UNITED BANCORPORATION OF ALABAMA INC
Form 10-Q
November 13, 2007

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, 2007
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 þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o Accelerated filer o
Non-accelerated filer þ

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock as of November 13, 2007.

Class A Common Stock.... 2,241,413 Shares
Class B Common Stock.... -0- Shares

UNITED BANCORPORATION OF ALABAMA, INC.
FORM 10-Q
For the Quarter Ended September 30, 2007
INDEX

Table of Contents

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

United Bancorporation of Alabama, Inc.
and Subsidiary
Consolidated Balance Sheets

	September 30, 2007 (Unaudited)	December 31, 2006
Assets:		
Cash and due from banks	$ 11,932,698	$ 19,558,529
Interest bearing deposits in banks	3,657,887	31,645,717
Federal funds sold	9,945,000	0
Cash and cash equivalents	25,535,585	51,204,246
Securities available for sale (amortized cost of $97,416,350 and $109,175,484 respectively)	96,850,886	108,410,473
Loans	262,716,167	245,638,722
Allowance for loan losses	3,309,256	3,011,731
Net loans	259,406,911	242,626,991
Premises and equipment, net	15,517,782	11,796,175
Interest receivable	3,961,828	3,579,922
Intangible assets	934,763	917,263
Other assets	6,255,244	7,635,904
Total assets	408,462,999	426,170,974
Liabilities and Stockholders Equity:		
Deposits:		
Non-interest bearing	61,583,243	64,993,029
Interest bearing	265,153,606	261,842,434
Total deposits	326,736,849	326,835,463
Securities sold under agreements to repurchase	30,631,077	44,410,101
Advances from Federal Home Loan Bank of Atlanta	1,799,650	6,939,500
Treasury, tax, and loan account	511,489	857,015
Interest payable	1,098,883	937,314
Accrued expenses and other liabilities	5,635,611	1,144,008
Note payable to Trust, net of debt issuance costs of $0 and $111,147 in 2007 and 2006 respectively	10,310,000	14,322,853

Total liabilities	376,723,559	395,446,254
Stockholders equity:		
Class A common stock, $0.01 par value. Authorized 5,000,000 shares; issued and outstanding, 2,377,471 and 2,375,471 shares in 2007 and 2006, respectively	23,775	23,755
Class B common stock, $0.01 par value. Authorized 250,000 shares; no shares issued or outstanding	0	0
Preferred stock of $.01 par value. Authorized 250,000 shares; no shares issued or outstanding	0	0
Additional paid in capital	5,791,215	5,673,088
Accumulated other comprehensive (loss), net of tax	(346,837)	(475,478)
Retained earnings	27,069,549	26,341,116
	32,537,702	31,562,481
Less: 136,058 and 142,789 treasury shares, at cost, respectively	798,262	837,761
Total stockholders equity	31,739,440	30,724,720
Total liabilities and stockholders equity	$ 408,462,999	$ 426,170,974

See Notes to Consolidated Financial Statements

3

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	
	2007	2006	2007	2006
Interest income:				
Interest and fees on loans	$ 5,616,402	$ 5,401,421	$ 16,188,641	$ 15,235,377
Interest on investment securities available for sale:				
Taxable	839,446	517,565	2,883,701	1,538,285
Nontaxable	369,901	322,368	1,067,981	936,114
Total investment income	1,209,347	839,933	3,951,682	2,474,399
Other interest income	52,897	116,657	652,971	410,332
Total interest income	6,878,646	6,358,011	20,793,294	18,120,108
Interest expense:				
Interest on deposits	2,731,059	1,851,026	7,661,024	4,783,035
Interest on other borrowed funds	781,254	712,714	2,604,000	1,862,848
Total interest expense	3,512,313	2,563,740	10,265,024	6,645,883
Net interest income	3,366,333	3,794,271	10,528,270	11,474,225
Provision for loan losses	240,000	240,000	630,000	720,000
Net interest income after provision for loan losses	3,126,333	3,554,271	9,898,270	10,754,225
Noninterest income:				
Service charge on deposits	807,481	711,615	2,147,783	2,038,730
Commission on credit life	17,963	17,248	44,541	43,277
Investment securities gains (losses), net		3,886	(306)	(4,879)
Other	242,607	211,461	710,898	792,970
Total noninterest income	1,068,051	944,210	2,902,916	2,870,098
Noninterest expense:				
Salaries and benefits	2,118,849	1,906,969	6,255,238	5,555,420
Net occupancy expense	665,035	668,340	1,885,163	1,802,157

Other	1,099,973	1,274,026	3,268,264	3,146,403
Total noninterest expense	3,883,857	3,849,335	11,408,665	10,503,980
Earnings before income tax expense (benefit)	310,527	649,146	1,392,521	3,120,343
Income tax expense (benefit)	(6,461)	139,642	160,347	833,163
Net earnings	$ 316,988	$ 509,504	$ 1,232,174	$ 2,287,180
Basic earnings per share	$ 0.14	$ 0.23	$ 0.55	$ 1.03
Diluted earnings per share	$ 0.14	$ 0.23	$ 0.55	$ 1.02
Basic weighted average shares outstanding	2,239,815	2,223,594	2,237,323	2,223,855
Diluted weighted average shares outstanding	2,246,461	2,231,755	2,243,969	2,232,016
Cash dividend per share	$ 0.08	$	$ 0.23	$ 0.15
Statement of Comprehensive Income				
Net earnings	$ 316,988	$ 509,504	$ 1,232,174	$ 2,287,180
Other comprehensive income (loss), net of tax:				
Unrealized holding gain (loss) arising during the period	901,200	684,976	128,457	(23,372)
Reclassification adjustment for gains (losses) included in net income		2,332	184	2,927
Comprehensive income (loss)	$ 1,218,188	$ 1,196,812	$ 1,360,815	$ 2,260,881

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 2007	Nine Months Ended September 30 2006
Cash flows from operating activities		
Net earnings	$ 1,232,174	$ 2,287,180
Adjustments to reconcile net earnings to net cash provided by operating activities		
Provision for loan losses	630,000	720,000
Depreciation of premises and equipment	826,626	926,890
Net amortization of premium on investment securities	187,457	70,478
Loss on sales of investment securities available for sale, net	306	4,879
Gain on sale of other real estate	(28,016)	(12,501)
Stock-based compensation	4,268	12,714
Gain on disposal of equipment	(3,435)	(3,987)
Writedown of other real estate		200,000
Increase in interest receivable	(381,906)	(469,446)
(Increase) decrease in other assets	326,072	(294,714)
Increase in interest payable	161,569	195,049
Increase (decrease) in accrued expenses and other liabilities	542,215	(381,520)
Net cash provided by operating activities	3,497,330	3,255,022
Cash flows from investing activities		
Proceeds from maturities, calls, and principal repayments of investment securities available for sale	104,585,075	7,504,977
Proceeds from sales of investment securities available for sale	16,958,673	1,743,150
Purchases of investment securities available for sale	(109,984,970)	(14,548,141)
Net increase in loans	(17,614,920)	(25,215,790)
Purchases of premises and equipment, net	(4,561,036)	(3,881,647)
Proceeds from sale of premises and equipment	16,238	24,832
Insurance claim received	1,038,775	
Proceeds from sale of other real estate	173,016	177,501
Net cash used in investing activities	(9,389,149)	(34,195,118)
Cash flows from financing activities		
Net decrease in deposits	(98,614)	(5,411,872)
Net increase (decrease) in securities sold under agreements to repurchase	(13,779,024)	12,381,804
Cash dividends	(561,758)	(333,216)
Exercise of stock options	22,400	
Purchase of treasury stock		(63,750)
Proceeds from sale of treasury stock	125,530	96,565

Advances from FHLB Atlanta		5,000,000
Proceeds from Trust Preferred Issuance		10,000,000
Repayments of advances from FHLB Atlanta	(5,139,850)	(7,148,465)
Decrease in other borrowed funds	(345,526)	(730,614)
Net cash (used in) provided by financing activities	(19,776,842)	13,790,452
Net decrease in cash and cash equivalents	(25,668,661)	(17,149,644)
Cash and cash equivalents, beginning of period	51,204,246	50,866,843
Cash and cash equivalents, end of period	$ 25,535,585	$ 33,717,199
Supplemental disclosures		
Cash paid during the period for:		
Interest	$ 10,103,455	$ 6,450,834
Income taxes	94,454	1,155,000
Noncash transactions		
Transfer of loans to other real estate through foreclosure	$ 205,000	$ 240,000

See Notes to Consolidated Financial Statements

5

Table of Contents

UNITED BANCORPORATION OF ALABAMA, INC.
AND SUBSIDIARY
Notes to 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, 2006.

NOTE 2 Earnings per Share

Basic earnings per share were computed by dividing net earnings by the weighted average number of shares of common stock outstanding during the three and nine month periods ended September 30, 2007 and 2006. Common stock outstanding consists of issued shares less treasury stock. Diluted earnings per share for the three and nine month periods ended September 30, 2007 and 2006 were computed by dividing net earnings by the weighted average number of shares of common stock and the dilutive effects of the shares subject to options awarded under the Corporation s 1998 Stock Option Plan, based on the treasury stock method using an average fair market value of the stock during the respective periods. Presented below is a summary of the components used to calculate diluted earnings per share for the three and nine months ended September 30, 2007 and 2006:

Table of Contents

	Three Months Ended September		Nine Months Ended September	
	2007	2006	2007	2006
Diluted earnings per share	$ 0.14	$ 0.23	$ 0.55	$ 1.02
Weighted average common shares outstanding	2,239,815	2,223,594	2,237,323	2,223,855
Effect of the assumed exercise of stock options based on the treasury stock method using average market price	6,646	8,161	6,646	8,161
Total weighted average common shares and potential common stock outstanding	2,246,461	2,231,755	2,243,969	2,232,016

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):

	September 30	
	2007	2006
Balance at beginning of year	$ 3,011	$ 3,029
Provision charged to expense	630	720
Less Loans charged off	(355)	(1,112)
Recoveries	23	63
Other Adjustments		97
Balance at end of period	$ 3,309	$ 2,797

At September 30, 2007 and 2006, the amount of nonaccrual loans was $6,980,236 and $2,463,396 respectively. See Allowance for Loan Losses below.

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, 2007, the Corporation had two stock-based compensation plans. The 1998 Stock Option Plan is 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, 2006. The Corporation s stockholders approved the 2007 Equity Incentive Plan at the annual meeting of the Corporation on May 2, 2007. Awards under the 2007 Equity Incentive Plan may be made in the following types: stock options, stock appreciation rights, restricted stock, performance units, supplemental cash payments, and deferred compensation. The 2007 Equity Incentive Plan is described more fully in the Corporation s Proxy Statement on Schedule 14 A filed with the Securities and Exchange Commission on April 9, 2007. As of September 30, 2007, no awards had been made from the 2007 Equity Incentive Plan.

Effective January 1, 2006, the Corporation adopted SFAS No. 123 (revised), Share-Based Payment (SFAS 123(R)) utilizing the modified prospective approach.

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

The following is a summary of the Corporation s weighted average assumptions used to estimate the weighted-average per share fair value of options granted on the date of grant using the Black-Scholes option-pricing model. There were no stock options granted during the nine months ended September 30, 2007.

	September 30 2007	2006
Weighted-average expected life (in years)	N/A	5.00
Expected Volatility	N/A	20.00%
Risk-free interest rate	N/A	5.02%
Expected dividend yield	N/A	1.90%
Weighted-average fair value of options granted during the period	N/A	$ 4.26

At September 30, 2007, there was approximately $15,000 of unrecognized compensation cost related to share-based payments which is expected to be recognized over a period of 3 years.

The following table represents stock option activity for the nine months ended September 30, 2007:

	Shares under option	**Weighted average exercise price per share**	**Weighted average remaining contractual life**
Options outstanding, beginning of period	55,600	14.27	
Granted			
Surrendered			
Exercised	(2,000)	11.20	
Options outstanding, end of period	53,600	14.38	3.9
Exercisable, end of period	50,400	14.23	3.5

The Corporation has no plans to award future stock option grants to employees and directors under the 1998 Stock Option Plan of United Bancorporation of Alabama, Inc.

The following table displays information pertaining to the intrinsic value of option shares outstanding and exercisable for the periods ended September 30, 2007 and 2006, respectively.

	September 30 2007	2006
Aggregate intrinsic value of outstanding options	$301,237	$154,000
Aggregate intrinsic value of exercisable options	$290,037	$152,000

As of September 30, 2007, no awards had been made from the 2007 Equity Incentive Plan and 308,000 shares remained available for future awards to employees and directors of the Corporation.

Table of Contents

NOTE 6 Recently Issued Accounting Pronouncements

The Corporation adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), on January 1, 2007. The adoption of FIN 48 had no affect on the Corporation s financial statements. The Corporation has no unrecognized tax benefits and does not anticipate any increase in unrecognized benefits during 2007 relative to any tax positions taken prior to January 1, 2007. Should the accrual of any interest or penalties relative to unrecognized tax benefits be necessary, it is the Corporation s policy to record such accruals in its income taxes accounts; no such accruals exist as of January 1, 2007. The Corporation and its subsidiaries file a consolidated U.S. federal income tax return, as well as filing various returns in the states where its banking offices are located. These returns are subject to examination by taxing authorities for all years after 2002.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115*, (SFAS No. 159), which permits companies to choose to measure many financial instruments and certain other items at fair value. The objective of SFAS No. 159 is to improve financial reporting by providing companies with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Corporation has not yet adopted SFAS No. 159 and is currently evaluating the effect that it may have on its consolidated financial statements.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward Looking Statements

When used or incorporated by reference herein, the words anticipate , estimate , expect , project , target , goal , a similar expressions, are intended to identify forward-looking statements within the meaning of Section 27A of the Securities Act of 1933. Such forward-looking statements are subject to certain risk, uncertainties, and assumptions including those set forth herein. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those expected or projected. These forward-looking statements speak only as of the date they are made. The Corporation expressly disclaims any obligations or undertaking to publicly release any updates or revisions to any forward-looking statement contained herein to reflect any change in the Corporation s expectations with regard to any change in events, conditions or circumstances on which any such statement is based.

Critical Accounting Estimates

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America, which require management to make estimates and assumptions. Management believes that its determination of the allowance for loan losses is a critical accounting policy and involves a higher degree of judgment and complexity than the Bank&#14