

UNITED BANCORPORATION OF ALABAMA INC

Form 10-Q

August 10, 2006

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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, 2006
Commission file number 2-78572
UNITED BANCORPORATION OF ALABAMA, INC.
 (Exact name of registrant as specified in its charter)

Delaware

63-0833573

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer Identification Number)

200 East Nashville Avenue, Atmore, Alabama

36502

(Address of principal executive offices)

(Zip Code)

(251) 446-6164

(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 (or for such shorter period that the registrant was required to file such report(s), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a 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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of August 8, 2006.

Class A Common Stock.... 2,224,082 Shares

Class B Common Stock.... -0- Shares

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FORM 10-Q
For the Quarter Ended June 30, 2006
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**United Bancorporation of Alabama, Inc.
and Subsidiary Consolidated
Balance Sheets
(Unaudited)**

	June 30, 2006 Unaudited	December 31, 2005 Audited
Assets:		
Cash and due from banks	\$ 15,711,916	\$ 20,876,806
Federal funds sold	18,391,125	29,990,037
Cash and cash equivalents	34,103,041	50,866,843
Securities available for sale (amortized cost of \$77,717,536 and \$71,770,277 respectively)	75,753,406	70,932,624
Loans	247,998,729	230,310,857
Allowance for loan losses	3,380,778	3,028,847
Net loans	244,617,951	227,282,010
Premises and equipment, net	11,409,673	9,849,934
Interest Receivable	3,059,456	3,073,531
Intangible Assets	917,263	917,263
Other Assets	7,423,351	6,907,554
Total assets	377,284,141	369,829,759
Liabilities and Stockholders Equity:		
Deposits:		
Non-interest bearing	67,264,194	66,774,418
Interest bearing	218,459,373	224,246,053
Total deposits	285,723,567	291,020,471
Securities sold under agreements to repurchase	44,961,157	34,429,374
Advances from Federal Home Loan Bank of Atlanta	12,021,900	9,112,915
Treasury, tax, and loan account	242,582	1,001,000
Accrued expenses and other liabilities	1,823,932	2,468,890
Note payable to Trust, net of debt issuance costs of \$116,199 and \$121,251 in 2006 and 2005, respectively	4,007,801	4,002,749
Total liabilities	348,780,939	342,035,399
Stockholders equity:		

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Class A common stock, \$0.01 par value. Authorized 5,000,000 shares; issued and outstanding, 2,366,871 and 2,366,871 shares in 2006 and 2005, respectively	23,669	23,669
Class B common stock, \$0.01 par value. Authorized 250,000 shares; no shares issued or outstanding	0	0
Preferred stock of \$.01 par value. Authorized 250,000 shares; no shares issued or outstanding	0	0
Additional paid in capital	5,487,925	5,445,822
Accumulated other comprehensive income (loss), net of tax	(1,220,647)	(512,299)
Retained earnings	25,065,524	23,642,879
	29,356,471	28,600,071
Less: 145,431 and 143,301 treasury shares, at cost, respectively	853,269	805,711
Total stockholders' equity	28,503,202	27,794,360
Total liabilities and stockholders' equity	\$ 377,284,141	\$ 369,829,759

See Notes to Consolidated Financial Statements

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**United Bancorporation of Alabama, Inc.
And Subsidiary
Consolidated Statements of Earnings and Comprehensive Income
(Unaudited)**

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2006	2005	2006	2005
Interest income:				
Interest and fees on loans	\$ 5,122,026	\$ 3,802,191	\$ 9,833,956	\$ 7,095,542
Interest on investment securities available for sale:				
Taxable	499,653	480,117	1,020,720	862,789
Nontaxable	318,407	261,383	613,746	508,193
Total investment income	818,060	741,500	1,634,466	1,370,982
Other interest income	66,091	61,133	293,675	219,788
Total interest income	6,006,177	4,604,824	11,762,097	8,686,312
Interest expense:				
Interest on deposits	1,545,878	1,056,175	2,932,009	1,969,601
Interest on other borrowed funds	637,397	158,051	1,150,134	298,963
Total interest expense	2,183,275	1,214,226	4,082,143	2,268,564
Net interest income	3,822,902	3,390,598	7,679,954	6,417,748
Provision for loan losses	240,000	195,000	480,000	390,000
Net interest income after provision for loan losses	3,582,902	3,195,598	7,199,954	6,027,748
Noninterest income:				
Service charge on deposits	694,898	592,719	1,327,115	1,100,687
Commission on credit life	15,194	22,795	26,029	28,946
Investment securities gains (losses), net			(8,765)	0
Other	175,032	179,782	581,509	366,980
Total noninterest income	885,124	795,296	1,925,888	1,496,613
Noninterest expense:				
Salaries and benefits	1,852,690	1,636,155	3,648,451	3,166,730
Net occupancy expense	617,619	489,717	1,133,817	983,093

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Other	945,391	939,554	1,872,377	1,603,728
Total noninterest expense	3,415,700	3,065,426	6,654,645	5,753,551
Earnings before income tax expense	1,052,326	925,468	2,471,197	1,770,810
Income tax expense	316,183	295,349	693,521	488,427
Net earnings	\$ 736,143	\$ 630,119	\$ 1,777,676	\$ 1,282,383
Basic earnings per share	\$ 0.33	\$ 0.28	\$ 0.80	\$ 0.58
Diluted earnings per share	\$ 0.33	\$ 0.28	\$ 0.80	\$ 0.58
Basic weighted average shares outstanding	2,222,044	2,219,858	2,223,960	2,219,849
Diluted weighted average shares outstanding	2,229,373	2,220,527	2,231,289	2,220,518
Cash dividend per share	\$ 0.15	\$ 0.15	\$ 0.15	\$ 0.15

Statement of Comprehensive Income

Net earnings	736,143	630,119	\$ 1,777,676	\$ 1,282,383
Other Comprehensive Income, net of tax:				
Unrealized holding gain (loss) arising during the period	(464,231)	326,920	(708,348)	179,570
Less: Reclassification adjustment for gains included in net income			(5,259)	
Comprehensive income	\$ 271,912	\$ 957,039	\$ 1,074,587	\$ 1,461,953

See Notes to Consolidated Financial Statements

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**UNITED BANCORPORATION OF ALABAMA, INC.
AND SUBSIDIARY
Consolidated Statements of Cash Flows
(Unaudited)**

	Six Months Ended June 30	
	2006	2005
Cash flows from operating activities		
Net earnings	\$ 1,777,676	\$ 1,282,383
Adjustments to reconcile net earnings to net cash provided by operating activities		
Provision for loan losses	480,000	390,000
Depreciation of premises and equipment	587,769	464,410
Net amortization of premium on investment securities	50,325	99,625
Losses on sales of investment securities available for sale, net	8,765	
Gain on sale of other real estate	(12,501)	(4,118)
Writedown of other real estate		103,201
Gain on disposal of equipment	(3,987)	
Increase in interest receivable and other assets	(204,694)	(944,603)
Increase (decrease) in accrued expenses and other liabilities	(659,399)	430,831
Net cash provided by operating activities	2,023,954	1,821,729
Cash flows from investing activities		
Proceeds from maturities, calls, and principal repayments of investment securities available for sale	5,820,525	8,317,094
Proceeds from sales of investment securities available for sale	1,743,150	
Purchases of investment securities available for sale	(13,613,921)	(27,203,399)
Net increase in loans	(17,815,941)	(17,769,508)
Purchases of premises and equipment, net	(2,168,353)	(340,424)
Proceeds from sale of premises and equipmet	24,832	
Proceeds from sale of other real estate	177,501	170,147
Net cash used in investing activities	\$ (25,832,207)	\$ (36,826,090)
Cash fows from financing activities		
Net decrease in deposits	\$ (5,296,904)	\$ (2,485,087)
Net increase in securities sold under agreements to repurchase	10,531,783	11,646,913
Cash dividends	(327,590)	(288,579)
Proceeds from sale of common stock		4,540
Purchase of treasury stock	(63,750)	
Proceeds from sale of treasury stock	50,345	
Advances from FHLB Atlanta	5,000,000	
Repayments of advances from FHLB Atlanta	(2,091,015)	
Increase (decrease) in other borrowed funds	(758,418)	1,675,984

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Net cash provided by financing activities	7,044,451	10,553,771
Net decrease in cash and cash equivalents	(16,763,802)	(24,450,590)
Cash and cash equivalents, beginning of year	50,866,843	43,941,000
Cash and cash equivalents, end of year	\$ 34,103,041	\$ 19,490,410
Supplemental disclosures		
Cash paid during the year for:		
Interest	\$ 4,005,194	\$ 2,208,837
Income taxes	1,155,000	503,000
Noncash transactions		
Transfer of loans to other real estate through foreclosure		50,000

See Notes to Consolidated Financial Statements

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UNITED BANCORPORATION OF ALABAMA, INC.
AND SUBSIDIARY
Notes to Condensed Consolidated Financial Statements

NOTE 1 General

This report includes interim consolidated financial statements of United Bancorporation of Alabama, Inc. (the Company) and its wholly-owned subsidiary, United Bank (the Bank). The interim consolidated financial statements in this report have not been audited. In the opinion of management, all adjustments necessary to present fairly the financial position and the results of operations for the interim periods have been made. All such adjustments are of a normal recurring nature. The results of operations are not necessarily indicative of the results of operations for the full year or any other interim periods. For further information, refer to the consolidated financial statements and footnotes included in the Company s Annual Report on Form 10-K for the year ended December 31, 2005.

NOTE 2 Earnings per Share

Basic earnings per share were computed by dividing net earnings by the weighted average number of shares of common stock outstanding during the three and six month periods ended June 30, 2006 and 2005. Common stock outstanding consists of issued shares less treasury stock. Diluted earnings per share for the three and six month periods ended June 30, 2006 and 2005 were computed by dividing net earnings by the weighted average number of shares of common stock and the dilutive effects of the shares subject to options awarded under the Company s Stock Option Plan, based on the treasury stock method using an average fair market value of the stock during the respective periods. Presented below is a summary of the components used to calculate diluted earnings per share for the three and six months ended June 30, 2006 and 2005:

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	Three Months Ended		Six Months Ended	
	June		June	
	2006	2005	2006	2005
Diluted earnings per share	\$ 0.33	\$ 0.28	\$ 0.80	\$ 0.58
Weighted average common shares outstanding	2,222,044	2,219,858	2,223,960	2,219,849
Effect of the assumed exercise of stock options based on the treasury stock method using average market price	7,329	669	7,329	669
Total weighted average common shares and potential common stock outstanding	2,229,373	2,220,527	2,231,289	2,220,518

NOTE 3 Allowance for Loan Losses

The following table summarizes the activity in the allowance for loan losses for the six month periods ended June 30 (\$ in thousands):

	June 30	
	2006	2005
Balance at beginning of year	\$ 3,029	\$ 2,562
Provision charged to expense	480	390
Less Loans charged off	(165)	(352)
Recoveries	37	31
Balance at end of period	\$ 3,381	\$ 2,631

At June 30, 2006 and 2005, the amount of nonaccrual loans was \$3,154,339 and \$1,406,422 respectively.

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NOTE 4 Stock Based Compensation

At June 30, 2006, the Company had one stock-based compensation plan, which is described more fully in Note 12 to the Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2005. Effective January 1, 2006, the Company adopted SFAS No. 123 (revised), Share-Based Payment (SFAS 123(R)) utilizing the modified prospective approach. Prior to the adoption of SFAS 123(R) the Company accounted for stock-based compensation grants in accordance with APB Opinion No. 25, Accounting for Stock Issued to Employees (the intrinsic value method), and accordingly recognized no compensation expense for stock-based compensation grants.

Under the modified prospective approach, SFAS 123(R) applies to new awards and to awards that were outstanding on January 1, 2006 that are subsequently modified, repurchased or cancelled. Under the modified prospective approach, compensation cost recognized in the three and six months ended June 30, 2006 includes compensation cost for all share-based payments granted prior to, but not yet vested as of, January 1, 2006, based on the grant-date fair value estimated in accordance with the original provisions of SFAS 123, and includes compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123(R). Prior periods were not restated to reflect the impact of adopting the new standard.

Grant-date fair value is measured on the date of grant using option-pricing models with market assumptions. The grant-date fair value is amortized into expense on a straight-line basis over the vesting period. Option pricing models require the use of highly subjective assumptions, including but not limited to, expected stock price volatility, forfeiture rates, and interest rates, which if changed can materially affect fair value estimates. Accordingly the model does not necessarily provide a reliable single measure of the fair value of our stock options.

As a result of adopting SFAS 123(R) on January 1, 2006, net earnings for the three and six months ended June 30, 2006, was approximately \$4,000 and \$8,000 lower, respectively, than if the Company had continued to account for stock-based compensation under APB opinion No. 25 for stock option grants.

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The following table provides pro forma net earnings and earnings per share information, as if the Company had applied the fair value recognition provisions of SFAS No. 123, Accounting for Stock Based Compensation (SFAS 123) to stock-based employee compensation option plans for the three and six months ended June 30, 2005:

	Three Months Ended June 30, 2005	Six Months Ended June 30, 2005
Net earnings as reported	\$ 630,119	\$ 1,282,383
Deduct:		
Total stock-based employee compensation expense determined under fair value based method for all option awards	4,119	8,238
Pro forma net earnings	\$ 626,000	\$ 1,274,145
Basic Earnings Per Share		
As reported	\$ 0.28	\$ 0.58
Pro forma	\$ 0.28	\$ 0.57
Diluted Earnings Per Share		
As reported	\$ 0.28	\$ 0.58
Pro forma	\$ 0.28	\$ 0.57

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The following is a summary of the Company's weighted average assumptions used to estimate the weighted-average per share fair value of options granted on the date of grant using the Black-Scholes option-pricing model. There were no stock options granted during the six months ended June 30, 2005.

	For the six months ended June 30	
	2006	2005
Expected life (in years)	5.0	N/A
Expected volatility	20.00%	N/A
Risk-free interest rate	5.02%	N/A
Expected dividend yield	1.90%	N/A
Weighted-average fair value of options granted during the year	\$ 3.95	N/A

At June 30, 2006, there was approximately \$17,000 of unrecognized compensation cost related to share-based payments which is expected to be recognized over a weighted-average period of 2 years.

The following table represents stock option activity for the six months ended June 30, 2006:

	Number	Weighted-Average Exercise Price	Weighted-Average Remaining Contract Life
Options outstanding, beginning of year	70,200	\$ 14.50	
Granted	4,000	16.00	
Exercised	0	0	
Terminated	(10,000)	15.75	
Options outstanding, end of quarter	64,200	14.40	5.2 years
Exercisable, end of quarter	55,768	14.17	5.0 years

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