assets	(In thousands)	

Cash and due from banks	$ 12,569	$ 1
Interest-bearing deposits with other banks	1,648	
Federal funds sold	25,585	
	--------	---
Cash and cash equivalents	39,802	2
Interest-bearing certificates of deposit with other banks	100	
Securities available for sale	102,227	10
Securities held to maturity (fair value approximates $21,060 as of June 30, 2007 and $24,219 as of December 31, 2006)	21,781	2
Federal Home Loan Bank stock, at cost	7,312	
Loans, net of allowance for loan losses of $4,296 at June 30, 2007 and $4,385 at December 31, 2006	429,773	42
Premises and equipment, net	6,710	
Goodwill	2,173	
Accrued interest receivable	2,269	
Bank-owned life insurance	12,537	1
Deferred tax asset, net	2,191	
Other assets	1,445	
	--------	---
	$628,320	$60
	========	===
Liabilities and Stockholders' Equity		
Deposits:		
Noninterest-bearing	$ 73,715	$ 7
Interest-bearing	351,933	34
	--------	---
Total deposits	425,648	42
Long-term borrowings	137,867	11
Subordinated debentures	10,310	1
Due to broker	985	
Accrued expenses and other liabilities	2,747	
	--------	---
Total liabilities	577,557	55
Stockholders' equity:		
Common stock, par value $0.01 per share; authorized 10,000,000 shares; issued and outstanding 4,028,228 shares at June 30, 2007 and 4,102,242 shares at December 31, 2006	40	
Additional paid-in capital	30,447	3
Retained earnings	22,018	2
Accumulated other comprehensive loss	(630)	
Unearned compensation	(1,112)	
	--------	---
Total stockholders' equity	50,763	5
	--------	---
	$628,320	$60
	========	===

The accompanying notes are an integral part of these consolidated financial statements.

SLADE'S FERRY BANCORP. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended June 30, 2007	2006
	(In thousands, except per share data)	
Interest and dividend income:		
Interest and fees on loans	$ 7,152	$ 6,685
Interest and dividends on securities:		
Taxable	1,548	1,217
Tax-exempt	45	65
Interest on federal funds sold	179	53
Other interest	15	10
Total interest and dividend income	8,939	8,030
Interest expense:		
Interest on deposits	2,702	2,256
Interest on Federal Home Loan Bank advances	1,650	1,209
Interest on subordinated debentures	214	170
Total interest expense	4,566	3,635
Net interest and dividend income	4,373	4,395
Provision for loan losses	-	-
Net interest income, after provision for loan losses	4,373	4,395
Noninterest income:		
Service charges on deposit accounts	353	352
Gain (loss) on sales and calls of available-for-sale securities, net	78	(172)
Increase in cash surrender value of life insurance policies	114	106
Other income	271	260
Total noninterest income	816	546
Noninterest expense:		
Salaries and employee benefits	2,016	2,287
Occupancy and equipment expense	506	490
Professional fees	317	388
Marketing expense	272	109
Data processing	276	118
Other expense	603	560
Total noninterest expense	3,990	3,952
Income before income taxes	1,199	989
Provision for income taxes	407	363
Net income	$ 792	$ 626
Earnings per share:		
Basic	$ 0.20	$ 0.15
Diluted	$ 0.20	$ 0.15

Average common shares outstanding:		
Basic	4,047,215	4,156,481
Diluted	4,050,359	4,170,610

The accompanying notes are an integral part of these consolidated financial statements.

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SLADE'S FERRY BANCORP. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Six Months Ended June 30, 2007	2006
	(In thousands, except per share data)	
Interest and dividend income:		
Interest and fees on loans	$ 14,074	$ 13,120
Interest and dividends on securities:		
Taxable	3,130	2,550
Tax-exempt	95	134
Interest on federal funds sold	215	64
Other interest	25	18
Total interest and dividend income	17,539	15,886
Interest expense:		
Interest on deposits	5,391	4,167
Interest on Federal Home Loan Bank advances	3,169	2,365
Interest on subordinated debentures	425	394
Total interest expense	8,985	6,926
Net interest and dividend income	8,554	8,960
Provision for loan losses	-	39
Net interest income, after provision for loan losses	8,554	8,921
Noninterest income:		
Service charges on deposit accounts	681	659
Gain (loss) on sales and calls of available-for-sale securities, net	139	(169)
Increase in cash surrender value of life insurance policies	220	213
Other income	502	546
Total noninterest income	1,542	1,249
Noninterest expense:		
Salaries and employee benefits	4,013	4,398
Occupancy and equipment expense	998	983
Professional fees	592	800
Marketing expense	328	187

Data processing	573	199
Other expense	1,042	1,135
Total noninterest expense	7,546	7,702
Income before income taxes	2,550	2,468
Provision for income taxes	885	935
Net income	$ 1,665	$ 1,533
Earnings per share:		
Basic	$ 0.41	$ 0.37
Diluted	$ 0.41	$ 0.37
Average common shares outstanding:		
Basic	4,063,511	4,151,091
Diluted	4,067,344	4,168,271

The accompanying notes are an integral part of these consolidated financial statements.

SLADE'S FERRY BANCORP. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

Six Months Ended June 30, 2007

(Unaudited)

	Shares of Common Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumul Othe Comprehe Loss
	(In thousands, except per share				
Balance at December 31, 2006	4,102,242	$41	$31,444	$21,111	$(464
Comprehensive income:					
Net income	-	-	-	1,665	-
Other comprehensive loss	-	-	-	-	(166
Comprehensive income					
Issuance of common stock	15,665	-	275	-	-
Stock options exercised	18,000	-	254	-	-
Tax benefit of stock options exercised	-	-	19	-	-
Stock-based compensation	-	-	91	-	-

Purchase of treasury stock	(94,956)	(1)	(1,636)	-	-
Purchase of stock for award plan	(12,723)	-	-	-	-
Dividends declared ($.18 per share)	-	-	-	(758)	-
Balance at June 30, 2007	4,028,228	$40	$30,447	$22,018	$(630

The accompanying notes are an integral part of these consolidated financial statements.

SLADE'S FERRY BANCORP. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended June 30,	
	2007	2006
	(In thousands)	
Cash flows from operating activities:		
Net income	$ 1,665	$ 1,533
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization, net of accretion of securities	7	65
(Gain) loss on sales and calls of available-for-sale securities, net	(139)	169
Amoritization of net deferred loan fees	(16)	(10)
Provision for loan losses	-	39
Deferred tax benefit	(4)	(409)
Depreciation and amortization	425	439
Gain on sale of assets	(3)	-
Increase in cash surrender value of life insurance	(220)	(213)
Stock-based compensation	91	136
Excess tax benefits from stock-based compensation	(19)	(82)
Net change in:		
Other assets	(19)	67
Accrued interest receivable	42	224
Other liabilities	(461)	(463)
Net cash provided by operating activities	1,349	1,495
Cash flows from investing activities:		
Activity in available-for-sale securities:		
Purchases	(6,668)	(6,440)
Sales	975	15,196
Maturities, calls and pay-downs	9,902	5,611
Activity in held-to-maturity securities:		
Maturities, calls and pay-downs	2,795	2,046
Purchases of Federal Home Loan Bank stock	(456)	-
Loan originations, net of principal payments	(7,298)	(17,097)
Recoveries of loans previously charged off, net	(22)	-

Capital expenditures	(1,568)	(268)
Proceeds from sale of property and equipment	23	-
Net cash used in investing activities	(2,317)	(952)

The accompanying notes are an integral part of these consolidated financial statements.

SLADE'S FERRY BANCORP. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(Unaudited)

	Six Months Ended June 30,	
	2007	2006
	(In thousands)	
Cash flows from financing activities:		
Net increase (decrease) in noninterest-bearing deposits	$ (5,386)	$ 5
Net increase in interest-bearing deposits	7,028	14,217
Short-term advances from Federal Home Loan Bank	280,315	43,000
Long-term advances from Federal Home Loan Bank	25,000	-
Payments on Federal Home Loan Bank short-term advances	(280,315)	(40,000)
Payments on Federal Home Loan Bank long-term advances	(6,191)	(7,822)
Proceeds from issuance of common stock	275	302
Stock options exercised	254	305
Excess tax benefits from stock-based compensation	19	82
Purchase of treasury stock	(1,601)	(230)
Unearned compensation	(225)	(100)
Dividends paid on common stock	(758)	(749)
Net cash provided by financing activities	18,415	9,010
Net increase in cash and cash equivalents	17,447	9,471
Cash and cash equivalents at beginning of period	22,355	20,018
Cash and cash equivalents at end of period	$ 39,802	$ 29,489
Supplemental disclosures:		
Interest paid	$ 9,263	$ 7,105
Income taxes paid	$ 947	$ 475
Non-cash disclosure:		
Due to broker	$ 985	$ 9,509

The accompanying notes are an integral part of these consolidated financial statements.

SLADE'S FERRY BANCORP. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
June 30, 2007

Note A - Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and the instructions to Form 10-Q and, accordingly, do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of the management of Slade's Ferry Bancorp. (the "Company"), all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six months ended June 30, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007.

The year-end consolidated financial data was derived from audited financial statements, but does not include all disclosures required by GAAP. This Form 10-Q should be read in conjunction with the Company's Annual Report filed on Form 10-K for the year ended December 31, 2006.

Note B - Accounting Policies

The accounting principles followed by Slade's Ferry Bancorp. and subsidiary and the methods of applying these principles which materially affect the determination of financial position, results of operations, or changes in financial position are consistent with those used for the year ended December 31, 2006, except for the adoption of Financial Accounting Standards Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN48), effective January 1, 2007. See Note C.

The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiary, Slade's Ferry Trust Company (the "Bank") and the Bank's wholly-owned subsidiaries. All significant inter-company balances and transactions have been eliminated in consolidation. The Company accounts for its other wholly-owned subsidiary, Slade's Ferry Statutory Trust I, using the equity method.

Note C - Recent Accounting Pronouncements

The Company adopted FIN 48 effective January 1, 2007, which clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes". FIN 48 prescribes 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. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures and transitions. Management has evaluated FIN 48 and determined that there is no impact on the Company's consolidated financial statements.

Note D - Pension Plan

The components of net periodic pension expense cost are as follows:

	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
	(In thousands)			
Interest cost	$ 12	$ 16	$ 23	$ 33
Service cost and expenses	6	-	13	-
Expected return on plan assets	(19)	(29)	(39)	(58)
Settlements	-	133	38	133
Recognized net actuarial loss	4	8	8	15
	$ 3	$128	$ 43	$123

The Company previously disclosed in its consolidated financial statements for the year ended December 31, 2006 that it expects to make no contributions to the plan in 2007.

Note E - 2004 Equity Incentive Plan

Stock options granted under the Slade's Ferry Bancorp. 2004 Equity Incentive Plan (the "2004 Plan") may be either incentive stock options or non-qualified stock options. The exercise price for incentive stock options granted to employees shall not be less than 100 percent of the fair market value at grant date. No stock option shall be exercisable more than 10 years after the date the stock option is granted. The 2004 Plan also provides for the granting of Unrestricted Stock Awards, Restricted Stock Awards, or Deferred Stock Awards. At June 30, 2007, no stock awards had been granted.

A summary of options under the 2004 Plan as of June 30, 2007, and changes during the six months then ended, (shares in thousands) is presented below:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at January 1, 2007	231	$18.18		
Granted	10	16.59		
Exercised	(18)	14.15		
Forfeited	-	-		
Expired	(19)	18.06		
Outstanding at June 30, 2007	204	18.47	4.2	$ -
Exercisable at June 30, 2007	189	$18.37	4.2	$ -

On July 17, 2007, the Compensation Committee of the Company's Board of Directors (the "Committee") approved the granting of (1) 24,000 Incentive Stock Options to purchase shares of Company common stock, of which 8,000 vest immediately, 8,000 vest on May 31, 2008 and 8,000 vest on May 31, 2009, and (2) 32,000 Restricted Stock Awards, of which 6,500 vest on September 1, 2007, 6,500 vest on May 31, 2008, 12,500 vest on May 31, 2009 and 6,500 vest on May 31, 2010. On August 9, 2007, the Committee granted 29,000 Restricted Stock Awards, of which 7,250 vest each August 31, 2008, 2009, 2010 and 2011.

Note F - Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income.

The components of other comprehensive loss and related tax effects are as follows:

	Three Months Ended June 30,		Six
	2007	2006	
		(In thousands)	
Unrealized gains (losses) on securities available for sale	$148	$(1,153)	
Reclassification adjustment for losses (gains) realized in income	(78)	172	
Net unrealized gains (losses)	70	(981)	
Tax effect	(24)	360	
Net-of-tax amount	$ 46	$ (621)	

The components of accumulated other comprehensive loss, included in stockholders' equity, are as follows:

	June 30, 2007	December 31, 2006
	(In thousands)	
Net unrealized losses on securities available for sale	$(675)	$(380)
Tax effect	268	139
Net-of-tax amount	(407)	(241)
Unrecognized net actuarial loss pertaining to defined benefit plan	(377)	(377)

Tax effect	154	154
Net-of-tax amount	(223)	(223)
	$(630)	$(464)

ITEM 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Slade's Ferry Bancorp., a Massachusetts corporation, is a bank holding company headquartered in Somerset, Massachusetts with consolidated assets of $628.3 million, consolidated net loans and leases of $429.8 million, consolidated deposits of $425.6 million and consolidated shareholders' equity of $50.8 million as of June 30, 2007. We conduct our business principally through our wholly-owned subsidiary, Slade's Ferry Trust Company (referred to herein as the "Bank"), a Massachusetts-chartered trust company. Our common stock is listed in the NASDAQ Capital Market under the symbol "SFBC."

Forward-looking Statements

This Form 10-Q contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including statements regarding the strength of the company's capital and asset quality. Such statements may be identified by words such as "believes," "will," "expects," "project," "may," "could," "developments," "strategic," "launching," "opportunities," "anticipates," "estimates," "intends," "plans," "targets" and similar expressions. These statements are based upon the current beliefs and expectations of management and are subject to significant risks and uncertainties. Actual results may differ materially from those set forth in the forward-looking statements as a result of numerous factors.

The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in our forward-looking statements:

(1) enactment of adverse government regulation;
(2) competitive pressures among depository and other financial institutions may increase significantly and have an effect on pricing, spending, third-party relationships and revenues;
(3) the strength of the United States economy in general and specifically the strength of the New England economies may be different than expected, resulting in, among other things, a deterioration in overall credit quality and borrowers' ability to service and repay loans, or a reduced demand for credit, including the resultant effect on the our loan portfolio, levels of charge-offs and non-performing loans and allowance for loan losses;
(4) changes in the interest rate environment may reduce interest margins and adversely impact net interest income; and
(5) changes in assumptions used in making such forward-looking statements.

Should one or more of these risks materialize or should underlying beliefs or assumptions prove incorrect, actual results could differ materially from those discussed.

All subsequent written and oral forward-looking statements attributable to Slade's Ferry Bancorp. or any person acting on its behalf are expressly qualified in their entirety by the cautionary statements set forth above. Slade's Ferry Bancorp. does not intend or undertake any obligation to update any forward-looking statement to reflect circumstances or events that occur after the date the forward-looking statements are made.

As used throughout this report, the terms "we," "our," "us," or the "Company" refer to Slade's Ferry Bancorp. and its consolidated subsidiary, unless context otherwise requires.

Critical Accounting Policies

Our significant accounting policies are incorporated by reference to Note 1 to our Consolidated Financial Statements filed within Form 10-K for the year ended December 31, 2006. In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and other-than-temporary impairment 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 earnings. Loan losses 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.

The allowance for loan losses is evaluated on a regular basis by management and is based upon 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.

Other than temporary impairment. In estimating other-than-temporary-impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Comparison of Financial Condition at June 30, 2007 and December 31, 2006

General

Total assets increased from $607.8 million at December 31, 2006 to $628.3 million at June 30, 2007. Total net loans increased by $7.4 million, from $422.4 million to $429.8 million. Deposits increased from $424.0 million at December 31, 2006 to $425.6 million at June 30, 2007.

Cash and Cash Equivalents

Cash and cash equivalents increased by $17.4 million, from $22.4 million at December 31, 2006 to $39.8 million at June 30, 2007. The increase is due to increased federal funds sold, which management intends to be used to fund loan growth and maturing certificates of deposit.

Investment Portfolio

The main objectives of our investment portfolio are to achieve a competitive rate of return over a reasonable time period and to provide liquidity.

Our total investment portfolio decreased from $137.1 million at December 31, 2006 to $131.3 million at June 30, 2007, a decrease of $5.8 million, or 4.2%. The decrease is the result of the maturity, calls and paydowns of certain state and municipal obligations and mortgage-backed securities. Those funds were used to provide liquidity for current loan growth. The current investment strategy is to reduce the investment portfolio through normal paydowns and maturities and reinvest these funds into higher yielding loans. Our investment policy

also permits investments in mortgage-backed securities, usually having a longer weighted average life. Our investment policy, however, limits the duration of the aggregate investment portfolio to 5 years. At June 30, 2007, the portfolio duration was 3.5 years. We do not purchase investments with imbedded derivative characteristics, or free-standing derivative instruments such as swaps, options, or futures.

Securities Held to Maturity

The held-to-maturity portfolio consists of mortgage-backed securities and securities issued by states and municipalities. Held-to-maturity securities decreased from $24.6 million at December 31, 2006 to $21.8 million at June 30, 2007. Management has designated the mortgage-backed securities to secure advances from the FHLB. We have the positive intent and ability to hold these securities to maturity.

The following table shows the amortized cost basis and fair value of securities held to maturity at June 30, 2007 and December 31, 2006.

	June 30, 2007		December 31, 2006	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
State and municipal obligations	$ 4,229	$ 4,266	$ 5,001	$ 5,069
Mortgage-backed securities	17,552	16,794	19,622	19,150
Total securities held to maturity	$21,781	$21,060	$24,623	$24,219

Securities Available for Sale

Securities not designated as held-to-maturity are designated as available for sale. Although we do not anticipate the sale of these securities, the designation as available for sale allows us the flexibility to alter our investment strategies and sell these securities when conditions warrant. Additionally, marketable equity securities that have no maturity date must be designated as available-for-sale. These securities are carried at fair value. The available-for-sale securities portfolio includes obligations and mortgage-backed securities of government-sponsored enterprises, corporate debt and equity securities.

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The following table shows the amortized cost basis and fair value of securities available for sale at June 30, 2007 and December 31, 2006.

	June 30, 2007		December 31, 2006	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
Debt Securities:				
Government-sponsored enterprises	$ 29,474	$ 29,136	$ 34,462	$ 33,957
Corporate	9,174	9,079	9,221	9,080
Mortgage-backed	59,730	59,247	57,946	57,980
Total debt securities	98,378	97,462	101,629	101,017
Marketable equity securities	3,309	3,587	3,139	3,389
Mutual funds	1,215	1,178	1,215	1,197
Total securities available for sale	$102,902	$102,227	$105,983	$105,603

Loans

Our loan portfolio consists primarily of residential, multi-family and commercial real estate, construction and land development, commercial, and consumer loans and home equity lines of credit originated primarily in our market area. There are no foreign loans outstanding. Interest rates charged on loans are affected principally by the demand for such loans, the supply of money available for lending purposes and the rates offered by our competitors. Total net loans were 68.4% of total assets at June 30, 2007, as compared to 69.5% of total assets at December 31, 2006.

Multi-Family and Commercial Real Estate Lending

We originate multi-family and commercial real estate loans that are generally secured by five or more unit apartment buildings and properties used for business purposes such as small office buildings, restaurants or retail facilities. These loans generally involve larger principal amounts and a greater degree of risk than one-to-four family residential mortgage loans. Because payments on loans secured by multi-family and commercial real estate properties are often dependent on successful operation or management of the properties, repayment of such loans may be subject to adverse conditions in the real estate market or the economy. We seek to minimize these risks through our underwriting standards.

Multi-family and commercial real estate loans totaled $208.3 million and comprised 48.0% of total gross loans at June 30, 2007. At December 31, 2006, the multi-family and commercial real estate loan portfolio totaled $209.2

million, or 49.0% of total gross loans.

Residential Lending

We currently offer fixed-rate, one-to-four family mortgage loans with terms from 10 to 30 years and a number of adjustable-rate mortgage loans with terms of up to 30 years and interest rates which adjust every one or three years from the outset of the loan.

We generally underwrite our residential real estate loans to comply with secondary market standards established by the Federal National Mortgage Association. Although loans are underwritten to standards that make them readily salable, we have not chosen to sell these loans, rather to maintain them in portfolio, consistent with our income and interest rate risk management targets.

Residential real estate loans totaled $133.0 million and comprised of 30.6% of total gross loans at June 30, 2007. At December 31, 2006, residential real estate loans totaled $132.4 million, or 31.0% of total gross loans.

Commercial Loans

The commercial loan portfolio consists of loans and lines predominantly collateralized by inventory, furniture and fixtures, and accounts receivable. In assessing the collateral for this type of loan, we apply a 50% liquidation value to inventories; 25% to furniture, fixtures and equipment; and 70% to accounts receivable less than 90 days of invoice date.

Commercial loans totaled $48.2 million and comprised 11.1% of total gross loans at June 30, 2007. At December 31, 2006, the commercial loan portfolio totaled $47.7 million, or 11.2% of total gross loans.

Construction Lending

Fixed-rate construction loans are originated for the development of one-to-four family residential properties. Although we do not generally make loans secured by raw land, our policies permit the origination of such loans. Construction loan proceeds are disbursed periodically in increments as construction progresses and as inspections by an independent construction specialist warrant.

In addition, the Company has commercial construction loans that consist primarily of owner occupied commercial real estate, new and rehabilitation multi-family residential, assisted living and nursing home facilities. Construction loans totaled $27.9 million and comprised 6.4% of total gross loans at June 30, 2007. At December 31, 2006, the construction loan portfolio totaled $21.0 million or 4.9% of total gross loans. The increase is due to several new loans and an advance in the commercial construction category. As of December 31, 2006, residential construction loans were $3.9 million, while commercial construction loans were $17.1 million. As of June 30, 2007, residential construction loans were $3.2 million, while commercial construction loans were $24.7 million.

Home Equity Lines of Credit

Home equity lines of credit are secured by second mortgages on owner-occupied, one-to-four family residences located in our primary market area. Our home equity lines of credit generally have interest rates, indexed to the Wall Street Journal Prime Rate, that adjust on a monthly basis.

Home equity lines of credit totaled $14.2 million and comprised 3.3% of total gross loans at June 30, 2007. At December 31, 2006, the home equity line of credit portfolio totaled $13.9 million, or 3.3% of total gross loans.

Consumer Lending

Consumer loans secured by rapidly depreciable assets such as recreational vehicles and automobiles entail greater risks than one-to-four family, residential mortgage loans. Consumer loans are typically made based on the borrower's ability to repay the loan through continued financial stability. We endeavor to minimize risk by reviewing the borrower's repayment history on past debts, and assessing the borrower's ability to meet existing obligations on the proposed loan. Consumer loans are both secured and unsecured borrowings.

Consumer loans totaled $2.7 million at June 30, 2007 and $2.8 million at December 31, 2006 or 0.6% of total gross loans at both dates.

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The following table summarizes our loan portfolio by category at June 30, 2007 and December 31, 2006.

	June 30, 2007	December 31, 2006	Percentage Increase/(Decrease)
	(Dollars in thousands)		
Real estate mortgage loans:			
Multi-Family and Commercial	$208,278	$209,172	-0.43%
Residential	132,955	132,381	0.43%
Construction	27,894	20,988	32.90%
Home equity lines of credit	14,186	13,917	1.93%
Commercial	48,222	47,736	1.02%
Consumer	2,723	2,766	-1.55%
Total loans	434,258	426,960	1.71%
Less: Allowance for loan losses	(4,296)	(4,385)	-2.03%
Net deferred loan fees	(189)	(205)	-7.80%
Loans, net	$429,773	$422,370	1.75%

The increases in the loan portfolio are the result of increased demand for construction loans.

The following table presents information with respect to non-performing loans as of the dates indicated.

	June 30, 2007	December 31, 200
	(Dollars in thousands)	
Non-accrual loans	$1,699	$600
Loans 90 days or more past due and still accruing	1	-

Total non-performing loans	$1,700	$600
Percentage of non-accrual loans to total gross loans	0.39%	0.14%
Percentage of allowance for loan losses to non-accrual loans	252.7%	730.8%

The $1.7 million in non-accrual loans as of June 30, 2007 consists of $1.1 million of commercial real estate loans, $463,000 of residential real estate loans, and $157,000 of consumer loans. The increase in non-accrual loans is due primarily to one commercial loan with an outstanding balance of $1,000,000, which management reviewed and determined not to be impaired as of June 30, 2007. There were no restructured loans included in non-accrual loans at June 30, 2007.

It is our policy to manage our loan portfolio in order to recognize problem loans at an early stage and thereby minimize loan losses. Loans are considered delinquent when any payment of principal or interest is one month or more past due. We generally commence collection procedures when accounts are 15 days past due. Generally, when a loan becomes past due 90 days or more, management discontinues the accrual of interest and reverses previously accrued interest, unless the credit is well-secured and in the process of collection. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. When a loan is determined to be uncollectible, it is charged to the allowance for loan losses or, if applicable, any real estate that is securing the loan is acquired through foreclosure, and recorded as other real estate owned at the lower of cost or net realizable value.

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Management defines non-performing loans to include non-accrual loans, loans past due 90 days or more and still accruing, and restructured loans not performing in accordance with amended terms.

At June 30, 2007, there were $444,000 of loans which we have determined to be impaired, with no related allowance for loan losses. These loans are 90 days past due, and were, therefore, not accruing at June 30, 2007. These loans were individually evaluated for impairment. No specific allowance for loan losses was allocated to these loans based on the impairment analysis.

Analysis of Allowance for Loan Losses

The table below illustrates the changes in the allowance for loan losses for the periods indicated.

	Six Months Ended June 30,	
	2007	2006
	(Dollars in thousands)	
Balance at beginning of period	$4,385	$4,333
Charge-offs:		
Real estate mortgage loans:		
Multi-family and commercial	-	-
Residential	(25)	-
Home equity lines of credit	-	-

Commercial	-	-
Consumer	-	(6)
	(25)	(6)
Recoveries:		
Real estate mortgage loans:		
Multi-family and commercial	3	-
Residential	-	-
Home equity lines of credit	-	-
Commercial	-	-
Consumer	-	-
	3	-
Net loan charge-offs	(22)	(6)
Provision for loan losses	-	39
Transfer of off-balance sheet credit exposures to other liabilities	(67)	-
Balance at end of period	$4,296	$4,366
Allowance for loan losses as a percent of loans	0.99%	1.02%
Ratio of net loan charge-offs to average loans outstanding	(0.01)%	0.00%

The allowance for loan losses is evaluated on a regular basis by management and is based upon 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.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as impaired. For such loans, 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 is 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 Company maintains a reserve for potential credit risk related to off balance sheet lines of credit. The Company monitors changes to outstanding lines and adjusts the reserve when appropriate. Prior to December 31, 2006, the reserve was included as a component of the allowance. Effective January 1, 2007, the amount is included as "Other Liabilities" in accordance with generally accepted accounting principles and Financial Institution Letter (FIL) 105-2006, which was issued in December 2006. No reserve adjustment was recorded for the quarter ending June 30, 2007.

As the composition of the loan portfolio changes and diversifies, a different allowance level may be required. After thorough review and analysis of the adequacy of the loan loss allowance, management determined no provision for losses was required for the three months ended June 30, 2007, unchanged from the three months ended June 30, 2006. The provision for the six months ended June 30, 2006 was $39,000, with no provision recorded for the six months ended June 30, 2007. In 2007, a review of the allowance for loan losses resulted in a reallocation of the allowance based on qualitative factor analysis, the introduction of commercial loan risk ratings in the analysis, and the transfer of the off-balance-sheet component of the allowance to other liabilities. The allowance for loan losses as a percentage of total loans outstanding declined from 1.03% at December 31, 2006 to .99% at June 30, 2007. This decrease can be attributed to an overall improvement in the credit quality of existing loans which results in a decrease in the degree of credit risk embedded in the loan portfolio.

This table below shows an allocation of the allowance for loan losses at the dates indicated.

	June 30, 2007		December 31, 2006	
	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans
	(Dollars in thousands)			
Commercial	$ 716	11.1%	$ 718	11.2%
Real estate construction	278	6.4%	260	4.9%
Real estate mortgage	3,133	81.9%	3,181	83.3%
Consumer	169	0.6%	226	0.6%
	$4,296	100.0%	$4,385	100.0%

Deposits

We solicit deposits from our primary market area using rates and services designed to appeal to customers across a broad spectrum of ages and income levels. We compete for deposit customers with community banks and credit unions, as well as local branches of regional and national banks. Our total deposits increased from $424.0 million at December 31, 2006 to $425.6 million at June 30, 2007, an increase of $1.6 million. The Company obtained brokered certificates of deposit during the quarter to offset a decline in our lower cost deposit products. Customers have shown a preference for higher rate money market products compared to lower rate savings and certificates of deposits. As a result, outstanding brokered certificates of deposit totaled $23.3 million as of June 30, 2007.

The following table presents deposits by category at June 30, 2007 and December 31, 2006.

	June 30, 2007	December 31, 2006	Percenta Increase/(Dec
	(Dollars in thousands)		
Demand deposits	$ 73,715	$ 79,101	-6.81%
NOW	53,547	55,071	-2.77%
Regular and other savings	69,340	77,189	-10.17%
Money market deposits	38,478	24,021	60.18%
Total non-certificate accounts	235,080	235,382	-0.13%
Term certificates of $100,000 or greater	63,271	66,894	-5.42%
Term certificates less than $100,000	103,980	121,730	-14.58%
Brokered term certificates	23,317	-	-
Total certificate accounts	190,568	188,624	1.03%
Total deposits	$425,648	$424,006	0.39%

Long Term Borrowings

Long-term borrowings consist of advances from the Federal Home Loan Bank which totaled $137.9 million at June 30, 2007, as compared to $119.1 million at December 31, 2006, an increase of $18.8 million or 15.8%. Management's strategy is to utilize advances from the Federal Home Loan Bank and brokered certificates of deposit, in conjunction with investment portfolio maturities and repayments, to fund loan growth and deposit runoff.

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Comparison of Results of Operations for the Three Months Ended June 30, 2007 and 2006

General

Net income increased from $626,000, or $0.15 per share on a diluted basis, for the three months ended June 30, 2006 to $792,000, or $0.20 per share on a diluted basis, for the three months ended June 30, 2007, an increase of 26.5%. Net interest and dividend income decreased by $22,000, or 1%, to $4.4 million when comparing the three months ended June 30, 2006 and 2007. No provision for loan losses was recorded for the three months ended June 30, 2007 or 2006. Non-interest income increased by $270,000 or 49.5% from $546,000 to $816,000 for the three months ended June 30, 2006 and 2007, respectively. Non-interest expense increased by $38,000, or 1%, to $4.0 million for the three months ended June 30, 2007.

Interest Income

Our operating performance is dependent on net interest and dividend income, the difference between interest and dividend income we earn on loans and investments and interest expense we pay on deposits and borrowed funds. The level of net interest income and dividend income is significantly impacted by factors such as economic conditions, interest rates, asset/liability management, and strategic planning.

Interest and dividend income increased by $909,000 or 11.3%, from $8.0 million for the three months ended June 30, 2006 to $8.9 million for the three months ended June 30, 2007. This increase is principally attributed to growth in the loan portfolio, as the average balance of loans increased by $12.9 million or 3.1%, as well as a higher yield on the loan portfolio which increased from 6.34% for the three months ended June 30, 2006 to 6.58% for the three months ended June 30, 2007. Also, interest and dividends on investments increased by $437,000 for the three months ended June 30, 2007 compared to the three months ended June 30, 2006, respectively. The increase in interest and dividends on investments and Federal Funds sold reflected a higher yield on the components of the investment portfolio combined with an increase in the average balance of the portfolio for the three months ended June 30, 2007 compared to the same period in 2006. The Company also received a FHLB dividend of $115,000 in the second quarter of 2007, while no dividend was received in the second quarter of 2006.

Interest Expense

Total interest expense increased by $931,000 or 25.6%, from $3.6 million for the three months ended June 30, 2006 to $4.6 million for the three months ended June 30, 2007. The increase is primarily due to the migration of deposits to higher cost certificates of deposit when comparing average balances at June 30, 2006 and 2007, combined with management's strategy to utilize FHLB advances and brokered certificates of deposit to supplement deposit runoff experienced in 2007. Market interest rates and our own deposit rates have also increased. Interest on deposits increased by $446,000 or 19.8% when comparing the three months ended June 30, 2007 and 2006. As a result of the rate increases, the weighted average cost of deposits increased from 2.65% for the three months ended June 30, 2006 to 3.16% for the three months ended June 30, 2007.

Net Interest Margin

As a result of the current interest rate environment and our rate increases on deposit accounts, the net interest margin has compressed 19 basis points from 3.22% for the three months ended June 30, 2006 to 3.03% for the three months ended June 30, 2007. The compression in net interest margin was mostly due to balance sheet growth in an environment with an inverted yield curve and the corresponding compressed margins on loans and investments, combined with intense competition for deposits and increased wholesale funding costs.

The following table sets forth our average assets, liabilities, and stockholders' equity, interes
average rates earned and paid, net interest spread and the net interest margin for the three mont
2006. Average balances reported are daily averages.

	Three Months Ended June 30			
	2007			
	Average	Interest	Average	Average

	Balance	Income/Expense	Rate	Balance
Assets:			(Dollars in thousands)	
Interest earning assets (1)				
Loans:				
Commercial	$ 51,517	$ 1,095	8.53%	$ 46,111
Commercial real estate	231,534	3,866	6.70%	228,558
Residential real estate	150,110	2,150	5.74%	145,725
Consumer	2,741	41	6.00%	2,565
Total loans	435,902	7,152	6.58%	422,959
Federal funds sold	13,259	179	5.40%	4,387
Taxable debt securities	115,220	1,399	4.87%	108,068
Tax-exempt debt securities (2)	4,230	71	6.71%	6,099
Marketable equity securities	4,589	35	3.06%	4,344
FHLB stock	7,254	115	6.36%	6,304
Other investments	650	15	9.23%	650
Total interest earning assets	581,104	8,966	6.19%	552,811
Allowance for loan losses	(4,306)			(4,373)
Deferred loan fees	(189)			(310)
Cash and due from banks	15,663			13,932
Other assets	25,046			26,432
	$617,318			$588,492
Liabilities and Stockholders'Equity:				
Interest bearing liabilities				
Savings accounts	$ 70,725	$ 233	1.32%	$ 82,199
NOW accounts	53,597	180	1.35%	57,648
Money market accounts	31,195	226	2.91%	25,709
Time deposits	186,721	2,063	4.43%	175,539
FHLB advances	137,887	1,650	4.80%	110,802
Subordinated debt	10,310	214	8.29%	10,310
Total interest bearing liabilities	490,435	4,566	3.73%	462,207
Demand deposits	74,108			73,494
Other liabilities	2,353			707
Total liabilities	566,896			536,408
Total stockholders' equity	50,422			52,084
	$617,318			$588,492
Net interest income		$ 4,400		
Net interest spread			2.45%	
Net interest margin			3.03%	

(1) Average balance includes non-accruing loans. The effect of including such loans, although n
average rate earned on the Company's loans.

(2) On a fully taxable basis based on a tax rate of 35.0% for 2007 and 2006. Interest income on
income includes a fully taxable equivalent adjustment of $25,000 in 2007 and $37,000 in 200

The following table presents the changes in components of net interest income for the three months ended June 30, 2007 and 2006, which are the result of changes in interest rates and the changes that the result of changes in volume of the underlying asset or liability. Changes that are attributable to the changes in both rate and volume have been allocated equally to rate and volume.

	Three Months Ended June 30, 2007 vs. 2006 Increase (Decrease)		
	Total Change	Due to Volume	Due to Rate
	(In thousands)		
Commercial loans	$ 210	$ 109	$ 101
Commercial real estate	156	49	107
Residential real estate	99	62	37
Consumer loans	2	3	(1)
Federal funds sold	126	114	12
Taxable debt securities	217	83	134
Tax-exempt debt securities	(31)	(31)	-
Marketable equity securities	-	2	(2)
FHLB Stock	115	8	107
Other investments	5	-	5
Total interest income	899	399	500
Savings accounts	(39)	(38)	(1)
NOW accounts	(8)	(13)	5
Money market accounts	77	36	41
Time deposits	416	114	302
FHLB advances	441	310	131
Subordinated debt	44	-	44
Total interest expense	931	409	522
Net interest income	$ (32)	$ (10)	$ (22)

Provision for Loan Losses

The allowance for loan losses is evaluated on a regular basis by management and is based upon 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. In 2007, a review of the allowance for loan losses resulted in a reallocation of the allowance based on qualitative factor analysis, the introduction of commercial loan risk ratings in the analysis, and the transfer of the off-balance-sheet component of the allowance to other liabilities. Management concluded that no provision for loan losses was required for the three months ended June 30, 2007. No provision for loan losses was recorded for the three months ended June 30, 2006.

Non-Interest Income

Non-interest income increased from $546,000 for the three months ended June 30, 2006 to $816,000 for the three months ended June 30, 2007, an increase of $270,000 or 49.5%. The gain on the sale of available-for-sale securities changed from a loss of $172,000 for the three months ended June 30, 2006 to a gain of $78,000 for the three months ended June 30, 2007, an increase of $250,000. In 2007, after reviewing the investment market and the investment portfolio, management determined that the sale of certain securities to realize market appreciation was appropriate. In June 2006, the Company restructured the investment portfolio by selling $14.5 million of low-yielding obligations of government sponsored enterprises, resulting in realized losses of $176,000. Other income increased from $260,000 for the three months ended June 30, 2006 to $271,000 for the three months ended June 30, 2007, an increase of 3.8%, due to growth in ATM and debit card income.

Non-Interest Expense

Non-interest expense increased by $38,000 to $4.0 million for the three months ended June 30, 2007 compared to the three months ended June 30, 2006, an increase of 1%. Salaries and employee benefits decreased by $271,000 or 11.8%, from $2.3 million for the three months ended June 30, 2006 to $2.0 million for the three months ended June 30, 2007. The decrease in salaries and benefits was primarily attributable to staff reductions and a reduction in pension expense on a comparable three month basis. Staff reductions resulted primarily from outsourcing the Company's core item processing, back office proof operations and internal audit in 2006. Pension expense decreased due to $133,000 of expense for settlement accounting recognized on the Bank's defined benefit pension plan in 2006. See Note E to the consolidated financial statements included herein for stock-based compensation awards that will increase compensation expense in periods subsequent to June 30, 2007. Also see Part II, Item 5-Other Information, for new defined contribution supplemental executive retirement plans that will increase benefits expense in periods subsequent to June 30, 2007. Professional fees decreased $71,000 as a result of the non-recurrence of various accounting and regulatory matters that occurred during the three months ended June 30, 2006. Marketing expense increased $163,000 to $272,000 for the three months ended June 30, 2007 from $109,000 for the three months ended June 30, 2006. This increase is attributable to expenses related to the Bank's rebranding initiative and the launch of a new deposit product during the quarter ended June 30, 2007. Data processing expenses increased $158,000 from $118,000 for the three months ended June 30, 2006 to $276,000 for the three months ended June 30, 2007. The increase was primarily due to expenses associated with outsourced core processing, item processing and statement rendering functions that were done in-house during the same period of 2006. Other expenses increased $43,000 or 7.7% from $560,000 for the three months ended June 30, 2006 to $603,000 for the three months ended June 30, 2007, due to.general cost increases for these items.

Provision for Income Taxes

Income before income taxes was $989,000 for the three months ended June 30, 2006 as compared to $1.2 million for the three months ended June 30, 2007. The provision for income taxes totaled $407,000 and $363,000 for the quarters ended June 30, 2007 and 2006, respectively, representing effective tax rates of 34.0% and 36.7%, respectively. The lower effective tax rate is due primarily to an increase in investment income at the Company's securities corporations, which receive favorable state tax rates.

Comparison of Results of Operations for the Six Months Ended June 30, 2007 and 2006

General

Net income increased from $1.5 million, or $0.37 per share on a diluted basis, for the six months ended June 30, 2006 to $1.7 million, or $0.41 per share on a diluted basis, for the six months ended June 30, 2007, an increase of 8.6%. Net interest and dividend income decreased by $406,000, or 4.5%, to $8.6 million when comparing the six months ended June 30, 2006 and 2007. No provision for loan losses was recorded for the six months ended June 30, 2007 while $39,000 was recorded for the same six month period in 2006. Non-interest income increased by $293,000 or 23.5% from $1.2 million to $1.5 million for the six months ended June 30, 2006 and 2007, respectively. Non-interest expense decreased by $156,000, or 2.0%, to $7.55 million for the six months ended June 30, 2007, from $7.7 million for the six months ended June 30, 2006.

Interest Income

Our operating performance is dependent on net interest and dividend income, the difference between interest and dividend income we earn on loans and investments and interest expense we pay on deposits and borrowed funds. The level of net interest income and dividend income is significantly impacted by factors such as economic conditions, interest rates, asset/liability management, and strategic planning.

Interest and dividend income increased by $1.7 million or 10.4%, from $15.9 million for the six months ended June 30, 2006 to $17.5 million for the six months ended June 30, 2007. This increase is principally attributed to both growth in the loan portfolio, as the average balance of loans increased by $13.5 million or 3.2%, as well as a higher yield on the loan portfolio which increased from 6.30% for the six months ended June 30, 2006 to 6.55% for the six months ended June 30, 2007. These increases were related principally to commercial and total real estate loans reflecting current market conditions. Also, interest and dividends on investments and Federal Funds sold increased by $692,000 for the six months ended June 30, 2007 compared to the six months ended June 30, 2006. The increase in interest and dividends on investments reflected a higher yield on the components of the investment portfolio combined with an increase in the average balance of the portfolio for the six months ended June 30, 2007 compared to the same period in 2006. In addition, dividends received from the FHLB increased by $149,000 for the six months ended June 30, 2007 compared to the same period in 2006.

Interest Expense

Total interest expense increased by $2.1 million or 29.7%, from $6.9 million for the six months ended June 30, 2006 to $9.0 million for the six months ended June 30, 2007. The increase is due to both increased deposit and borrowing levels and higher interest rates. Management's strategy is to utilize FHLB advances and brokered certificates of deposit to supplement deposit runoff experienced in 2007. Market interest rates and our own deposit rates have also increased. Interest on deposits increased by $1.2 million or 29.4% when comparing the six months ended June 30, 2007 and 2006. As a result of the rate increases, the weighted average cost of deposits increased from 2.29% for the six months ended June 30, 2006 to 3.15% for the six months ended June 30, 2007.

Net Interest Margin

As a result of the current interest rate environment and our rate increases on deposit accounts, the net interest margin has compressed 30 basis points from 3.31% for the six months ended June 30, 2006 to 3.0% at June 30, 2007. The compression in net interest margin was mostly due to balance sheet growth in an environment with an inverted yield curve and the corresponding compressed margins on loans and investments, combined with intense competition for deposits and increased wholesale funding costs.

The following table sets forth our average assets, liabilities, and stockholders' equity, interes average rates earned and paid, net interest spread and the net interest margin for the six months 2006. Average balances reported are daily averages.

	Six Months Ended June 30,			
	2007			
	Average Balance	Interest Income/Expense	Average Rate	Average Balance
Assets:			(Dollars in thousands)	
Interest earning assets (1)				
Loans:				
Commercial	$ 52,326	$ 2,135	8.23%	$ 44,416
Commercial real estate	228,512	7,572	6.68%	228,745
Residential real estate	149,954	4,285	5.76%	144,352
Consumer	2,737	82	6.04%	2,557
Total loans	433,529	14,074	6.55%	420,070
Federal funds sold	8,066	215	5.38%	2,738
Taxable debt securities	117,065	2,829	4.87%	109,752
Tax-exempt debt securities (2)	4,401	146	6.70%	6,260
Marketable equity securities	5,381	70	2.62%	4,355
FHLB stock	7,074	231	6.59%	6,304
Other investments	650	25	7.76%	650
Total interest earning assets	576,166	17,590	6.16%	550,129
Allowance for loan losses	(4,345)			(4,358)
Deferred loan fees	(202)			(330)
Cash and due from banks	15,475			12,951
Other assets	23,903			26,229
	$610,997			$584,621

Liabilities and Stockholders' Equity:

Interest bearing liabilities				
Savings accounts	$ 72,742	$ 497	1.38%	$ 83,637
NOW accounts	53,800	359	1.35%	56,715
Money market accounts	27,892	373	2.70%	26,898
Time deposits	187,439	4,162	4.48%	169,791
FHLB advances	133,142	3,169	4.80%	110,998
Subordinated debt	10,310	425	8.31%	10,310
Total interest bearing liabilities	485,325	8,985	3.73%	458,349
Demand deposits	73,651			73,868
Other liabilities	1,939			842
Total liabilities	560,915			533,059
Total stockholders' equity	50,082			51,562
	$610,997			$584,621
Net interest income		$ 8,605		
Net interest spread			2.43%	
Net interest margin			3.01%	

(1) Average balance includes non-accruing loans. The effect of including such loans, although n
average rate earned on the Company's loans.

(2) On a fully taxable basis based on a tax rate of 35.0% for 2007 and 2006. Interest income on
income includes a fully taxable equivalent adjustment of $51,000 in 2007 and $74,000 in 200

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The following table presents the changes in components of net interest income for the six months ended June 30, 2007 and 2006, which are the result of changes in interest rates and the changes that the result of changes in volume of the underlying asset or liability. Changes that are attributable to the changes in both rate and volume have been allocated equally to rate and volume.

	Six Months Ended June 30, 2007 vs. 2006 Increase (Decrease)		
	Total Change	Due to Volume	Due to Rate
	(In thousands)		
Commercial loans	$ 477	$ 309	$ 168
Commercial real estate	253	(9)	262
Residential real estate	219	159	60
Consumer loans	5	5	-
Federal funds sold	151	133	18
Taxable debt securities	435	168	267
Tax-exempt debt securities	(62)	(62)	-
Marketable equity securities	(4)	15	(19)
FHLB Stock	149	18	131
Other investments	7	-	7
Total interest income	1,630	736	894

Savings accounts	(32)	(71)	39
NOW accounts	(2)	(19)	17
Money market accounts	115	11	104
Time deposits	1,143	355	788
FHLB advances	804	501	303
Subordinated debt	31	-	31
Total interest expense	2,059	777	1,282
Net interest income	$ (429)	$ (41)	$ (388)

Provision for Loan Losses

The allowance for loan losses is evaluated on a regular basis by management and is based upon 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. In 2007, a review of the allowance for loan losses resulted in a reallocation of the allowance based on qualitative factor analysis, the introduction of commercial loan risk ratings in the analysis, and the transfer of the off-balance-sheet component of the allowance to other liabilities. Management concluded that no provision for loan losses was required for the six months ended June 30, 2007. A provision for loan losses of $39,000 was recorded for the six months ended June 30, 2006.

Non-Interest Income

Non-interest income increased from $1.3 million for the six months ended June 30, 2006 to $1.5 million for the six months ended June 30, 2007, an increase of $293,000 or 23.5%. The increase was mainly due to the gain on the sale of available-for-sale securities which changed from a loss of $169,000 for the six months

ended June 30, 2006 to a gain of $139,000 for the six months ended June 30, 2007, an increase of $308,000. In 2007, after reviewing the investment market and the investment portfolio, management determined that the sale of certain securities to realize market appreciation was appropriate. In 2006, the Company restructured the investment portfolio by selling $14.5 million of low-yielding obligations of government sponsored enterprises, resulting in realized losses of $176,000. Additionally, service charges on deposit accounts increased by $22,000 from $659,000 for the six months ended June 30, 2006 to $681,000 for the six months ended June 30, 2007. Other income decreased $44,000, or 8.1%, from $546,000 for the six months ended June 30, 2006 to $502,000 for the six months ended June 30, 2007. This was the result of decreased volumes of sales of non-deposit investment products combined with a changed sales environment. The Company formerly recorded gross income on sales whereas in 2007 the function has been outsourced, and the Company now records income net of commissions and other expenses.

Non-Interest Expense

Non-interest expense decreased from $7.7 million for the six months ended June 30, 2006 to $7.5 million for the six months ended June 30, 2007, a decrease of $156,000 or 2.0%. Salaries and employee benefits decreased by $385,000 or 8.8%, from $4.4 million for the six months ended June 30, 2006 to $4.0 million for the six months ended June 30, 2007. The decrease in salaries and benefits was primarily attributable staff reductions and a reduction in pension expense on a comparable six month basis. Staff reductions resulted primarily from outsourcing the Company's core item processing, back office proof operations and internal audit in 2006. Pension expense decreased due to $133,000 of expense for settlement accounting recognized on the Bank's defined benefit pension plan in 2006. See Note E to the consolidated financial statements included herein for stock-based compensation awards that will increase compensation expense in periods subsequent to June 30, 2007. Also see Part II, Item 5-Other Information, for new defined contribution supplemental executive retirement plans that will increase benefits expense in periods subsequent to June 30, 2007. Professional fees decreased $208,000 as a result of the non-recurrence of various accounting and regulatory matters that occurred during the six months ended June 30, 2006. Marketing expense increased $141,000 to $328,000 for the six months ended June 30, 2007 from $187,000 for the six months ended June 30, 2006. This increase is attributable to expenses related to the Bank's rebranding initiative and the launch of a new deposit product during the period ended June 30, 2007. Data processing expenses increased $374,000 from $199,000 for the six months ended June 30, 2006 to $573,000 for the six months ended June 30, 2007. The increase was primarily due to expenses associated with outsourced core processing, item processing and statement rendering functions that were done in-house during the same period of 2006. Other expenses decreased $93,000 or 8.2% from $ 1.1 million for the six months ended June 30, 2006 to $1 million for the six months ended June 30, 2007, due primarily to reduced Board committee meeting expense.

Provision for Income Taxes

Income before income taxes was $2.6 million for the six months ended June 30, 2007 as compared to $2.5 million for the six months ended June 30, 2006. The provision for income taxes totaled $885,000 and $935,000 for the six months ended June 30, 2007 and 2006, respectively, representing effective tax rates of 34.7% and 37.9%, respectively. The lower effective tax rate is primarily due to an increase in interest income at the Company's securities corporations, which receive favorable tax rates.

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Capital

At June 30, 2007, our total stockholders' equity was $50.8 million, a decrease of $482,000 from $51.2 million at December 31, 2006. Additions consisted primarily of net income of $1.7 million for the six months ended June 30, 2007. There were 15,665 shares of common stock issued at a value of $275,000, pursuant to regular reinvestment and optional cash contributions under our Dividend Reinvestment Program. Stock options exercised, resulted in the issuance of 18,000 shares at a value of $254,000, including a tax benefit of $19,000, and stock compensation expense of $91,000. Other comprehensive losses were $166,000, relating to market declines in the Company's securities available for sale. Reductions in capital related to dividends declared of $758,000, the repurchase of 94,956 shares of common stock under our stock repurchase program at a cost of $1.6 million, and the purchase of 12,723 shares of stock at a cost of $225,000 to be used to grant potential stock awards.

Under the requirements for Risk Based and Leverage Capital of the federal banking agencies, a minimum level of capital will vary among banks based on safety and soundness of operations. Risk Based Capital ratios are calculated with reference to risk-weighted assets, which include both on and off balance sheet exposure.

In addition to meeting the required levels, the Company's and the Bank's capital ratios meet the criteria of the well-capitalized category established by the federal banking agencies as of June 30, 2007 and at December 31, 2006. The Tier I Capital leverage ratio and Tier I Capital to risk weighted assets ratio for the Company are 9.65% and 13.01%, respectively, at June 30, 2007. The Company's Tier I Capital leverage ratio and Tier I Capital to risk weighted assets ratio at December 31, 2006 were 9.90% and 14.18%, respectively. The Tier I Capital leverage ratio and Tier I Capital to risk weighted assets ratio for the Bank are 8.01% and 10.75%, respectively, at June 30, 2007. The Bank's Tier I Capital leverage ratio and Tier I Capital to risk weighted assets ratio at December 31, 2006 were 8.78% and 12.60%, respectively.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

Liquidity

Our principal sources of funds are customer deposits, amortization and payoff of existing loan principal, and sales, amortization or maturities of various investment securities. The Bank is a voluntary member of the FHLB and as such, may take advantage of the FHLB's borrowing programs to enhance liquidity and leverage its favorable capital position. The Bank also may draw on lines of credit at the FHLB or the Federal Reserve Board, and enter into repurchase or reverse repurchase agreements with authorized brokers. These various sources of liquidity are used to fund withdrawals, new loans, and investments.

Management seeks to promote deposit growth while controlling cost of funds. Sales-oriented programs to attract new depositors and the cross-selling of various products to its existing customer base are currently in place. Management reviews, on an ongoing basis, possible new products, with particular attention to products and services, which will aid in retaining our base of lower-costing deposits.

Our investment securities portfolio provides us with liquidity. Our policy of purchasing shorter-term debt securities reduces market risk in the bond portfolio while providing significant cash flow. For the six months ended June 30, 2007, cash flow from maturities, calls and pay-downs of securities was $12.7 million, proceeds from sales of securities totaled $1 million, compared to maturities, calls and pay-downs of securities of $7.7 million, and proceeds from sales of securities of $15.1 million for the six months ended June 30, 2006.

Purchases of securities totaled $6.7 million and $6.4 million for the six months ended June 30, 2007 and June 30, 2006, respectively.

Amortization and pay-offs of the loan portfolio also provides us with significant liquidity. Traditionally, amortization and pay-offs are reinvested into loans. Excess liquidity is invested in federal funds sold and overnight investments at the FHLB.

We have also used borrowed funds as a source of liquidity. At June 30, 2007, the Bank's outstanding borrowings from the FHLB were $137.9 million. The Bank has the capacity to borrow an additional $4.0 million from the FHLB as of June 30, 2007. The Bank has the ability to increase this capacity with additional asset pledges. The Bank has obtained brokered certificates of deposits as an additional funding source during the quarter ending June 30, 2007, with an outstanding balance of $23.3 million at quarter end. These deposits mature over the next three months. While management will evaluate future brokered certificates of deposit, the bank expects that FHLB borrowings will remain the primary source of additional liquidity.

Loan originations for the six months ended June 30, 2007 totaled $54.0 million. Commitments to originate loans at June 30, 2007 were $26.5 million, excluding unadvanced construction funds totaling $12.9 million, unadvanced commercial lines of credit totaling $24.3 million and unadvanced home equity lines totaling $15.8 million. Management believes that adequate liquidity is available to fund loan commitments utilizing deposits, loan amortization, maturities of securities, or borrowings.

The increase in liquidity is due to the utilization of advances from the FHLB in conjunction with the investment portfolio maturities, calls and paydowns of certain state and municipal obligations and mortgage-backed securities that were used to provide liquidity for the current loan growth and deposit runoff.

ITEM 3

QUANTATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We consider interest rate risk to be a significant market risk as it could potentially have an effect on our financial condition and results of operation. The definition of interest rate risk is the exposure of our earnings to adverse movements in interest rates, arising from the differences in the timing of the repricing of assets and liabilities; the differences in the various pricing indices inherent in our assets and liabilities; and the effects of overt and embedded options in our assets and liabilities. Our Asset/Liability Committee, comprised of executive management, is responsible for managing and monitoring interest rate risk, and reviewing with the Board of Directors, at least quarterly, the interest rate risk positions, the impact changes in interest rates would have on net interest income, and the maintenance of interest rate risk exposure within approved guidelines.

The potentially volatile nature of market interest rates requires us to manage interest rate risk on an active and dynamic basis. Our objective is to reduce and control the volatility of net interest income to within tolerance levels established by the Board of Directors, by managing the relationship of interest-earning assets and interest-bearing liabilities. In order to manage this relationship, the Asset/Liability Committee utilizes an income simulation model to measure the net interest income at risk under differing interest rate scenarios. Additionally, the Committee uses an Economic Value of Equity ("EVE") analysis to measure the effects of changing interest rates on the market values of rate-sensitive assets and liabilities, taken as a whole. The Board of Directors and management believe that static measures of timing differences, such as "gap analysis", do not accurately assess the levels of interest rate risk inherent in our balance sheet. Gap analysis does not reflect the effects of overt and embedded options on net interest income, given a shift in interest rates; nor does it take into account basis risk, the risk arising from using various different indices on which to base pricing decisions.

The income simulation model currently utilizes a 200 basis point increase in interest rates and a 200 basis point decrease in rates. The interest rate movements used assume an instant and parallel change in interest rates and no implementation of any strategic plans are made in response to the change in rates. Prepayment speeds for loans are based on median dealer forecasts for each interest rate scenario.

The Board of Directors has established a risk limit of a 5.00% change in net interest income for each 100 basis point shift in market interest rates. The limit established by the Board provides an internal tolerance level to control interest rate risk. We were slightly outside our policy-mandated risk limit for net interest income at risk due to a management decision, with the Board of Directors concurrence, not to extend long-term funding in light of what we believe to be temporarily overpriced short and long term funding costs.

The following table reflects our estimated exposure as a percentage of net interest income and the change in basis points for the next twelve months, assuming an immediate change in interest rates set forth below:

Rate Change (Basis Points)	Estimated Exposure as a Percentage of Net Interest Income	Change (Basis Points)
+200	-10.79%	(19)
-200	5.60%	10

Additionally we use the model to estimate the effects of changes in interest rates on our EVE. EVE represents our theoretical market value, given the rate shocks applied in the model. The Board of Directors has established a risk limit for EVE which provides that the EVE will not fall below 6.00%, the FDIC's minimum capital level to be classified as "well capitalized". We are within our risk limit for EVE.

The following table presents the changes in EVE given rate shocks.

Rate Change (Basis Points)	Economic Value of Equity	Change from Flat Rates
Flat	13.38%	N/A
+200	12.03%	-1.35%
-200	13.83%	0.44%

ITEM 4

CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15 under the Securities Exchange Act of 1934, as of the end of the period covered by this report, the Company carried out an evaluation under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer of the effectiveness of the Company's disclosure controls and procedures. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of June 30, 2007 to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is (i) recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms and (ii) accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding disclosure. In connection with the rules regarding disclosure and control procedures, we intend to continue to review and document our disclosure controls and procedures, including our internal controls and procedures for financial reporting, and may from time to time make changes aimed at enhancing their effectiveness and to ensure that our systems evolve with our business.

(b) Changes in Internal Controls over Financial Reporting

There has been no change in the Company's internal controls over financial reporting identified in connection with the Company's evaluation of its disclosure controls and procedures that occurred during the Company's last fiscal quarter that have materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting.

PART II

OTHER INFORMATION

ITEM 1

LEGAL PROCEEDINGS

We are not involved in any pending legal proceedings that would have a material impact on our consolidated financial condition and results of operations.

ITEM 1A

RISK FACTORS

There have been no material changes to the risk factors that are included in our Annual Report on Form 10-K for the year ended December 31, 2006 that could affect our business, results of operations or financial condition.

ITEM 2

UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

This table provides certain information with respect to our purchase of our common stock during the quarter ended June 30, 2007.

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Ap Pu

April 1, 2007 through April 30, 2007	1,965	$17.22	1,965
May 1, 2007 through May 31, 2007	9,137	$16.71	9,137
June 1, 2007 through June 30, 2007	21,849	$16.21	21,849
Total	32,951	$16.41	32,951

(1) On July 18, 2006, the Company announced that its Board of Directors approved a repurchase p
the Company may repurchase up to 208,036 shares of its common stock.

ITEM 3

DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4

SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Annual Meeting of the Company's Shareholders was held on May 16, 2007 with the following matter being voted upon and with the indicated results:

Election of Directors for terms expiring in 2010

	Votes	
Nominee	For	Withheld
Paul C. Downey	2,797,848	299,837
Mary Lynn D. Lenz	2,774,543	323,142
Majed Mouded, MD	2,978,888	118,797
William J. Piccerelli, CPA, CVA	2,798,146	299,539
David F. Westgate	2,989,996	107,689

ITEM 5

OTHER INFORMATION

On August 9, 2007, the Company entered into letter agreements (the "Agreements") with Mary Lynn D. Lenz, President and Chief Executive Officer and Deborah A. McLaughlin, Executive Vice President and Chief Financial Officer/Chief Operations Officer (the "Executive Officers") that set forth the compensation programs to be implemented for the remainder of 2007 for the Executive Officers.

Pursuant to the Agreements, the Company and the Executive Officers will enter into new defined contribution supplemental executive retirement plans (the "New SERPs") which will be credited with (1) one-time "catch-up" contributions in 2007 in the amount of $250,000 for Ms. Lenz and $50,000 for Ms. McLaughlin; and (2) annual contributions at year-end for 2007 and each year thereafter in an amount equal to 20% of the Executive Officers' base salary for the relevant year. Such amounts will be fully vested at all times and will be placed in rabbi trusts for the benefit of the Executive Officers. The "catch-up" contributions will be charged to compensation expense upon the execution of the New SERPs, and the anticipated annual contributions will be recognized as compensation expense on a straight-line basis during each relevant year. In the third quarter, the Company will record the "catch-up" contributions and nine months of expense for 2007. In the event of a change of control of the Company, each Executive Officer will receive an additional contribution of 60% of the Executive Officer's then current base salary, in addition to amounts already accrued under the New SERPs.

ITEM 6

EXHIBITS

Exhibits: See exhibit index.

SIGNATURES

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

SLADE'S FERRY BANCORP.
(Registrant)

August 14, 2007	/s/ Mary Lynn D. Lenz
(Date)	Mary Lynn D. Lenz President Chief Executive Officer (Principal Executive Officer)
August 14, 2007	/s/ Deborah A. McLaughlin
(Date)	Deborah A. McLaughlin Executive Vice President Chief Financial Officer & Chief Operations Officer (Principal Financial and Accounting Officer)

EXHIBIT INDEX

Exhibit No.	Description
3.1	Amended and Restated Articles of Incorporation of Slade's Ferry Bancorp.
3.2	Amended and Restated Bylaws of Slade's Ferry Bancorp.
3.3	Articles of Amendment to the Amended and Restated Articles of Incorporation of Slade's Ferry Bancorp

10.1	Slade's Ferry Bancorp. 1996 Stock Option Plan, as amended
10.2	Amended and Restated Supplemental Executive Retirement Agreement between Slade's Ferry Bancorp. and Manuel J. Tavares
10.3	Supplemental Executive Retirement Agreement between Slade's Ferry Bancorp. and Mary Lynn D. Lenz
10.4	Employment Agreement between Slade's Ferry Bancorp. and Mary Lynn D. Lenz
10.5	Employment Agreement between Slade's Ferry Bancorp. and Deborah A. McLaughlin
10.6	Employment Agreement between Slade's Ferry Bancorp. and Manuel J. Tavares
10.7	Form Change of Control Agreement
10.8	Severance Pay Plan
10.9	Slade's Ferry Bancorp. 2004 Equity Incentive Plan
10.10	Form of Amendment to Directors' Supplemental Retirement Program for Non-Employee Directors
11.1	Statement Regarding Computation of Per Share Earnings
31.1	Rule 13a-14(a)/15d-14(a) Certification of the CEO
31.2	Rule 13a-14(a)/15d-14(a) Certification of the CFO
32.1	Section 1350 Certification of the CEO
32.2	Section 1350 Certification of the CFO

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(1) Incorporated by reference to the Registrant's Registration Statement on Form SB-2 filed wit Commission on April 14, 1997.
(2) Incorporated by reference to the Registrant's Form 8-K filed with the Commission on June 26
(3) Incorporated by reference to the Registrant's Form 8-K filed with the Commission on Decembe 2004.
(4) Incorporated by reference to the Registrant's Form 10-Q/A for the quarter ended June 30, 1999.
(5) Incorporated by reference to the Registrant's Form 8K filed with the Commission on July 18,
(6) Incorporated by reference to Exhibit 10.10 to the Registrant's Form 10-Q/A for the quarter March 31, 2003.
(7) Incorporated by reference to Exhibit 10.11 to the Registrant's Form 10-Q/A for the quarter June 30, 2004.
(8) Incorporated by reference to Exhibit 10.7 to the Registrant's Form 10-Q/A for the quarter e September 30, 2004.
(9) Incorporated by reference to Exhibit 10.8 to the Registrant's Form 10-Q/A for the quarter e September 30, 2004.
(10) Incorporated by reference to the Registrant's Form 8-K filed with the Commission on January 2005.
(11) Incorporated by reference to the Registrant's Form 8-K filed with the Commission on January 2005.
(12) Incorporated by reference to Appendix C to the Registrant's Proxy Statement filed on April
(13) Incorporated by reference to the Registrant's Form 8-K filed with the Commission on Decembe 2006.