

UNITED BANCORPORATION OF ALABAMA INC
Form 10-Q
November 10, 2011

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 September 30, 2011

Commission file number 000-25917

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files. 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 definition of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as define 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 November 10, 2011.

| | |
|----------|------------------|
| Class A | |
| Common | 2,348,185 Shares |
| Stock... | |
| Class B | |
| Common | -0- Shares |
| Stock... | |

United Bancorporation Of Alabama, Inc.

FORM 10-Q

For the Quarter Ended September 30, 2011

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PART I—FINANCIAL INFORMATION

United Bancorporation of Alabama, Inc.
and Subsidiary
Consolidated Balance Sheets
Item 1. Financial Statements

| | September 30, 2011 (Unaudited) | December 31, 2010 |
|--|---|----------------------|
| Assets | | |
| Cash and due from banks | \$ 10,861,262 | \$ 18,179,566 |
| Interest bearing deposits in banks | 29,963,449 | 62,786,543 |
| Cash and cash equivalents | 40,824,711 | 80,966,109 |
| Securities available for sale (amortized cost of \$65,255,026 and \$69,518,789 respectively) | 65,799,046 | 68,808,624 |
| Securities held to maturity (fair values of \$22,143,182 and \$17,302,864 respectively) | 21,248,414 | 17,262,606 |
| Loans held for sale | - | - |
| Loans held for investment | 272,931,793 | 261,770,815 |
| Less: Allowance for loan losses | 5,677,419 | 5,139,998 |
| Net loans held for investment | 267,254,374 | 256,630,817 |
| Premises and equipment, net | 16,071,755 | 16,472,056 |
| Interest receivable | 2,248,180 | 2,192,768 |
| Other assets | 11,973,389 | 14,723,722 |
| Other real estate owned | 9,509,089 | 10,163,992 |
| Total assets | 434,928,958 | 467,220,694 |
| Liabilities and Stockholders' Equity | | |
| Deposits: | | |
| Non-interest bearing | 116,728,171 | 142,681,749 |
| Interest bearing | 266,935,171 | 274,350,971 |
| Total deposits | 383,663,342 | 417,032,720 |
| Advances from Federal Home Loan Bank of Atlanta | 1,140,450 | 1,280,300 |
| Treasury, tax, and loan account | 903,130 | 944,078 |
| Interest payable | 301,943 | 402,953 |
| Accrued expenses and other liabilities | 1,636,524 | 1,731,437 |
| Note payable to Trust | 10,310,000 | 10,310,000 |
| Total liabilities | 397,955,389 | 431,701,488 |
| Stockholders' equity | | |

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| | | |
|---|---------------|---------------|
| Preferred stock of \$.01 par value. Authorized 250,000 shares; 10,300 shares; issued and outstanding, net of discount | 10,131,675 | 10,080,227 |
| Class A common stock, \$0.01 par value. Authorized 5,000,000 shares; issued and outstanding, 2,389,127 shares | 23,891 | 23,891 |
| Class B common stock, \$0.01 par value. Authorized 250,000 shares; no shares issued or outstanding | - | - |
| Additional paid in capital | 7,090,424 | 6,815,176 |
| Accumulated other comprehensive income (loss) net of tax | 326,406 | (426,105) |
| Retained earnings | 19,729,387 | 19,721,667 |
| | 37,301,783 | 36,214,856 |
| Less: 40,942 and 86,757 treasury shares, at cost, respectively | 328,214 | 695,650 |
| Total stockholders' equity | 36,973,569 | 35,519,206 |
| Total liabilities and stockholders' equity | \$434,928,958 | \$467,220,694 |

See Notes to Consolidated Financial Statements

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United Bancorporation of Alabama, Inc.
and Subsidiary

Consolidated Statement of Operations and Comprehensive Income (Loss)

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|--|------------------------------------|---------------|-----------------------------------|----------------|
| | 2011 | 2010 | 2011 | 2010 |
| Interest income: | | | | |
| Interest and fees on loans | 4,264,811 | \$4,182,618 | \$12,165,837 | \$12,554,464 |
| Interest on investment securities available for sale: | | | | |
| Taxable | 386,396 | 423,790 | 1,254,775 | 1,248,468 |
| Nontaxable | 76,167 | 156,898 | 242,915 | 652,548 |
| Total investment income | 462,563 | 580,688 | 1,497,690 | 1,901,016 |
| Other interest income | 19,738 | 44,347 | 95,301 | 116,352 |
| Total interest income | 4,747,112 | 4,807,653 | 13,758,828 | 14,571,832 |
| Interest expense: | | | | |
| Interest on deposits | 749,857 | 1,055,202 | 2,410,279 | 3,501,133 |
| Interest on other borrowed funds | 67,568 | 77,878 | 206,903 | 219,027 |
| Total interest expense | 817,425 | 1,133,080 | 2,617,182 | 3,720,160 |
| Net interest income | 3,929,687 | 3,674,573 | 11,141,646 | 10,851,672 |
| Provision for loan losses | 550,000 | 3,100,000 | 1,150,000 | 4,138,000 |
| Net interest income after provision for loan losses | 3,379,687 | 574,573 | 9,991,646 | 6,713,672 |
| Noninterest income: | | | | |
| Service charge on deposits | 808,835 | 831,931 | 2,399,139 | 2,492,420 |
| Investment securities gains, net | 1,015,462 | 827,221 | 1,040,566 | 1,046,575 |
| Mortgage loan and related fees | 105,625 | 112,780 | 226,661 | 250,481 |
| Other | 236,905 | (25,613) | 679,853 | 397,193 |
| Total noninterest income | 2,166,827 | 1,746,319 | 4,346,219 | 4,186,669 |
| Noninterest expense: | | | | |
| Salaries and benefits | 2,263,052 | 2,159,326 | 6,684,414 | 6,481,307 |
| Net occupancy expense | 499,747 | 568,779 | 1,468,249 | 1,665,045 |
| Other | 2,457,824 | 2,319,109 | 5,063,462 | 5,056,462 |
| Total noninterest expense | 5,220,623 | 5,047,214 | 13,216,125 | 13,202,814 |
| Earnings (losses) before income tax expense (benefits) | 325,891 | (2,726,322) | 1,121,740 | (2,302,473) |
| Income tax expense (benefits) | 73,608 | (1,099,000) | 277,631 | (1,176,309) |
| Net earnings (losses) | 252,283 | (1,627,322) | 844,109 | (1,126,164) |
| Preferred stock dividends | 51,500 | 154,500 | 154,500 | 412,000 |
| Accretion on preferred stock discount | 17,396 | 16,426 | 51,448 | 48,579 |
| Net earnings (losses) available to common shareholders | \$183,387 | \$(1,798,248) | \$638,161 | \$(1,586,743) |
| Basic earnings (losses) per share | \$0.08 | \$(0.78) | \$0.27 | \$(0.69) |
| Diluted earnings (losses) per share | \$0.08 | \$(0.78) | \$0.27 | \$(0.69) |

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| | | | | |
|---|-----------|-----------|-----------|-----------|
| Basic weighted average shares outstanding | 2,343,931 | 2,296,709 | 2,327,814 | 2,284,265 |
| Diluted weighted average shares outstanding | 2,343,931 | 2,297,385 | 2,327,814 | 2,284,941 |
| Cash dividend per share | \$- | \$- | \$- | \$- |

Statement of Comprehensive Income (Loss)

| | | | | |
|---|------------|---------------|-------------|---------------|
| Net earnings (losses) | \$252,283 | \$(1,627,322) | \$844,109 | \$(1,126,164) |
| Other comprehensive income (loss), net of tax: | | | | |
| Unrealized holding gains arising during the period | 817,785 | 328,083 | 1,376,851 | 844,510 |
| Reclassification adjustment for gains included in net earnings (losses) | (609,277) | (496,333) | (624,340) | (627,945) |
| Comprehensive income (loss) | \$460,791 | \$(1,795,572) | \$1,596,620 | \$(909,599) |

See Notes to Consolidated Financial Statements

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United Bancorporation of Alabama, Inc.
and Subsidiary
Consolidated Statements of Cash Flows
(Unaudited)

| | Nine Months Ended September 30 | |
|---|-----------------------------------|----------------|
| | 2011 | 2010 |
| Cash flows from operating activities | | |
| Net earnings (losses) | \$ 844,109 | \$(1,126,164) |
| Adjustments to reconcile net earnings (losses) to net cash provided by operating activities | | |
| Provision for loan losses | 1,150,000 | 4,138,000 |
| Depreciation of premises and equipment | 712,009 | 876,948 |
| Net amortization of premium / discount on investment securities available for sale | 311,233 | 216,555 |
| Net amortization of premium / discount on investment securities held to maturity | 123,779 | 41,552 |
| Gain on sales of investment securities available for sale, net | (1,040,566) | (1,046,575) |
| (Gain) loss on sale of other real estate | (36,748) | 1,277 |
| Writedown on other real estate | 1,352,964 | 200,722 |
| Writeoff of intangible assets | - | 934,763 |
| Originations of loans held for sale | (2,890,976) | - |
| Proceeds from sales of loans held for sale | 2,890,976 | - |
| Stock-based compensation | 18,669 | 21,501 |
| (Increase) decrease in interest receivable | (55,412) | 449,480 |
| (Increase) decrease in other assets | 2,248,661 | (592,972) |
| Decrease in interest payable | (101,010) | (209,069) |
| Increase (decrease) in accrued expenses and other liabilities | (94,913) | 289,868 |
| Net cash provided by operating activities | 5,432,775 | 4,195,886 |
| Cash flows from investing activities | | |
| Proceeds from maturities, calls, and principal repayments of investment securities available for sale | 8,267,409 | 18,916,216 |
| Proceeds from maturities, calls, and principal repayments of investment securities held to maturity | 2,489,410 | 5,235,926 |
| Proceeds from sales of investment securities available for sale | 37,975,613 | 36,069,589 |
| Purchases of investment securities available for sale | (41,249,927) | (54,964,039) |
| Purchases of investment securities held to maturity | (6,598,997) | (6,931,110) |
| Net increase in loans | (13,356,063) | (4,959,168) |
| Purchases of premises and equipment, net | (311,708) | (62,996) |
| Proceeds from sale of other real estate | 921,193 | 1,450,347 |
| Net cash used in investing activities | (11,863,070) | (5,245,235) |
| Cash flows from financing activities | | |
| Net increase (decrease) in deposits | (33,369,378) | 26,159,318 |
| Cash dividends - preferred stock | (154,500) | (412,000) |

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| | | |
|--|--------------|--------------|
| Cash dividends - common stock | (6,427) | (5,969) |
| Repayments of advances from FHLB Atlanta | (139,850) | (139,850) |
| Increase (decrease) in other borrowed funds | (40,948) | 285,083 |
| Net cash provided by (used in) financing activities | (33,711,103) | 25,886,582 |
| Net increase (decrease) in cash and cash equivalents | (40,141,398) | 24,837,233 |
| Cash and cash equivalents, beginning of period | 80,966,109 | 54,668,111 |
| Cash and cash equivalents, end of period | \$40,824,711 | \$79,505,344 |
| Supplemental disclosures | | |
| Cash paid during the period for: | | |
| Interest | \$2,718,192 | \$3,929,229 |
| Income taxes | 52,509 | 52,705 |
| Noncash transactions | | |
| Transfer of loans to other real estate through foreclosure | \$1,582,506 | \$3,216,600 |

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, 2010.

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NOTE 2 – Net Earnings (Losses) per Share

Basic net earnings (losses) per share were computed by dividing net losses by the weighted average number of shares of common stock outstanding during the three and nine month periods ended September 30, 2011 and 2010. Common stock outstanding consists of issued shares less treasury stock. Diluted net earnings (losses) per share for the three and nine month periods ended September 30, 2011 and 2010 were computed by dividing net earnings (losses) by the weighted average number of shares of common stock and the dilutive effects of the shares subject to options and restricted stock grants 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. There was no dilutive effect for the three and nine months ended September 30, 2011 because the exercise price of the stock awards, described in Note 7 below, was greater than the fair value of the stock as of September 30, 2011. Presented below is a summary of the components used to calculate diluted earnings (losses) per share for the three and nine months ended September 30, 2011 and 2010:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|-----------|------------------------------------|-----------|
| | 2011 | 2010 | 2011 | 2010 |
| Diluted earnings (losses) per share | \$0.08 | \$(0.78) | \$0.27 | \$(0.69) |
| Weighted average common shares outstanding | 2,343,931 | 2,296,709 | 2,327,814 | 2,284,265 |
| Effect of the assumed exercise of stock options based on the treasury stock method using average market price | - | 676 | - | 676 |