

UNITED BANCORPORATION OF ALABAMA INC

Form 10-Q

November 12, 2008

**Table of Contents**

**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, 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 November 10, 2008.

Class A Common Stock  
Class B Common Stock

2,256,709 Shares  
-0- Shares

**UNITED BANCORPORATION OF ALABAMA, INC.**  
**FORM 10-Q**

For the Quarter Ended September 30, 2008

INDEX

	PAGE
<u>PART I FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements</u>	
<u>Consolidated Balance Sheets</u>	3
<u>Consolidated Statements of Earnings and Comprehensive Income</u>	4
<u>Consolidated Statements of Cash Flows</u>	5
<u>Notes to Consolidated Financial Statements</u>	6
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	14
<u>Item 4T. Controls and Procedures</u>	25
<u>PART II OTHER INFORMATION</u>	
<u>Item 1A. Risk Factors</u>	26
<u>Item 6. Exhibits</u>	26
<u>EXHIBIT 31.1</u>	
<u>EXHIBIT 31.2</u>	
<u>EXHIBIT 32.1</u>	
<u>EXHIBIT 32.2</u>	
<u>EXHIBIT 99.1</u>	

**Table of Contents**

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

**Item 1. Financial Statements**

	September 30, 2008 (Unaudited)	December 31, 2007
<b>Assets</b>		
Cash and due from banks	\$ 12,244,620	\$ 17,571,893
Interest bearing deposits in banks	9,011,933	31,547,422
Federal funds sold	6,000,000	5,000,000
Cash and cash equivalents	27,256,553	54,119,315
Securities available for sale (amortized cost of \$111,450,844 and \$111,718,759 respectively)	111,175,113	111,945,701
Security held to maturity (market values of \$1,050,000 and \$0 respectively)	1,050,000	0
Loans	294,176,681	267,137,723
Less: Allowance for loan losses	3,150,997	3,981,922
Net loans	291,025,684	263,155,801
Premises and equipment, net	18,586,469	16,808,578
Interest receivable	3,323,779	3,952,077
Intangible assets	934,763	934,763
Other assets	10,753,108	6,385,725
Total assets	464,105,469	457,301,960
<b>Liabilities and Stockholders Equity</b>		
Deposits:		
Non-interest bearing	61,045,352	62,854,927
Interest bearing	295,048,307	306,047,638
Total deposits	356,093,659	368,902,565
Securities sold under agreements to repurchase	61,766,047	41,203,851
Advances from Federal Home Loan Bank of Atlanta	1,634,850	1,774,700
Treasury, tax, and loan account	247,128	691,668
Interest payable	922,770	1,161,362
Accrued expenses and other liabilities	1,311,870	1,336,424
Note payable to Trust	10,310,000	10,310,000

Total liabilities	432,286,324	425,380,570
<b>Stockholders equity</b>		
Class A common stock, \$0.01 par value. Authorized 5,000,000 shares; issued and outstanding, 2,388,125 and 2,383,097 shares in 2008 and 2007, respectively	23,881	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	6,063,682	5,916,367
Unearned stock based compensation	(100,101)	(51,403)
Accumulated other comprehensive income (loss) net of tax	(176,799)	122,105
Retained earnings	26,828,638	26,700,500
	32,639,301	32,711,400
Less: 133,006 and 134,654 treasury shares, at cost, respectively	820,156	790,010
Total stockholders equity	31,819,145	31,921,390
Total liabilities and stockholders equity	\$ 464,105,469	\$ 457,301,960

**See Notes to Consolidated Financial Statements**

3

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**Table of Contents**

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Interest income:				
Interest and fees on loans	\$ 5,207,737	\$ 5,616,402	\$ 15,230,042	\$ 16,188,641
Interest on investment securities available for sale:				
Taxable	771,681	839,446	2,476,620	2,883,701
Nontaxable	333,840	369,901	1,029,517	1,067,981
Total investment income	1,105,521	1,209,347	3,506,137	3,951,682
Other interest income	83,169	52,897	484,905	652,971
Total interest income	6,396,427	6,878,646	19,221,084	20,793,294
Interest expense:				
Interest on deposits	2,276,454	2,731,059	7,245,415	7,661,024
Interest on other borrowed funds	341,195	781,254	1,293,213	2,604,000
Total interest expense	2,617,649	3,512,313	8,538,628	10,265,024
Net interest income	3,778,778	3,366,333	10,682,456	10,528,270
Provision for loan losses	750,000	240,000	1,490,000	630,000
Net interest income after provision for loan losses	3,028,778	3,126,333	9,192,456	9,898,270
Noninterest income:				
Service charge on deposits	885,734	807,481	2,550,913	2,147,783
Investment securities losses, net	(238)		(177)	(306)
Mortgage loan and related fees	31,653	55,772	150,524	169,879
Other	212,722	204,798	686,322	585,560
Total noninterest income	1,129,871	1,068,051	3,387,582	2,902,916
Noninterest expense:				
Salaries and benefits	2,186,778	2,118,849	6,411,926	6,255,238
Net occupancy expense	725,162	665,035	2,109,184	1,885,163

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Other	1,322,475	1,099,973	3,664,234	3,268,264
Total noninterest expense	4,234,415	3,883,857	12,185,344	11,408,665
Earnings before income tax expense (benefits)	(75,766)	310,527	394,694	1,392,521
Income tax expense (benefits)	(166,192)	(6,461)	(240,273)	160,347
Net earnings	\$ 90,426	\$ 316,988	\$ 634,967	\$ 1,232,174
Basic earnings per share	\$ 0.04	\$ 0.14	\$ 0.28	\$ 0.55
Diluted earnings per share	\$ 0.04	\$ 0.14	\$ 0.28	\$ 0.55
Basic weighted average shares outstanding	2,252,698	2,239,815	2,251,078	2,237,323
Diluted weighted average shares outstanding	2,259,767	2,246,461	2,258,147	2,243,969
Cash dividend per share	\$ 0.08	\$ 0.08	\$ 0.23	\$ 0.23

Statement of Comprehensive Income

Net earnings	\$ 90,426	\$ 316,988	\$ 634,967	\$ 1,232,174
Other comprehensive income (loss), net of tax:				
Unrealized holding gain (losses) arising during the period	(157,301)	901,200	(299,010)	128,457
Reclassification adjustment for losses included in net earnings	143		106	184
Comprehensive income (loss)	\$ (66,732)	\$ 1,218,188	\$ 336,063	\$ 1,360,815

**See Notes to Consolidated Financial Statements**

**Table of Contents**

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

	Nine Months Ended September 30	
	2008	2007
Cash flows from operating activities		
Net earnings	\$ 634,967	\$ 1,232,174
Adjustments to reconcile net earnings to net cash provided by operating activities		
Provision for loan losses	1,490,000	630,000
Depreciation of premises and equipment	992,540	826,626
Net amortization (accretion) of discount on investment securities	(796,266)	187,457
Loss on sales of investment securities available for sale, net	177	306
(Gain) loss on sale of other real estate	1,045	(28,016)
Writedown of other real estate	85,000	
Stock-based compensation	21,307	4,268
Gain on disposal of equipment	(14,316)	(3,435)
(Increase) decrease in interest receivable	628,298	(381,906)
Decrease in other assets	243,236	326,072
Increase (decrease) in interest payable	(238,592)	161,569
Increase (decrease) in accrued expenses and other liabilities	(25,055)	542,215
Net cash provided by operating activities	3,022,341	3,497,330
Cash flows from investing activities		
Proceeds from maturities, calls, and principal repayments of investment securities available for sale	1,032,513,350	104,585,075
Proceeds from sales of investment securities available for sale	12,492,231	16,958,673
Purchases of investment securities available for sale	(1,043,937,077)	(109,984,970)
Purchase of investment security held to maturity	(1,050,000)	
Net increase in loans	(33,970,557)	(17,614,920)
Purchases of premises and equipment, net	(2,779,715)	(4,561,036)
Proceeds from sale of premises and equipment	23,600	16,238
Insurance claim received		1,038,775
Proceeds from sale of other real estate	113,279	173,016
Net cash used in investing activities	(36,594,889)	(9,389,149)
Cash flows from financing activities		
Net decrease in deposits	(12,808,906)	(98,614)
Net increase (decrease) in securities sold under agreements to repurchase	20,562,196	(13,779,024)
Cash dividends	(506,328)	(561,758)
Proceeds from exercise of stock options	9,986	22,400
Proceeds from sale of common stock	6,732	
Purchase of treasury stock	(63,019)	



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Proceeds from sale of treasury stock	93,515	125,530
Repayments of advances from FHLB Atlanta	(139,850)	(5,139,850)
Decrease in other borrowed funds	(444,540)	(345,526)
Net cash provided by (used in) financing activities	6,709,786	(19,776,842)
Net decrease in cash and cash equivalents	(26,862,762)	(25,668,661)
Cash and cash equivalents, beginning of period	54,119,315	51,204,246
Cash and cash equivalents, end of period	\$ 27,256,553	\$ 25,535,585
Supplemental disclosures		
Cash paid during the period for:		
Interest	\$ 8,777,220	\$ 10,103,455
Income taxes	83,171	94,454
Noncash transactions		
Transfer of loans to other real estate through foreclosure	\$ 4,610,674	\$ 205,000

**See Notes to Consolidated Financial Statements**

**Table of Contents**

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.

6

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**Table of Contents**

## 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 nine month periods ended September 30, 2008 and 2007. Common stock outstanding consists of issued shares less treasury stock. Diluted net earnings per share for the three and nine month periods ended September 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 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. Presented below is a summary of the components used to calculate diluted earnings per share for the three and nine months ended September 30, 2008 and 2007:

	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Diluted earnings per share	\$ 0.04	\$ 0.14	\$ 0.28	\$ 0.55
Weighted average common shares outstanding	2,252,698	2,239,815	2,251,078	2,237,323
Effect of the assumed exercise of stock options based on the treasury stock method using average market price	7,069	6,646	7,069	6,646
Total weighted average common shares and potential common stock outstanding	2,259,767	2,246,461	2,258,147	2,243,969

**Table of Contents**

## NOTE 3 Allowance for Loan Losses

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

	<b>September 30</b>	
	<b>2008</b>	<b>2007</b>
Balance at beginning of year	3,982	3,011
Provision charged to expense	1,490	630
Loans charged off	(2,361)	(355)
Recoveries	40	23
Balance at end of period	3,151	3,309

At September 30, 2008 and 2007, the amounts of nonaccrual loans were \$6,488,722 and \$6,980,236 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 September 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 the Corporation's 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 based upon the grant-date fair value.

**Table of Contents***Stock Options*1998 Stock Option Plan

The following table represents stock option activity for the nine months ended September 30, 2008:

	<b>Shares under option</b>	<b>Weighted average exercise price per share</b>	<b>Weighted average remaining contractual life</b>
Options outstanding, beginning of period	53,600	\$ 14.38	
Granted			
Surrendered			
Exercised	(634)	15.75	
Options outstanding, end of period	52,966	14.36	2.9
Exercisable, end of period	50,966	14.83	2.7

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

	<b>2008</b>	<b>2007</b>
Aggregate intrinsic value of outstanding options	\$48,461	\$301,237

Aggregate intrinsic value of exercisable options	\$48,461	\$290,037
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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 September 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 nine months ended September 30, 2008:

	<b>Shares under option</b>	<b>Weighted average exercise price per share</b>	<b>Weighted average remaining contractual life</b>
Options outstanding, beginning of period	2,000	\$ 18.50	
Granted			
Surrendered			
Exercised			
Options outstanding, end of period	2,000	18.50	