RR Donnelley & Sons Co
Form 10-K
February 25, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2014
OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 1-4694

R. R. DONNELLEY & SONS COMPANY

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	36-1004130 (I.R.S. Employer Identification No.)
111 South Wacker Drive, Chicago, Illinois (Address of principal executive offices)	60606 (ZIP Code)

Registrant’s telephone number, including area code—(312) 326-8000

Securities registered pursuant to Section 12(b) of the Act:

Title of each Class	Name of each exchange on which registered
Common Stock (Par Value $1.25)	NASDAQ

Indicated by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.   Yes þ   No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.   Yes ¨   No þ

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 reports), and (2) has been subject to such filing requirements for the past 90 days.   Yes þ   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 (§229.405 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 þ   No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.   þ

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:

Large accelerated filer þ	Accelerated filer ¨	Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

The aggregate market value of the shares of common stock (based on the closing price of these shares on the NASDAQ Stock Exchange—Composite Transactions) on June 30, 2014, the last business day of the registrant's most recently completed second fiscal quarter, held by nonaffiliates was $3,364,349,044.

As of February 20, 2015, 199,811,821 shares of common stock were outstanding.

Documents Incorporated By Reference

Portions of the registrant's proxy statement related to its annual meeting of stockholders scheduled to be held on May 21, 2015 are incorporated by reference into Part III of this Form 10-K.

TABLE OF CONTENTS

PART I

ITEM 1. BUSINESS

Company Overview

R.R. Donnelley & Sons Company ("RR Donnelley," the "Company," "we," "us," and "our"), a Delaware corporation, helps organizations communicate more effectively by working to create, manage, produce, distribute and process content on behalf of our customers. The Company assists customers in developing and executing multichannel communication strategies that engage audiences, reduce costs, drive revenues and increase compliance. R.R. Donnelley's innovative technologies enhance digital and print communications to deliver integrated messages across multiple media to highly targeted audiences at optimal times for clients in virtually every private and public sector. Strategically located operations provide local service and responsiveness while leveraging the economic, geographic and technological advantages of a global organization.

Segment Descriptions

The Company's segments and their product and service offerings are summarized below:

Publishing and Retail Services

The Publishing and Retail Services segment's primary product offerings include magazines, catalogs, retail inserts, books, directories and packaging. The Publishing and Retail Services segment accounted for 22.7% of the Company's consolidated net sales in 2014.

Variable Print

The Variable Print segment includes the Company's U.S. short-run and transactional printing operations. This segment's primary product offerings include commercial and digital print, direct mail, office products, labels, statement printing, forms and packaging. The Variable Print segment accounted for 32.5% of the Company's consolidated net sales in 2014.

Strategic Services

The Strategic Services segment includes the Company's logistics services, financial print products and related services, print management offerings and digital and creative solutions. The Strategic Services segment accounted for 22.5% of the Company's consolidated net sales in 2014.

International

The International segment includes the Company's non-U.S. printing operations in Asia, Europe, Latin America and Canada. This segment's primary product and service offerings include magazines, catalogs, retail inserts, books, directories, direct mail, packaging, forms, labels, manuals, statement printing, commercial and digital print, logistics services and digital and creative solutions. Additionally, this segment includes the Company's business process outsourcing and Global Turnkey Solutions operations. Business process outsourcing provides transactional print and outsourcing services, statement printing, direct mail and print management offerings through its operations in Europe, Asia and North America. Global Turnkey Solutions provides outsourcing capabilities, including product configuration, customized kitting and order fulfillment for technology, medical device and other companies around the world through its operations in Europe, North America and Asia. The International segment accounted for 22.3% of the Company's consolidated net sales in 2014.

Corporate

Corporate consists of unallocated selling, general and administrative activities and associated expenses including, in part, executive, legal, finance, communications, certain facility costs and LIFO inventory provisions. In addition, certain costs and earnings of employee benefit plans, such as pension and other postretirement benefits plan expense and share-based compensation, are included in Corporate and not allocated to the operating segments. Corporate also manages the Company's cash pooling structures, which enables participating international locations to draw on the Company's overseas cash resources to meet local liquidity needs.

Financial and other information related to these segments is included in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, and in Note 19, Segment Information, to the Consolidated Financial Statements. Additional information related to the Company's International operations is included in Note 20, Geographic Area and Products and Services Information, to the Consolidated Financial Statements.

Business Acquisitions and Dispositions

On February 5, 2015, the Company announced that it had entered into a definitive agreement to acquire Courier Corporation ("Courier") for a total transaction value of approximately $261.0 million in cash and RR Donnelley shares, plus the assumption of Courier's net debt and payout of outstanding equity awards. Courier is a leader in digital printing, publishing and content management in the United States, specializing in educational, religious and trade books. The completion of the transaction is subject to customary closing conditions, including regulatory approval and approval of Courier's shareholders.

2014 Acquisitions

On March 25, 2014, the Company acquired substantially all of the North American operations of Esselte Corporation ("Esselte"), a developer and manufacturer of nationally branded and private label office and stationery products. The purchase price included $82.3 million in cash and 1.0 million shares of RR Donnelley common stock, or a total transaction value of $100.6 million based on the Company's closing share price on March 24, 2014. Esselte's operations are included in the Variable Print segment.

On March 10, 2014, the Company acquired the assets of MultiCorpora R&D Inc. and MultiCorpora International Inc. (together "MultiCorpora") for $6.0 million. MultiCorpora is an international provider of translation technology solutions. MultiCorpora's operations are included in the Strategic Services segment.

On January 31, 2014, the Company acquired Consolidated Graphics, Inc. ("Consolidated Graphics"), a provider of digital and commercial printing, fulfillment services, print management and proprietary Internet-based technology solutions, with operations in North America, Europe and Asia. The purchase price for Consolidated Graphics was $359.9 million in cash and 16.0 million shares of RR Donnelley common stock, or a total transaction value of $660.6 million based on the Company's closing share price on January 30, 2014, plus the assumption of Consolidated Graphics' debt of $118.4 million. Immediately following the acquisition, the Company repaid substantially all of the debt assumed. Consolidated Graphics' operations are included in the Variable Print segment, with the exception of operations in the Czech Republic and Japan which are included in the International segment.

2014 Dispositions

On August 15, 2014, the Company sold the assets and liabilities of Journalism Online, LLC ("Journalism Online"), a provider of online subscription management services, for net proceeds of $10.7 million, of which $9.5 million was received as of December 31, 2014, resulting in a gain of $11.2 million. The operations of the Journalism Online business were included in the Strategic Services segment.

On August 11, 2014, the Company's subsidiary, RR Donnelley Argentina S.A. ("RRDA"), filed for bankruptcy liquidation in bankruptcy court in Argentina. The bankruptcy petition was approved by the court shortly thereafter and a bankruptcy trustee was appointed. As a result of the bankruptcy liquidation, the Company recorded a loss of $16.4 million for the year ended December 31, 2014. Effective as of the court's approval, the operating results of RRDA are no longer included in the Company's consolidated results of operations. The operations of RRDA were included in the International segment.

On February 7, 2014, the Company sold the assets and liabilities of Office Tiger Global Real Estate Service Inc. ("GRES"), its commercial and residential real estate advisory services, for net proceeds of $1.8 million and a loss of $0.8 million. The operations of the GRES business were included in the International segment.

2013 Disposition

During the fourth quarter of 2013, the Company sold the assets and liabilities of R.R. Donnelley SAS (“MRM France”), its direct mail business located in Cosne sur Loire, France, for a loss of $17.9 million, which included cash incentive payments due to the purchaser of $18.8 million, of which $16.4 million was paid as of December 31, 2014 with the remaining balance to be paid by January 2016. The operations of the MRM France business were included in the International segment.

2012 Acquisitions

On December 28, 2012, the Company acquired Presort Solutions (“Presort”), a provider of mail presorting services to businesses in various industries. Presort’s operations are included in the Strategic Services segment.

On December 17, 2012, the Company acquired Meisel Photographic Corporation (“Meisel”), a provider of custom designed visual graphics products to the retail market. Meisel’s operations are included in the Variable Print segment.

On September 6, 2012, the Company acquired Express Postal Options International (“XPO”), a provider of international outbound mailing services to pharmaceutical, e-commerce, financial services, information technology, catalog, direct mail and other businesses. XPO’s operations are included in the Strategic Services segment.

On August 14, 2012, the Company acquired EDGAR Online, a leading provider of disclosure management services, financial data and enterprise risk analytics software and solutions. EDGAR Online's operations are included in the Strategic Services segment.

Competition and Strategy

Technological changes, including the electronic distribution of documents and data, online distribution and hosting of media content, and advances in digital printing, print-on-demand and Internet technologies, continue to impact the market for the Company's products and services. One of the Company's competitive strengths is that it offers a wide array of communications products and services, including print, which provide differentiated solutions for its customers. The Company works with its customers to create, manage, deliver and optimize their multi-channel communications strategies. The Company has and will continue to develop and expand its creative and design, content management, digital and print production, supply chain management and distribution services to address its customers evolving needs while supporting the strategic objective of becoming a leading global provider of integrated communication services.

The print and related services industry, in general, continues to have excess capacity and remains highly competitive. Despite consolidation in recent years, the industry remains highly fragmented. Across the Company's range of products and services, competition is based primarily on price in addition to quality and the ability to service the special needs of customers. Management expects that prices for the Company's products and services will continue to be a focal point for customers in coming years. Therefore, the Company believes it needs to continue to lower its cost structure and continue to differentiate its product and service offerings.

The impact of digital technologies has been felt in many print products. Electronic communication and transaction technology has eliminated or reduced the role of many traditional printed products and has continued to drive electronic substitution in directory and statement printing, in part driven by environmental concerns and cost pressures at key customers. In addition, e-book substitution is having a continuing impact on consumer print book volume, though adoption rates are stabilizing, and a limited impact on educational and specialty books. Digital technologies have also impacted printed magazines, as advertiser spending has moved from print to electronic media. The future impact of technology on the Company's business is difficult to predict and could result in additional expenditures to restructure impacted operations or develop new technologies. In addition, the Company has made targeted acquisitions and investments in the Company's existing business to offer customers innovative services and solutions that further secure the Company's position as a technology leader in the industry.

The acquisitions of Consolidated Graphics, Esselte and MultiCorpora support the Company's strategic objective of generating profitable growth and improved cash flow and liquidity through targeted acquisitions. These acquisitions have enhanced the Company's existing capabilities and ability to serve its customers and have provided cost savings through the combination of best practices, complementary products and manufacturing and distribution capabilities.

The Company has implemented a number of strategic initiatives to reduce its overall cost structure and improve efficiency, including the restructuring, reorganization and integration of operations and streamlining of administrative and support activities. Future cost reduction initiatives could include the reorganization of operations and the consolidation of facilities. Implementing such initiatives might result in future restructuring or impairment charges, which may be substantial. Management also reviews the Company's operations and management structure on a regular basis to balance appropriate risks and opportunities to maximize efficiencies and to support the Company's long-term strategic goals.

Seasonality

Advertising and consumer spending trends affect demand in several of the end-markets served by the Company. Historically, demand for printing of magazines, catalogs, retail inserts and books is higher in the second half of the year driven by increased advertising pages within magazines, and holiday volume in catalogs, retail inserts and books. Partially offsetting this pattern, demand for financial print and related services is typically stronger in the first half of the year due to annual compliance requirements. As a result of the acquisition of Consolidated Graphics, which provides significant campaign-related printed products, quarterly and annual results may also be impacted by U.S. election cycles. These typical seasonal patterns can be impacted by overall trends in the U.S. and world economy. The seasonal pattern in 2014 was in line with historical patterns.

Raw Materials

The primary raw materials the Company uses in its print businesses are paper and ink. The Company negotiates with leading suppliers to maximize its purchasing efficiencies and uses a wide variety of paper grades, formats, ink formulations and colors. In addition, a substantial amount of paper used by the Company is supplied directly by customers. Variations in the cost and supply of certain paper grades and ink formulations used in the manufacturing process may affect the Company's consolidated financial results. Paper prices fluctuated during 2014, and volatility in the future is expected. Generally, customers directly absorb the impact of changing prices on customer-supplied paper. With respect to paper purchased by the Company, the Company has historically passed most changes in price through to its customers. Contractual arrangements and industry practice should support the Company's continued ability to pass on any future paper price increases, but there is no assurance that market conditions will continue to enable the Company to successfully do so. Management believes that the paper supply is consolidating, and there may be shortfalls in the future in supplies necessary to meet the demands of the entire marketplace. Higher paper prices and tight paper supplies may have an impact on customers' demand for printed products. The Company has undertaken various strategic initiatives to mitigate any foreseeable supply disruptions with respect to the Company's ink requirements. The Company also resells waste paper and other print-related by-products and may be impacted by changes in prices for these by-products.

The Company continues to monitor the impact of changes in the price of crude oil and other energy costs, which impact the Company's ink suppliers, logistics operations and manufacturing costs. Crude oil and energy prices continue to be volatile. The Company believes its logistics operations will continue to be able to pass a substantial portion of any increases in fuel prices directly to its customers in order to offset the impact of related cost increases. Decreases in fuel prices are also passed on to customers which negatively impacts sales. The Company generally cannot pass on to customers the impact of higher energy prices on its manufacturing costs. However, the Company enters into fixed price contracts for a portion of its natural gas purchases to mitigate the impact of changes in energy prices. The Company cannot predict sudden changes in energy prices and the impact that possible future changes in energy prices might have upon either future operating costs or customer demand and the related impact either will have on the Company's consolidated annual results of operations, financial position or cash flows.

Distribution

The Company's products are distributed to end-users through the U.S. or foreign postal services, through retail channels, electronically or by direct shipment to customer facilities. Through its logistics operations, the Company manages the distribution of most customer products printed by the Company in the U.S. and Canada to maximize efficiency and reduce costs for customers.

Postal costs are a significant component of many customers' cost structures and postal rate changes can influence the number of pieces that the Company's customers are willing to print and mail. On January 27, 2013, the United States Postal Service ("USPS") increased postage rates across all classes of mail by approximately 2.6%, on average. Under the 2006 Postal Accountability and Enhancement Act, it had been anticipated that postage would increase annually by an amount equal to or slightly less than the Consumer Price Index (the "CPI"). However, on December 24, 2013, the Postal Regulatory Commission (the "PRC") approved the USPS Board of Governors' request under the Exigency Provision in the applicable law for price increases of 4.3%. The exigent rate increase was implemented in addition to a 1.7% rate increase, equal to the CPI, for total price increases of 6.0%, on average, across all significant mail categories, effective January 26, 2014. According to the PRC's ruling, which is currently being appealed, the USPS must develop a plan to phase out the exigent rate increase once it has produced the revenue justified by the request. As of December 31, 2014, the USPS has not presented a plan for the required phase out. On January 15, 2015, the USPS filed for a CPI rate increase of 2.0%, which if approved by the PRC, will be effective April 26, 2015. As a leading provider of print logistics and among the largest mailers of standard mail in the U.S., the Company works closely with its customers and the USPS to offer innovative products and services to minimize postage costs. While the Company does not directly absorb the impact of higher postal rates on its customers' mailings, demand for products distributed through the U.S. or foreign postal services has been negatively impacted by changes in postal rates. The impact to the Company of the USPS's restructuring plans, many of which require legislative action, cannot currently be estimated. Mail delivery services through the USPS accounted for approximately 44% of the Company's logistics revenues during the year ended December 31, 2014.

During the year ended December 31, 2014, the Company experienced an increase in its costs of transportation, largely as a result of an industry-wide shortage of drivers resulting from regulations restricting the number of hours drivers can work and the severe winter weather in the first quarter. The Company's ability to pass on these increased costs to its customers varies based on contractual arrangements. Industry practice should support the Company's ability to pass on these cost increases when contractually allowed, but there is no assurance that market conditions will continue to enable the Company to successfully do so.

Customers

For each of the years ended December 31, 2014, 2013 and 2012, no customer accounted for 10% or more of the Company's consolidated net sales.

Technology, Research and Development

The Company has a research facility that supports the development and implementation of new technologies to meet customer needs and improve operating efficiencies. The Company’s cost for research and development activities is not material to the Company’s consolidated annual results of operations, financial position or cash flows.

Environmental Compliance

It is the Company’s policy to conduct its global operations in accordance with all applicable laws, regulations and other requirements. It is not possible to quantify with certainty the potential impact of actions regarding environmental matters, particularly remediation and other compliance efforts that the Company may undertake in the future. However, in the opinion of management, compliance with the present environmental protection laws, before taking into account estimated recoveries from third parties, will not have a material adverse effect on the Company’s consolidated annual results of operations, financial position or cash flows.

Employees

As of December 31, 2014, the Company had approximately 68,000 employees.

Available Information

The Company maintains an Internet website at www.rrdonnelley.com where the Company’s Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all amendments to those reports are available without charge, as soon as reasonably practicable following the time they are filed with, or furnished to, the Securities and Exchange Commission (“SEC”). The Principles of Corporate Governance of the Company’s Board of Directors, the charters of the Audit, Human Resources and Corporate Responsibility & Governance Committees of the Board of Directors and the Company’s Principles of Ethical Business Conduct are also available on the Investor Relations portion of www.rrdonnelley.com, and will be provided, free of charge, to any shareholder who requests a copy. References to the Company’s website address do not constitute incorporation by reference of the information contained on the website, and the information contained on the website is not part of this document.

Special Note Regarding Forward-Looking Statements

The Company has made forward-looking statements in this Annual Report on Form 10-K that are subject to risks and uncertew Roman" style="font-size:10.0pt;">Walter Reinhard

John Terzian

Report of Independent Directors on Executive Compensation

<u>Compensation Policies</u>

The independent directors establish the overall executive compensation guidelines of United Security Bancshares and establish the compensation plans and specific compensation levels of the Chief Executive Officer (CEO) and other executive officers. The independent directors review their approach to executive compensation annually.

The independent directors believe that executive officer compensation should be closely aligned with the performance of United Security Bancshares on a short-term and long-term basis, and that such compensation should be structured to assist United Security Bancshares in attracting and retaining key executives critical to its long-term success. To that end, the independent directors policy for compensation packages of executive officers consists of three components: (i) an annual base salary; (ii) the potential to earn incentive bonuses dependent on United Security Bancshares performance, and (iii) stock option awards and salary continuation plans designed to link shareholder interests with those of executive management by providing long-term incentives to executive officers of United Security Bancshares. The performance based aspects, items (ii) and (iii) above, are considered major elements of the overall compensation program.

Executive Officer Compensation

Base Salary: Effective January 1, 1997, a personnel committee of United Security Bank established a fixed-based salary program whereby the executive officers base salaries were frozen. Future compensation increases were to be achieved through the performance-based aspects of compensation. In establishing fixed base salaries, that personnel committee considered salaries of comparably sized California banks, as well as local area banks. The information was compiled from a variety of sources including the California Banker s Association, proxy materials, and other independent sources. However, executive officers may have their salaries adjusted from time to time as the size, complexity, and earnings of United Security Bancshares change, in order to ensure that total compensation remains competitive. The fixed based salary program was reviewed during 2000, and the base salaries were increased for the CEO and the other three executive officers as a result of the significant asset and earnings growth achieved since the plan was first enacted in 1997. The fixed based salary program was again reviewed by the independent directors in 2004, and the base salaries were increased for the executive officers except for the CEO whose salary remained the same. In October, 2005, the fixed base salary program was again reviewed by the independent directors and the base salary of the CEO was increased to $360,000 per year effective January 1, 2006, and the base salaries of three of the four other executive officers were also increased.

Annual Incentives: The independent directors believe that incentives for officers are a key component for ensuring continued growth in shareholder value through increased earnings. Accordingly, executive officers earn bonuses based upon a percentage of United Security Bancshares net income each year. Specifically, the CEO earns as a bonus 4% of United Security Bancshares net income and the four other executive officers each earn as a bonus 1% of United Security Bancshares net income.

All executive officers are entitled to participate in United Security Bank s ESOP and 401(k) programs but are subject to more stringent matching bank contributions than other employees of United Security Bank, as required by regulation.

Long-term Incentives: Long-term incentives are provided through the grant of stock options to certain employees of United Security Bank including executive officers. Incentive stock options are granted at the market value prevailing on the date of grant and are intended to retain and motivate key management to improve United Security Bancshares long-term shareholder value, as the options only have value if the market price of the underlying stock appreciates after the date granted. At December 31, 2005, total stock options that have been granted to senior management and remain outstanding totaled 90,000 shares.

A component of United Security Bank s 401(k)/ESOP recognizes and rewards employee s contributions to its successful operation by enabling those employees to acquire a proprietary interest in United Security Bancshares common stock. All employees of United Security Bank are eligible to participate in the 401(k) Plan upon the first day of the month after date of hire. Participants are automatically vested 100% in all employee contributions which they may invest in any of several authorized investment vehicles, including United Security Bancshares stock. United Security Bank contributes funds to match the employee s 401(k) Plan contribution up to 5% of the employee s eligible annual compensation. These contributions are invested in United Security Bancshares stock and are subject to certain vesting requirements over a period of six years. Under the ESOP portion of the plan, United Security Bancshares annually contributes shares of common stock for each eligible employee s account in an amount proportionate to the employee s compensation. United Security Bancshares contribution is at the discretion of the board of directors and has been 8% of employee compensation for all but two years since its inception in 1994 through 2005. In 2005, United Security Bancshares contribution was 10% of employee compensation. Employees thereby have a vested interest in contributing on an ongoing basis to the profitability of United Security Bancshares, and with a vesting period of six years, they have the additional incentive to remain with United Security Bank on a long-term basis.

United Security Bank has established a nonqualified salary continuation plan for five of United Security Bank s key employees, including the president and executive officers, which provides additional compensation benefits upon retirement for a period of 15 years. Future compensation under the plan is earned by the employees for services rendered through retirement and vests over a period of 12 years. In connection with the implementation of the salary continuation plans, United Security Bank purchased single premium universal life insurance policies on the life of each of the key employees covered under the plan. United Security Bank is the owner and beneficiary of these insurance policies.

Chief Executive Officer Compensation

Base Salary: Mr. Woods is subject to the same fixed salary program as other executive officers. During 2000, the personnel committee targeted Mr. Woods base salary at the competitive median for comparable sized California banks demonstrating comparable net earnings as taken from a variety of reliable sources. Mr. Woods base salary of $360,000 is currently believed reasonable by the independent directors based upon reference to competitive pay practices and the previously described compensation approach to executive officers. The independent directors believe that the performance

based compensation program, as it relates to the CEO, offers substantial additional compensation incentives to reward Mr. Woods for successful results.

Performance Based Compensation: Mr. Woods is eligible to participate in the same short-term and long-term incentive plans as the other executive officers of United Security Bancshares. In addition, the terms of the bonus plan for the CEO are different than the other executive officers.

Mr. Woods entire performance based compensation is tied directly to net income of United Security Bancshares. Pursuant to the provisions of the performance based compensation plan for the CEO, Mr. Woods was awarded a cash bonus totaling $441,385 as a result of United Security Bancshares performance during 2005.

As noted, United Security Bancshares executive compensation policy is based primarily on performance. The independent directors believes Mr. Woods has managed United Security Bancshares well, and has achieved above-normal results, not only in terms of earnings and asset growth, but also in overall stockholder value.

Independent Directors:

Robert G. Bitter, Pharm. D.
Stanley J. Cavalla
Tom Ellithorpe
R. Todd Henry
Robert M. Mochizuki
Ronnie D. Miller
Walter Reinhard
John Terzian
Michael T. Woolf, D.D.S.

<u>Independent Directors Interlocks and Insider Participation</u>

There are no independent directors interlocks between United Security Bancshares and other entities involving United Security Bancshares executive officers or board members.

United Security Bancshares

	Period Ending					
Index	**12/31/00**	**12/31/01**	**12/31/02**	**12/31/03**	**12/31/04**	**12/31/05**
United Security Bancshares	100.00	100.47	108.70	170.61	163.59	201.05
Russell 2000	100.00	102.49	81.49	120.00	142.00	148.46
Russell 3000	100.00	88.54	69.47	91.04	101.92	108.16
SNL $500M-$1B Bank Index	100.00	129.74	165.63	238.84	270.66	282.26

Source : SNL Financial LC, Charlottesville, VA **(434) 977-1600**
© 2006 www.snl.com

Proposal 1:

Election of Directors

Nominees

United Security Bancshares Bylaws provide that the number of directors of United Security Bancshares shall not be less than eight (8) nor more than fifteen (15) until changed by an amendment of the articles of incorporation or the bylaws adopted by the vote or written consent of holders of a majority of the outstanding shares entitled to vote, provided that a proposal to reduce the authorized number or the minimum number of directors below five cannot be adopted. The exact number of directors shall be fixed from time to time, within the range: (i) by a resolution duly adopted by the board of directors; (ii) by the vote of a majority of the shares entitled to vote represented at a duly held meeting at which a quorum is present, or by the written consent of the holders of a majority of the outstanding shares entitled to vote; or (iii) by approval of the shareholders. The exact number of directors has been set at ten (10).

The persons named below, all of whom are currently members of the board of directors, have been nominated for election as directors to serve until the 2007 annual meeting of shareholders and until their successors are elected and have qualified. Votes of the proxyholders will be cast in such a manner as to effect the election of all ten (10) nominees, as appropriate, (or as many thereof as possible under the rules of cumulative voting). The ten (10) nominees for directors receiving the most votes will be elected directors. In the event that any of the nominees should be unable to serve as a director, it is intended that the proxy will be voted for the election of such substitute nominee, if any, as shall be designated by the board of directors. The board of directors has no reason to believe that any of the nominees named below will be unable to serve if elected.

The following table sets forth, as of March 15, 2006, the names of, and certain information concerning, the persons nominated by the board of directors for election as directors of United Security Bancshares.

Name and Title Other than Director	Age	Year First Appointed Director	Principal Occupation During the Past Five Years
Robert G. Bitter, Pharm. D. Secretary	67	2001	Clinical Pharmacist at Madera Community Hospital, Owner of Berenda Creek Ranch and Partner in Selma Shopping Center.
Stanley J. Cavalla	55	2001	President of Suburban Steel, Inc. and Vice President of Tri State Stairway Corp.
Tom Ellithorpe	63	2001	Owner of Insurance Buying Service.
R. Todd Henry	47	2003	Certified Public Accountant, dba Henry & Company and Managing Member and Principal of Gold Coast Pistachios. Former Partner in Thompson, Henry & Co.
Ronnie D. Miller Vice Chairman	64	2001	President of Ron Miller Enterprises, Inc., dba Fresno Motor Sales and Fresno Commercial Lenders.

Name and Title Other than Director	Age	Year First Appointed Director	Principal Occupation During the Past Five Years
Robert M. Mochizuki	57	2004	Orthopedic surgeon, CEO of Orthopedic Associates Medical Clinic, Inc. and President of Cumulous Communications Corp.
Walter Reinhard	76	2001	Retired. Private Investor.
John Terzian	73	2001	Retired. Private investor.
Dennis R. Woods Chairman, President and Chief Executive Officer	58	2001	Chairman of the Board, President and Chief Executive Officer of United Security Bancshares and United Security Bank.
Michael T. Woolf, D.D.S.	50	2005	Dentist.

All of the nominees named above have served as members of United Security Bancshares board of directors since its inception, other than R. Todd Henry, Robert Mochizuki and Michael T. Woolf. All nominees will continue to serve if elected at the meeting until the 2007 annual meeting of shareholders and until their successors are elected and have been qualified.

None of the directors were selected pursuant to any arrangement or understanding other than with the directors and executive officers(1) of United Security Bancshares acting within their capacities as such. There are no family relationships between any of the directors of United Security Bancshares. No director of United Security Bancshares serves as a director of any company which has a class of securities registered under, or which is subject to the periodic reporting requirements of, the Securities Exchange Act of 1934, or of any company registered as an investment company under the Investment Company Act of 1940.

Compensation of Directors and Executive Officers

Director Compensation

During 2005, directors of United Security Bancshares and United Security Bank were compensated for monthly board meetings based on a performance rating structure ranging from a minimum of $800 per meeting up to $1,300 per meeting. In addition, the vice chairman received an additional $200 per meeting and the secretary received an additional $250 per meeting. Also, directors, other than Mr. Woods, were paid $200 for their attendance at committee meetings, other than loan committee meetings, and were paid $300 for their attendance at loan committee meetings, if such committee meeting was held on a day other than the regular board of directors meeting. The chairman of the audit committee also received $400 per audit meeting and the chairman of the risk management committee received $300 per risk management meeting.

---

(1) As used in this proxy statement, the term executive officer of United Security Bancshares includes the President/Chief Executive Officer, Senior Vice President/Chief Financial Officer, Senior Vice President/Chief Credit Officer, Senior Vice President/Chief Operating Officer and Senior Vice President/Chief Banking Officer.

In September, 2000, Mr. Cavalla, a director of United Security Bancshares, received a stock option under the United Security Bank 1995 Stock Option Plan to acquire 5,000 shares of common stock. The exercise price for these shares is $17.00 per share. This option is for a term of ten years expiring in September, 2010.

In March, 2005, Dr. Mochizuki, a director of United Security Bancshares, received a stock option under the United Security Bancshares 2005 Stock Option Plan to acquire 5,000 shares of common stock, vesting over a period of five years at 20% per year. The exercise price for these shares is $24.41 per share. This option is for a term of ten years expiring in March, 2015.

Director Emeritus Plan

During 1995, United Security Bank also established a Directors Emeritus Plan, which was amended in May, 2000. Those directors who (i) retire as directors of United Security Bank or (ii) retired as directors of Golden Oak Bank and who signed a shareholder s agreement, are eligible to participate in the Directors Emeritus Plan. Each Director Emeritus will be a lifetime position or until a Director Emeritus shall sell a majority of his or her ownership in United Security Bank. Directors Emeritus receive a monthly fee of $400, and receive preferential deposit and customer service with free checking as long as they serve as a Director Emeritus. Director Emeritus benefits terminate upon (i) the ultimate sale of United Security Bank, (ii) the sale of a majority of the Director Emeritus shares of United Security Bank s common stock, or (iii) the finding by United Security Bank s board of directors that the Director Emeritus is engaging in activities or making statements which are detrimental to United Security Bank or United Security Bank s public image.

Executive Officers

The following table sets forth information, as of March 15, 2006, concerning executive officers of United Security Bancshares:

Name	Age	Position and Principal Occupation For the Past Five Years
Dennis R. Woods	58	President and Chief Executive Officer of United Security Bank and United Security Bancshares.
Kenneth L. Donahue	57	Senior Vice President and Chief Financial Officer of United Security Bank and United Security Bancshares.
Rhodlee A. Braa	64	Senior Vice President and Chief Credit Officer of United Security Bank and United Security Bancshares.
David L. Eytcheson	65	Senior Vice President and Chief Operating Officer of United Security Bank and United Security Bancshares.
Bill F. Scarborough	52	Senior Vice President and Chief Banking Officer of United Security Bank and United Security Bancshares since August, 2005. Former Senior Vice President and Regional Manager of Bank of the West from February, 2002 through November, 2004. Prior to that time, Senior Vice President and Regional Manager of Sanwa Bank of California.

Executive Compensation

The persons serving as the executive officers of United Security Bancshares received during 2005, and are expected to continue to receive in 2006, cash compensation in their capacities as executive officers of United Security Bank. The following Summary Compensation Table indicates the compensation of United Security Bancshares executive officers.

Summary Compensation Table

		Annual Compensation			Long Term Compensation Awards		Payouts	
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
Name and Principal Position	Year	Salary ($)	Bonus ($)	Other Annual Compen-sation ($)	Restricted Stock Award(s) ($)	Options/ SARs	LTIP Payouts ($)	All Other Compen-sation ($)(2)
Dennis R. Woods	2005	$ 254,300(1)	$ 441,385	0	0	0	0	$ 30,914
President and Chief	2004	$ 254,300(1)	$ 344,246	0	0	0	0	$ 33,295
Executive Officer	2003	$ 254,300(1)	$ 299,072	0	0	0	0	$ 32,854
Kenneth L.	2005	$ 118,000	$ 108,407	0	0	0	0	$ 30,497
Donahue	2004	$ 118,000	$ 84,549	0	0	0	0	$ 32,324
Senior Vice President and Chief Financial Officer	2003	$ 112,000	$ 72,456	0	0	0	0	$ 31,302
David L. Eytcheson	2005	$ 118,000	$ 108,407	0	0	0	0	$ 30,494
Senior Vice	2004	$ 118,000	$ 84,549	0	0	0	0	$ 32,324
President and Chief Operating Officer	2003	$ 112,000	$ 72,456	0	0	0	0	$ 31,302
Rhodlee A. Braa	2005	$ 118,000	$ 108,407	0	0	0	0	$ 30,885
Senior Vice	2004	$ 118,000	$ 84,549	0	0	0	0	$ 32,206
President and Chief Credit Officer	2003	$ 112,000	$ 72,456	0	0	0	0	$ 31,302

(1) Includes $15,300 in directors fees.

(2) This amount represents United Security Bank s contribution under United Security Bank s Cash or Deferred 401(k) Plan, United Security Bank s Employee Stock Ownership Plan and the cost of premiums for excess disability, medical and life insurance.

Option/SAR Exercises and Year-End Value Table

Aggregated Option/SAR Exercises in Last Fiscal Year and Year-End Option/SAR Value

(a) Name	(b) Shares Acquired on Exercise (#)	(c) Value Realized ($)	(d) Number of Unexercised Options/SARs at Year-End (#) Exercisable/ Unexercisable	(e) Value of Unexercised In-the-Money Options/SARs at Year-End ($) Exercisable/ Unexercisable
Kenneth L. Donahue	0	N/A	Options Only 30,000/0	Options Only $575,100/$0
Rhodlee A. Braa	0	N/A	Options Only 30,000/0	Options Only $575,100/$0

Mr. Woods has a salary continuation agreement with United Security Bank which provides that United Security Bank will pay him $100,000 per year for 15 years following his retirement from United Security Bank at age 61 (Retirement Age). In the event of disability while Mr. Woods is actively employed prior to Retirement Age, he will have the option to take a benefit amount based on the vesting schedule below for 15 years beginning at the earlier of the time when he reaches age 61 or the date on which he is no longer entitled to disability benefits under his principal disability insurance policy. In the event Mr. Woods dies while actively employed by United Security Bank prior to Retirement Age, his beneficiary will receive from United Security Bank $100,000 per year for 15 years beginning one month after his death. In the event of termination without cause, early retirement, or voluntary termination, Mr. Woods shall receive a benefit amount based on the vesting schedule below for 15 years beginning with the month following the month in which Mr. Woods terminates employment and attains age 61. The vesting schedule is 25% for the first year of service beginning July 3, 1996, 15% for the second year of service, 10% for the third year of service, 6% per year of service for the following eight years of service and 2% for the twelfth year of service. In the event Mr. Woods is terminated for cause he will forfeit any benefits from the salary continuation agreement.

In addition, Mr. Woods also has an agreement with United Security Bank for severance compensation in the event there is a change in control of United Security Bank. The agreement is for a term of five years beginning February 26, 2002. Pursuant to the agreement, in the event there is an acquisition (as defined in the agreement) of United Security Bank, then the resulting corporation shall pay Mr. Woods a lump sum amount in cash equal to the sum of (i) the last three (3) years of his total compensation, inclusive of his base annual salary and bonus and (ii) the amount necessary to cover any golden parachute taxes that may be assessed pursuant to Section 280G of the Internal Revenue Code.

Mr. Donahue has a salary continuation agreement with United Security Bank which provides that United Security Bank will pay him $50,000 per year for 15 years following his retirement from United Security Bank at age 59 (Retirement Age). In the event of disability while Mr. Donahue is actively employed prior to Retirement Age, he will have the option to take a benefit amount based on the vesting schedule below for 15 years beginning at the earlier of the time when he reaches age 59 or the date on which he is no longer entitled to disability benefits under his principal disability insurance policy. In the event Mr. Donahue dies while actively employed by United Security Bank prior to Retirement Age, his beneficiary will receive from United Security Bank $50,000 per year for 15 years beginning one month after his death. In the event of termination without cause, early retirement, or voluntary termination, Mr. Donahue shall receive a benefit amount based on the vesting schedule below for 15 years beginning with the month following the month in which Mr. Donahue terminates employment and attains age 59. The vesting schedule is 8.33% for each year of service beginning January 1, 1997. In the event Mr. Donahue is terminated for cause he will forfeit any benefits from the salary continuation agreement.

In addition, Mr. Donahue also has an agreement with United Security Bank for severance compensation in the event there is a change in control of United Security Bank. The agreement is for a term of five years beginning February 26, 2002. Pursuant to the agreement, in the event there is an acquisition (as defined in the agreement) of United Security Bank, then the resulting corporation shall pay Mr. Donahue a lump sum amount in cash equal to his last year s total compensation, inclusive of his base annual salary and bonus reduced by such amount, if any so that all benefits that are accelerated as a result of the acquisition will not be subject to any golden parachute taxes that may be assessed pursuant to Section 280G of the Internal Revenue Code.

Mr. Eytcheson has a salary continuation agreement with United Security Bank which provides that United Security Bank will pay him $50,000 per year for 15 years following his retirement from United Security Bank at age 68 (Retirement Age). In the event of disability while Mr. Eytcheson is actively employed prior to Retirement Age, he will have the option to take a benefit amount based on the vesting schedule below for 15 years beginning at the earlier of the time when he reaches age 68 or the date on which he is no longer entitled to disability benefits under his principal disability insurance policy. In the event Mr. Eytcheson dies while actively employed by United Security Bank prior to Retirement Age, his beneficiary will receive from United Security Bank $50,000 per year for 15 years beginning one month after his death. In the event of termination without cause, early retirement, or voluntary termination, Mr. Eytcheson shall receive a benefit amount based on the vesting schedule below for 15 years beginning with the month following the month in which Mr. Eytcheson terminates employment and attains age 68. The vesting schedule is 8.33% for each year of service beginning January 1, 1997. In the event Mr. Eytcheson is terminated for cause he will forfeit any benefits from the salary continuation agreement.

In addition, Mr. Eytcheson also has an agreement with United Security Bank for severance compensation in the event there is a change in control of United Security Bank. The agreement is for a term of five years beginning February 26, 2002. Pursuant to the agreement, in the event there is an acquisition (as defined in the agreement) of United Security Bank, then the resulting corporation shall pay Mr. Eytcheson a lump sum amount in cash equal to his last year s total compensation, inclusive of his base annual salary and bonus reduced by such amount, if any so that all benefits that are accelerated as a result of the acquisition will not be subject to any golden parachute taxes that may be assessed pursuant to Section 280G of the Internal Revenue Code.

Mr. Braa has a salary continuation agreement with United Security Bank which provides that United Security Bank will pay him $50,000 per year for 15 years following his retirement from United Security Bank at age 66 (Retirement Age). In the event of disability while Mr. Braa is actively employed prior to Retirement Age, he will have the option to take a benefit amount based on the vesting schedule below for 15 years beginning at the earlier of the time when he reaches age 66 or the date on which he is no longer entitled to disability benefits under his principal disability insurance policy. In the event Mr. Braa dies while actively employed by United Security Bank prior to Retirement Age, his beneficiary will receive from United Security Bank $50,000 per year for 15 years beginning one month after his death. In the event of termination without cause, early retirement, or voluntary termination, Mr. Braa shall receive a benefit amount based on the vesting schedule below for 15 years beginning with the month following the month in which Mr. Braa terminates employment and attains age 66. The vesting schedule is 8.33% for each year of service beginning January 1, 1997. In the event Mr. Braa is terminated for cause he will forfeit any benefits from the salary continuation agreement.

In addition, Mr. Braa also has an agreement with United Security Bank for severance compensation in the event there is a change in control of United Security Bank. The agreement is for a term of five years beginning February 26, 2002. Pursuant to the agreement, in the event there is an acquisition (as defined in the agreement) of United Security Bank, then the resulting corporation shall pay Mr. Braa a lump sum amount in cash equal to his last year s total compensation, inclusive of his base annual salary and bonus reduced by such amount, if any so that all benefits that are accelerated as a result of the acquisition will not be subject to any golden parachute taxes that may be assessed pursuant to Section 280G of the Internal Revenue Code.

Independent Accountants

The firm of Moss Adams LLP served as certified independent public accountants for United Security Bancshares with respect to the year 2005, and Moss Adams LLP has been appointed as United Security Bancshares certified independent public accountants for 2006. United Security Bancshares board has determined the firm of Moss Adams LLP to be fully independent of the operations of United Security Bancshares.

Aggregate fees billed by Moss Adams LLP to United Security Bancshares for the year ended 2005 are as follows:

Audit and audit related fees	$	214,564
Tax fees associated with consulting and return preparation		18,770

The Audit Committee of United Security Bancshares has considered the provision of nonaudit services provided by Moss Adams LLP to be compatible with maintaining the independence of Moss Adams LLP.

Moss Adams LLP audited United Security Bancshares financial statements for the year ended December 31, 2005. It is anticipated that a representative of Moss Adams LLP will be present at the meeting and will be available to respond to appropriate questions from shareholders at the meeting.

Shareholder Proposals

Shareholder proposals to be submitted for presentation at the 2007 annual meeting of shareholders of United Security Bancshares must be received by United Security Bancshares no later than December 31, 2006.

Certain Transactions

Some of the directors and executive officers of United Security Bancshares and their immediate families, as well as the companies with which they are associated, are customers of, or have had banking transactions with, United Security Bank in the ordinary course of United Security Bank s business, and United Security Bank expects to have banking transactions with such persons in the future. In management s opinion, all loans and commitments to lend in such transactions were made in compliance with applicable laws and on substantially the same terms, including interest rates and collateral, as those prevailing for comparable transactions with other persons of similar creditworthiness and in the opinion of management did not involve more than a normal risk of collectibility or present other unfavorable features.

Other Matters

Management does not know of any matters to be presented at the meeting other than those set forth above. However, if other matters come before the meeting, it is the intention of the persons named in the accompanying proxy to vote the shares represented by the proxy in accordance with the recommendations of management on such matters, and discretionary authority to do so is included in the proxy.

	United Security Bancshares
Dated: April 17, 2006	Robert G. Bitter, Secretary

It is very important that every shareholder vote. We urge you to sign and return the enclosed proxy as promptly as possible, whether or not you plan to attend the meeting in person. In order to facilitate the providing of adequate accommodations, please indicate on the proxy whether or not you expect to attend the meeting.

A copy of United Security Bancshares annual report to the Securities and Exchange Commission on Form 10-K for the year ended December 31, 2005 is available without charge upon written request to Mr. Ken Donahue at 1525 East Shaw Avenue, Fresno, California, 93710.

Exhibit A

United Security Bancshares
United Security Bank

AUDIT COMMITTEE CHARTER

OVERVIEW

The Audit Committee is a standing committee of the Board of Directors (the Board) of United Security Bancshares and United Security Bank (the Bank).

Establishment of this Charter hereby delegates certain responsibilities to the Audit Committee to assist in fulfilling the Board s duties to the Company and shareholders. It is not the Committee s responsibility to plan or conduct audits, or to determine that the Bank s financial statements and disclosures are complete and accurate and in accordance with generally accepted accounting principles and applicable rules and regulations. These are the responsibilities of management and the independent auditor.

As more fully set forth below, the purpose of the Committee is to assist the Board in its oversight of:

The integrity of the financial reporting;

Compliance with legal and regulatory requirements;

The effectiveness of internal controls and procedures;

The qualifications and independence of the independent auditors; and

The performance of the Company s independent auditors, and of the internal audit program.

AUTHORITY

In order to establish the governing principles of the Audit Committee, the Board of Directors originally adopted this Charter on September 24, 2002, and as most recently amended and restated on May 17, 2005.

The Committee shall be given the resources and assistance necessary to meet its responsibilities, including appropriate funding, unrestricted access to Company documents, employees, and the independent auditors. The Committee shall also have authority to engage outside legal, accounting, and other advisors, as it deems necessary or appropriate.

MEMBERSHIP

The Committee shall consist of three or more Directors, serving at the pleasure of the Board for such term, or terms, as the Board may determine. Each Committee member shall meet the independence requirements established by the Securities and Exchange Commission and listing standards of the NASDAQ Exchange, specifically Rule 4350 (d), as well as, the independence standards set forth in the Company s *Corporate Governance Principles*.

No member of the Audit Committee shall receive, directly or indirectly, any compensation from the Company, other than Directors fees and benefits.

All Committee members shall be financially literate, having a basic understanding of financial controls and reporting. At least one Committee member shall also have accounting or related financial management expertise, including at a minimum, the expertise required by rules of the Securities and Exchange Commission and listing standards of Nasdaq Rule 4350(d)(2)(A).

PROCEDURES

Meetings
The Committee shall meet as often as it determines, but no less than four times annually. The presence of fifty percent of the members of the Committee shall constitute a quorum of the Committee, and the act of the majority of the members present at any meeting at which a quorum is present shall be the act of the Committee.

Minutes
The Committee shall keep minutes, and other relevant records, of all its meetings. Minutes will be included in the monthly board packet for Directors review. To the extent practicable, the meeting agenda, draft minutes from the prior meeting, and supporting materials, shall be provided to Committee members prior to each meeting to allow time for review.

Accountability
In keeping with Nasdaq Rule 4350(d)(1), the Audit Committee will review and reassess the adequacy of this Charter not less than annually. In conducting this annual review, the Committee will assess compliance with Nasdaq Rule 4350, and appropriate banking regulations regarding Committee composition, independence, and scope of responsibilities. Results of the Committee s review of its Charter, and any appropriate updates, will be duly reported to the full Board.

The Committee may request any officer or employee of the Bank, or the Bank s outside counsel, or independent auditors to attend an Audit Committee meeting, or to meet with the members in an executive session.

The Committee shall review its own performance annually.

SCOPE OF RESPONSIBILITIES

Executive management bears primary responsibility for financial, and other, reporting, for establishing the system of internal controls, and for ensuring compliance with laws, regulations and company policies. The Committee s responsibilities and related key processes are described as follows. From time to time, the Committee may take on additional responsibilities at the request of the Board.

The Committee bears primary responsibility for overseeing the Company s relationship with the retained internal audit firms. In carrying out this responsibility, the Committee shall:

Review the appointment and replacement of the Risk Manager.

Review annually the responsibilities, budget and resources of the Audit Program.

Review the development and implementation of the *Annual Audit Plan.*

OVERSIGHT OF INDEPENDENT AUDITORS

The Committee bears primary responsibility for overseeing the Company s relationship with its independent auditors. In carrying out this responsibility, the Committee shall:

Be directly responsible for the appointment, compensation, retention, oversight of the work, and termination of the independent auditor (including resolution of disagreements between management and the auditor regarding financial reporting) engaged for the purpose of preparing or issuing audit reports, or performing other audit, review, or attest services for USB.

Establish policies and procedures for the pre-approval of all audit and permissible non-audit services and fees of the independent auditor.

Meet with the independent auditor to review the planning of its audit of the Bank s financial statements.

Discuss matters relating to the conduct of the audit as required by professional auditing standards.

Review any audit problems or difficulties the auditor may have encountered in its work and management s response.

At least annually, obtain and review a report by the independent auditor describing:

The firm s internal quality control procedures;

Any material issues raised by the most recent internal quality control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities, within the past five years, respecting one or more independent audits carried out by the firm;

Any steps taken to deal with any such issues; and in order to assess the auditor s independence
All relationships between the independent auditor and the Bank.

Discuss with the independent auditor any disclosed services or relationships that may impact the firm s independence and objectivity. Evaluate the qualifications, performance, and independence of the independent auditor, including whether the provision of non-audit services is compatible with maintaining the auditor s independence. If so determined by the Committee, recommend that the Board take appropriate action, in response to the auditor s report, to satisfy itself of the independence of the firm.

FINANCIAL REPORTING
The Committee shall monitor the preparation, by management, of the Bank s quarterly and annual external financial reports. In carrying out this responsibility, the Committee shall:

Discuss the annual audited financial statements, and quarterly financial statements, with management and the independent auditor, including the disclosures under *Management s Discussion and Analysis of Financial Condition and Results of Operations* .

Discuss and recommend to the Board whether the Bank s audited financial statements should be included in the annual report on Form 10-K.

Discuss earnings press releases, as well as, financial information and earnings guidance provided to analysts and rating agencies (including any use of pro-forma or adjusted non-GAAP information).

Review with management and the independent auditor significant accounting principles and practices applied by the Bank in preparing its financial statements, including a discussion with the independent auditor regarding its judgments about the quality of accounting principles used in the Bank s financial reporting.

Review and discuss reports from the independent auditor on, among other things:

Critical accounting policies and practices to be used;

Any accounting adjustments that were noted or proposed by the auditor but were passed (as immaterial or otherwise);

Alternative treatments of financial information within generally accepted accounting principles; and

Any communications between the audit team and the audit firm s national office respecting auditing or accounting issues presented by the engagement;

Other material written communications between the independent auditor and management, such as any management letter and the Bank s response to such letter, or schedule of unadjusted differences.

Review changes to accounting principles and practices that materially impact the Bank s consolidated financial statements.

Review with management its evaluation of internal control over financial reporting, and review management s conclusions as to the effectiveness of internal control over financial reporting.

INTERNAL CONTROL
The Committee shall have responsibility for monitoring management s continuing implementation of an effective system of internal control. The purpose of which is to help promote the reliability of financial and operating information, and compliance with applicable laws, regulations and Bank policies, including those related to business conduct and ethics. In carrying out this responsibility, the Committee shall:

Inquire of management, and internal and independent auditors concerning any deficiencies in the Bank s policies and procedures that could adversely affect the adequacy of internal controls and the financial reporting process, and review any special audit steps adopted in light of any material control deficiencies, and the timeliness and reasonableness of proposed corrective actions;

Review internal audit findings and recommendations with regard to compliance with laws, ethical conduct and conflicts of interest, and managements responses thereto;

Hold periodic mandatory executive sessions with each of management, the internal auditors and the independent auditors.

Review management s responses to recommendations for improving internal controls in the independent auditor s Management Letters;

Discuss the company s policies with respect to risk assessment and risk management.

Review significant cases of conflict of interest, misconduct, or fraud;

Review significant issues between the Bank and regulatory agencies; and

Review, as appropriate, material litigation involving the Bank.

OTHER RESPONSIBILITIES
The Committee will, at least annually, review and advise the Board regarding administration of the Bank s *Code of Business Conduct and Ethics* and *Code of Ethics for Senior Financial Officers*.

The Committee will establish procedures for the receipt, retention, treatment, and investigation of complaints received regarding accounting, internal accounting controls, or auditing matters, and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

The Committee will, at least annually, review insurance programs from the standpoint of gaps and exposure, as well as, fraud.

The Committee will oversee a CRA and Regulatory Compliance Program.

* * * *

Proxy

United Security Bancshares

This proxy is solicited on behalf of the board of directors. The undersigned hereby appoints Tom Ellithorpe, Ronnie D. Miller and John Terzian as proxyholders with full power of substitution, to represent, vote and act with respect to all shares of common stock of United Security Bancshares which the undersigned would be entitled to vote at the meeting of shareholders to be held on May 17, 2006, at 7:00 p.m., in the Crown Room at the Piccadilly Inn located at 2305 West Shaw Avenue, Fresno, California or any adjournments thereof, with all the powers the undersigned would possess if personally present as follows:

1. Election of ten (10) persons to be directors.

Robert G. Bitter, Pharm. D.	Ronnie D. Miller
Stanley J. Cavalla	Walter Reinhard
Tom Ellithorpe	John Terzian
R. Todd Henry	Dennis R. Woods
Robert M. Mochizuki	Michael T. Woolf, D.D.S.

[ ] FOR ALL NOMINEES LISTED ABOVE (except as marked to the contrary below)

[ ] WITHHOLD AUTHORITY

(INSTRUCTION: To withhold authority to vote for any individual nominee, write that nominee=s name on the space below:)

____

2. Transaction of such other business as may properly come before the meeting and any adjournment or adjournments thereof.

Please Sign and Date Below

The board of directors recommends a vote FOR each of the directors named above. The proxy confers authority to vote and shall be voted in accordance with such recommendation unless a contrary instruction is indicated, in which case, the shares represented by the proxy will be voted in accordance with such instruction. **If no instruction is specified with respect to the matter to be acted upon, the shares represented by the proxy will be voted in accordance with the recommendations of management. If any other business is presented at the meeting, this proxy confers authority to and shall be voted in accordance with the recommendations of management.**

(Please date this proxy and sign your name exactly as it appears on your stock certificate. Executors, administrators, trustees, etc., should give their full title. If a corporation, please sign in full corporate name by the president or other authorized officer. If a partnership, please sign in partnership name by an authorized person. All joint owners should sign.)

[ ] I Do [ ] I Do Not Expect to Attend the Meeting.

(Number of Shares)

(Please Print Your Name)

(Please Print Your Name)

(Date)

(Signature of Shareholder)

(Signature of Shareholder)

This proxy is solicited on behalf of the board of directors and may be revoked prior to its exercise by filing with the secretary of United Security Bancshares a duly executed proxy bearing a later date or an instrument revoking this proxy or by attending the meeting and voting in person.