

UNITED BANCORPORATION OF ALABAMA INC

Form 10-Q

August 12, 2008

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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, 2008
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) 446-6000

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, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting Company

(Do not check if a smaller reporting company)

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, 2008.

Class A Common Stock 2,253,207 Shares

Class B Common Stock -0- Shares

UNITED BANCORPORATION OF ALABAMA, INC.
FORM 10-Q

For the Quarter Ended June 30, 2008

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PART I FINANCIAL INFORMATION
United Bancorporation of Alabama, Inc.
and Subsidiary
Consolidated Balance Sheets

Item 1. Financial Statements

	June 30, 2008 (Unaudited)	December 31, 2007
Assets		
Cash and due from banks	\$ 16,333,226	\$ 17,571,893
Interest bearing deposits in banks	15,415,059	31,547,422
Federal funds sold	14,900,000	5,000,000
Cash and cash equivalents	46,648,285	54,119,315
Securities available for sale (amortized cost of \$125,996,498 and \$111,718,759 respectively)	125,990,558	111,945,701
Loans	288,369,447	267,137,723
Less: Allowance for loan losses	2,581,755	3,981,922
Net loans	285,787,692	263,155,801
Premises and equipment, net	17,747,800	16,808,578
Interest receivable	3,244,463	3,952,077
Intangible assets	934,763	934,763
Other assets	7,786,724	6,385,725
Total assets	488,140,285	457,301,960
Liabilities and Stockholders Equity		
Deposits:		
Non-interest bearing	63,176,303	62,854,927
Interest bearing	308,166,284	306,047,638
Total deposits	371,342,587	368,902,565
Securities sold under agreements to repurchase	69,855,003	41,203,851
Advances from Federal Home Loan Bank of Atlanta	1,692,300	1,774,700
Treasury, tax, and loan account	561,146	691,668
Interest payable	1,124,918	1,161,362
Accrued expenses and other liabilities	1,040,370	1,336,424
Note payable to Trust	10,310,000	10,310,000
Total liabilities	455,926,324	425,380,570

Stockholders equity

Class A common stock, \$0.01 par value.

Authorized 5,000,000 shares; issued and outstanding, 2,384,431 and 2,383,097 shares in 2008 and 2007, respectively

23,844

23,831

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

5,981,122

5,916,367

Unearned stock based compensation

(48,332)

(51,403)

Accumulated other comprehensive income (loss) net of tax

(19,641)

122,105

Retained earnings

27,076,204

26,700,500

33,013,197

32,711,400

Less: 133,006 and 134,654 treasury shares, at cost, respectively

799,236

790,010

Total stockholders equity

32,213,961

31,921,390

Total liabilities and stockholders equity

\$ 488,140,285

\$ 457,301,960

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	
	2008	2007	2008	2007
Interest income:				
Interest and fees on loans	\$ 4,924,042	\$ 5,415,141	\$ 10,022,305	\$ 10,572,239
Interest on investment securities available for sale:				
Taxable	767,392	1,169,864	1,704,939	2,044,255
Nontaxable	348,257	365,478	695,677	698,080
Total investment income	1,115,649	1,535,342	2,400,616	2,742,335
Other interest income	147,550	181,136	401,736	600,074
Total interest income	6,187,241	7,131,619	12,824,657	13,914,648
Interest expense:				
Interest on deposits	2,363,789	2,562,148	4,968,961	4,929,965
Interest on other borrowed funds	340,178	931,309	952,018	1,822,746
Total interest expense	2,703,967	3,493,457	5,920,979	6,752,711
Net interest income	3,483,274	3,638,162	6,903,678	7,161,937
Provision for loan losses	500,000	210,000	740,000	390,000
Net interest income after provision for loan losses	2,983,274	3,428,162	6,163,678	6,771,937
Noninterest income:				
Service charge on deposits	857,712	686,363	1,665,179	1,340,302
Investment securities gains (losses), net	(2,700)	(306)	61	(306)
Mortgage loan and related fees	58,240	57,213	118,871	114,108
Other	226,938	190,498	473,600	380,761
Total noninterest income	1,140,190	933,768	2,257,711	1,834,865
Noninterest expense:				
Salaries and benefits	2,067,828	2,028,064	4,225,148	4,136,389
Net occupancy expense	699,562	660,614	1,384,022	1,220,128

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Other	1,185,340	1,244,420	2,341,759	2,168,291
Total noninterest expense	3,952,730	3,933,098	7,950,929	7,524,808
Earnings before income tax expense (benefits)	170,734	428,832	470,460	1,081,994
Income tax expense (benefits)	(61,073)	33,135	(74,081)	166,808
Net earnings	\$ 231,807	\$ 395,697	\$ 544,541	\$ 915,186
Basic earnings per share	\$ 0.10	\$ 0.18	\$ 0.24	\$ 0.41
Diluted earnings per share	\$ 0.10	\$ 0.18	\$ 0.24	\$ 0.41
Basic weighted average shares outstanding	2,251,235	2,236,664	2,250,852	2,236,055
Diluted weighted average shares outstanding	2,252,091	2,244,060	2,251,708	2,243,451
Cash dividend per share	\$	\$ 0.15	\$ 0.08	\$ 0.15

Statement of Comprehensive Income

Net earnings	\$ 231,807	\$ 395,697	\$ 544,541	\$ 915,186
Other comprehensive income (loss), net of tax:				
Unrealized holding losses arising during the period	(621,141)	(899,589)	(141,783)	(772,743)
Reclassification adjustment for gains included in net earnings.	1,620	184	(37)	184
Comprehensive income (loss)	\$ (387,714)	\$ (503,708)	\$ 402,721	\$ 142,627

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	
	2008	2007
Cash flows from operating activities		
Net earnings	\$ 544,541	\$ 915,186
Adjustments to reconcile net earnings to net cash provided by operating activities		
Provision for loan losses	740,000	390,000
Depreciation of premises and equipment	649,401	527,628
Net accretion of discount on investment securities	(539,165)	(410,039)
Gain (loss) on sales of investment securities available for sale, net	(61)	306
Loss on sale of other real estate	1,045	
Writedown of other real estate	85,000	
Stock-based compensation	11,400	2,556
Gain on disposal of equipment	(4,754)	(3,435)
Decrease in interest receivable	707,614	19,602
(Increase) decrease in other assets	46,234	(195,955)
Increase (decrease) in interest payable	(36,444)	46,958
Increase (decrease) in accrued expenses and other liabilities	(127,421)	1,619
Net cash provided by operating activities	2,077,390	1,294,426
Cash flows from investing activities		
Proceeds from maturities, calls, and principal repayments of investment securities available for sale	710,398,842	98,410,177
Proceeds from sales of investment securities available for sale	4,993,512	9,969,842
Purchases of investment securities available for sale	(729,134,228)	(109,984,970)
Net increase in loans	(24,923,951)	(9,262,187)
Purchases of premises and equipment, net	(1,590,869)	(1,462,034)
Proceeds from sale of premises and equipment	7,000	16,238
Insurance claim received		1,038,775
Proceeds from sale of other real estate	113,279	
Net cash used in investing activities	(40,136,415)	(11,274,159)
Cash flows from financing activities		
Net increase (decrease) in deposits	2,440,022	(11,387,066)
Net increase (decrease) in securities sold under agreements to repurchase	28,651,152	(10,213,327)
Cash dividends	(337,471)	(334,782)
Proceeds from exercise of stock options	9,986	
Proceeds from sale of common stock	6,732	
Purchase of treasury stock	(31,388)	

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Proceeds from sale of treasury stock	61,884	70,550
Repayments of advances from FHLB Atlanta	(82,400)	(82,400)
Decrease in other borrowed funds	(130,522)	(524,324)
Net cash provided by (used in) financing activities	30,587,995	(22,471,349)
Net decrease in cash and cash equivalents	(7,471,030)	(32,451,082)
Cash and cash equivalents, beginning of period	54,119,315	51,204,246
Cash and cash equivalents, end of period	\$ 46,648,285	\$ 18,753,164
Supplemental disclosures		
Cash paid during the period for:		
Interest	\$ 5,957,423	\$ 6,705,753
Income taxes	83,161	86,510
Noncash transactions		
Transfer of loans to other real estate through foreclosure	\$ 1,552,060	\$ 205,000

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 Corporation) 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 Corporation s Annual Report on Form 10-K for the year ended December 31, 2007.

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NOTE 2 Net Earnings per Share

Basic net 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, 2008 and 2007. Common stock outstanding consists of issued shares less treasury stock. Diluted net earnings per share for the three and six month periods ended June 30, 2008 and 2007 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 Corporation's equity incentive plans, 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, 2008 and 2007:

	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
Diluted earnings per share	\$ 0.10	\$ 0.18	\$ 0.24	\$ 0.41
Weighted average common shares outstanding	2,251,235	2,236,664	2,250,852	2,236,055
Effect of the assumed exercise of stock options based on the treasury stock method using average market price	856	7,396	856	7,396
Total weighted average common shares and potential common stock outstanding	2,252,091	2,244,060	2,251,708	2,243,451

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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	
	2008	2007
Balance at beginning of year	3,982	3,011
Provision charged to expense	740	390
Loans charged off	(2,159)	(230)
Recoveries	19	18
Balance at end of period	2,582	3,189

At June 30, 2008 and 2007, the amounts of nonaccrual loans were \$8,168,374 and \$4,907,807 respectively.

NOTE 4 Operating Segments

Statement of Financial Accounting Standard 131 (SFAS 131), *Disclosures about Segments of an Enterprise and Related Information*, establishes standards for the disclosure made by public business enterprises to report information about operating segments in annual financial statements and requires those enterprises to report selected information about operating segments in interim financial reports issued to shareholders. It also establishes standards for related disclosures about products and services, geographic areas, and major customers. The Corporation operates in only one segment – commercial banking.

NOTE 5 Stock Based Compensation

At June 30, 2008, the Corporation had two stock-based compensation plans. The 1998 Stock Option Plan and the 2007 Equity Incentive Plan which are described more fully in Note 12 to the Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2007. Effective January 1, 2006, the Corporation adopted SFAS 123R, *Share-Based Payment*, whereby compensation cost is recognized for all stock-based payments upon the grant-date fair value.

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The following table represents stock option activity for the six months ended June 30, 2008:

	Shares under option	Weighted average exercise price per share	Weighted average remaining contractual life
Options outstanding, beginning of period	53,600	14.38	
Granted			
Surrendered			
Exercised	(634)	15.75	
Options outstanding, end of period	52,966	14.36	3.1
Exercisable, end of period	50,566	14.81	2.8

The following table displays information pertaining to the intrinsic value of option shares outstanding and exercisable for the periods ended June 30, 2008 and 2007, respectively.

	2008	2007
Aggregate intrinsic value of outstanding options	\$58,021	\$318,837
Aggregate intrinsic value of exercisable options	\$13,229	\$307,637

Shares available for future stock option grants to employees and directors under the 1998 Stock Option Plan of United Bancorporation of Alabama, Inc. were 170,400 at June 30, 2008. The Corporation does not intend to issue additional options under the 1998 Stock Option Plan.

2007 Equity Incentive Plan

The following table represents stock option activity for the six months ended June 30, 2008:

	Shares under option	Weighted average exercise price per share	Weighted average remaining contractual life
Options outstanding, beginning of period	2,000	18.50	
Granted			
Surrendered			
Exercised			
Options outstanding, end of period	2,000	18.50	9.5
Exercisable, end of period	400	18.50	9.5

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The shares outstanding and exercisable under the 2007 Equity Incentive Plan had no intrinsic value as of June 30, 2008 as the fair m