UNITED BANCORPORATION OF ALABAMA INC
Form 10-Q
May 14, 2009

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2009
Commission file number 000-25917
UNITED BANCORPORATION OF ALABAMA, INC.

(Exact name of registrant as specified in its charter)

Delaware	63-0833573
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
200 East Nashville Avenue, Atmore, Alabama	36502
(Address of principal executive offices)	(Zip Code)

(251) 446-6000

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such report(s), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files. Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller Reporting Company 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 May 13, 2008.

Class A Common Stock	2,234,711 Shares
Class B Common Stock	Shares

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FORM 10-Q
For the Quarter Ended March 31, 2009
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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

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

	March 31, 2009 (Unaudited)	December 31, 2008
Assets		
Cash and due from banks	$ 14,470,096	$ 35,148,646
Interest bearing deposits in banks	45,836,575	91,773,852
Federal funds sold	20,000,000	16,600,000
Cash and cash equivalents	80,306,671	143,522,498
Securities available for sale (amortized cost of $76,339,786 and $84,725,733 respectively)	76,882,032	85,526,712
Securities held to maturity (market values of $29,311,571 and $6,596,039 respectively)	29,088,308	6,550,000
Loans	283,383,562	279,779,877
Less: Allowance for loan losses	3,913,301	3,591,558
Net loans	279,470,261	276,188,319
Premises and equipment, net	18,547,109	18,856,327
Interest receivable	2,857,426	3,253,604
Intangible assets	934,763	934,763
Other assets	12,711,753	15,212,784
Total assets	500,798,323	550,045,007
Liabilities and Stockholders Equity		
Deposits:		
Non-interest bearing	144,528,785	172,291,464
Interest bearing	299,599,366	318,864,162
Total deposits	444,128,151	491,155,626
Securities sold under agreements to repurchase		1,861,237
Advances from Federal Home Loan Bank of Atlanta	1,552,450	1,609,900
Treasury, tax, and loan account	231,388	495,572
Interest payable	873,892	912,570
Accrued expenses and other liabilities	1,558,917	1,577,461
Note payable to Trust	10,310,000	10,310,000

Total liabilities	458,654,798	507,922,366
Stockholders equity		
Preferred stock of $.01 par value. Authorized 250,000 shares; 10,300 shares, net of discount	9,968,452	9,953,381
Class A common stock, $0.01 par value. Authorized 5,000,000 shares; issued and outstanding, 2,388,550 and 2,388,125 shares in 2009 and 2008, respectively	23,886	23,881
Class B common stock, $0.01 par value. Authorized 250,000 shares; no shares issued or outstanding	0	0
Additional paid in capital	6,450,676	6,429,869
Unearned stock based compensation	(77,974)	(87,446)
Accumulated other comprehensive income net of tax	320,078	480,584
Retained earnings	26,692,055	26,572,188
	43,377,173	43,372,457
Less: 153,839 and 155,855 treasury shares, at cost, respectively	1,233,648	1,249,816
Total stockholders equity	42,143,525	42,122,641
Total liabilities and stockholders equity	$ 500,798,323	$ 550,045,007

See Notes to Consolidated Financial Statements

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

	Three Months Ended March 31	
	2009	2008
Interest income:		
Interest and fees on loans	$ 4,125,801	$ 5,098,263
Interest on investment securities available for sale:		
Taxable	649,014	937,547
Nontaxable	325,921	347,420
Total investment income	974,935	1,284,967
Other interest income	104,954	254,186
Total interest income	5,205,690	6,637,416
Interest expense:		
Interest on deposits	1,894,249	2,605,172
Interest on other borrowed funds	103,654	611,840
Total interest expense	1,997,903	3,217,012
Net interest income	3,207,787	3,420,404
Provision for loan losses	360,000	240,000
Net interest income after provision for loan losses	2,847,787	3,180,404
Noninterest income:		
Service charge on deposits	847,093	807,467
Investment securities gains, net		2,761
Mortgage loan and related fees	32,468	60,631
Other	223,963	246,662
Total noninterest income	1,103,524	1,117,521
Noninterest expense:		
Salaries and benefits	2,196,996	2,157,320
Net occupancy expense	574,511	684,460
Other	1,042,465	1,156,419

Total noninterest expense	3,813,972	3,998,199
Earnings before income tax benefits	137,339	299,726
Income tax benefits	(71,988)	(13,008)
Net earnings	209,327	312,734
Preferred stock dividends	74,389	
Accretion on preferred stock discount	15,071	
Net earnings available to common shareholders	$ 119,867	$ 312,734
Basic earnings per share available to common shareholders	$ 0.05	$ 0.14
Diluted earnings per share available to common shareholders	$ 0.05	$ 0.14
Basic weighted average shares outstanding	2,233,863	2,250,439
Diluted weighted average shares outstanding	2,235,288	2,255,514
Cash dividend per share	$	$ 0.08
Statement of Comprehensive Income		
Net earnings	$ 209,327	$ 312,734
Other comprehensive income (loss), net of tax:		
Unrealized holding gain arising during the period	(160,506)	477,701
Reclassification adjustment for gains included in net income		1,657
Comprehensive income	$ 48,821	$ 792,092

See Notes to Consolidated Financial Statements

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

	Three Months Ended March 31 2009	Three Months Ended March 31 2008
Cash flows from operating activities		
Net earnings	$ 209,327	$ 312,734
Adjustments to reconcile net earnings to net cash provided by operating activities		
Provision for loan losses	360,000	240,000
Depreciation of premises and equipment	328,585	316,366
Net accretion (amortization) of premium on investment securities available for sale	(13,602)	352,368
Net amortization of premium on investment securities held to maturity	(64,035)	
Gain on sales or calls of investment securities available for sale, net		(2,761)
Writedown of other real estate		85,000
Stock-based compensation	11,384	4,531
Gain on disposal of equipment		(4,754)
Decrease in interest receivable	396,178	521,019
(Increase) decrease in other assets	(144,741)	311,004
Decrease in interest payable	(38,678)	(20,165)
Increase in accrued expenses and other liabilities	148,877	111,336
Net cash provided by operating activities	1,193,296	2,226,678
Cash flows from investing activities		
Proceeds from maturities, calls, and principal repayments of investment securities available for sale	27,366,170	374,348,162
Proceeds from maturities, calls, and principal repayments of investment securities held to maturity	522,503	
Proceeds from sales of investment securities available for sale	3,242,279	4,993,583
Purchases of investment securities available for sale	(18,975,401)	(391,573,000)
Purchases of investment securities held to maturity	(22,996,776)	
Purchase of correspondent bank stock	(466,500)	
Net increase in loans	(3,664,942)	(17,155,209)
Purchases of premises and equipment, net	(19,367)	(406,201)
Proceeds from sale of premises and equipmet		7,000
Net cash used in investing activities	(14,992,034)	(29,785,665)
Cash fows from financing activities		
Net decrease in deposits	(47,027,475)	(24,163,024)
Net increase (decrease) in securities sold under agreements to repurchase	(1,861,237)	49,436,237
Cash dividends preferred stock	(74,389)	

Cash dividends common stock	(167,421)	(168,633)
Proceeds from exercise of stock options		9,986
Proceeds from sale of common stock	5,130	6,732
Proceeds from sale of treasury stock	29,938	30,470
Repayments of advances from FHLB Atlanta	(57,450)	(57,450)
Decrease in other borrowed funds	(264,184)	(30,379)
Net cash provided by (used in) financing activities	(49,417,088)	25,063,939
Net decrease in cash and cash equivalents	(63,215,827)	(2,495,048)
Cash and cash equivalents, beginning of period	143,522,498	54,119,315
Cash and cash equivalents, end of period	$ 80,306,671	$ 51,624,267
Supplemental disclosures		
Cash paid during the period for:		
Interest	$ 2,036,581	$ 3,237,177
Income taxes	45,920	45,095
Noncash transactions		
Transfer of loans to other real estate through foreclosure	$ 23,000	$ 60,000

See Notes to Consolidated Financial Statements

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UNITED BANCORPORATION OF ALABAMA, INC.
AND SUBSIDIARY
Notes to Condensed Consolidated Financial Statements

NOTE 1 General

This report includes interim consolidated financial statements of United Bancorporation of Alabama, Inc. (the Corporation) and its wholly-owned subsidiary, United Bank (the Bank). The interim consolidated financial statements in this report have not been audited. In the opinion of management, all adjustments necessary to present fairly the financial position and the results of operations for the interim periods have been made. All such adjustments are of a normal recurring nature. The results of operations are not necessarily indicative of the results of operations for the full year or any other interim periods. For further information, refer to the consolidated financial statements and footnotes included in the Corporation s Annual Report on Form 10-K for the year ended December 31, 2008.

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NOTE 2 Net Earnings per Common Share

Basic net earnings per common share were computed by dividing net earnings by the weighted average number of shares of common stock outstanding during the three month periods ended March 31, 2009 and 2008. Common stock outstanding consists of issued shares less treasury stock. Diluted net earnings per share for the three month periods ended March 31, 2009 and 2008 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. Presented below is a summary of the components used to calculate diluted earnings per share for the three months ended March 31, 2009 and 2008:

	Three Months Ended March 31,	
	2009	**2008**
Diluted earnings per share	$ 0.05	$ 0.14
Weighted average common shares outstanding	2,233,863	2,250,439
Dilutive effect of the assumed exercise of stock options	1,425	5,075
Total weighted average common shares and potential common stock outstanding	2,235,288	2,255,514

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NOTE 3 Allowance for Loan Losses

The following table summarizes the activity in the allowance for loan losses for the three month periods ended ($ in thousands):

	March 31,	
	2009	**2008**
Balance at beginning of year	3,592	3,982
Provision charged to expense	360	240
Loans charged off	(53)	(326)
Recoveries	14	7
Balance at end of period	3,913	3,903

At March 31, 2009 and 2008, the amounts of nonaccrual loans were $19,345,112 and $10,399,244 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 March 31, 2009, the Corporation had two stock-based compensation plans. The 1998 Stock Option Plan and the 2007 Equity Incentive Plan are described more fully in Note 13 to the Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2008. The Corporation accounts for its stock based compensation plans under FAS 123R, *Share-Based Payment*, whereby compensation cost is recognized for all stock-based payments based upon the grant-date fair value.

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Stock Options

1998 Stock Option Plan

The following table represents stock option activity for the three months ended March 31, 2009:

	Shares under option	Weighted average exercise price per share	Weighted average remaining contractual life
Options outstanding, beginning of period	38,806	$ 15.36	3.1
Granted			
Surrendered			
Exercised			
Options outstanding, end of period	38,806	15.36	2.8
Exercisable, end of period	38,006	15.30	2.7

The following table displays information pertaining to the intrinsic value of option shares outstanding and exercisable for the periods ended March 31, 2009 and 2008, respectively.

	2009	2008
Aggregate intrinsic value of outstanding options	$16,157	$219,093
Aggregate intrinsic value of exercisable options	$16,157	$214,493

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 March 31, 2009. The Corporation does not intend to issue additional options under the 1998 Stock Option Plan.

2007 Equity Incentive Plan

There were no outstanding stock options under the 2007 Equity Incentive Plan as of March 31, 2009.

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Restricted Stock

The following table represents restricted stock activity under the 2007 Equity Incentive Plan for the three months ended March 31, 2009:

	Restricted stock activity	**Weighted average fair value**
Shares granted at beginning of period	9,580	17.34
Granted		
Surrendered		
Vested		
Shares granted at end of period	9,580	17.34

Shares available for future stock grants to employees and directors under the 2007 Equity Incentive Plan of United Bancorporation of Alabama, Inc. were 298,420 at March 31, 2009.

As of March 31, 2009, there was $3,416 of total unrecognized compensation costs related to the nonvested share based compensation arrangements granted under the 1998 and 2007 Plans. That cost is expected to be recognized over a period of approximately 1.5 years.

NOTE 6 Fair Value of Financial Instruments

On January 1, 2008, the Corporation adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS No. 157 applies to reported balances that are required or permitted to be measured at fair value under existing accounting pronouncements; accordingly, the standard does not require any new fair value measurements of reported balances. On February 12, 2008, the Financial Accounting Standards Board (FASB) issued Staff Position 157-2 which defers the effective date of SFAS No. 157 for certain nonfinancial assets and liabilities to fiscal years beginning after November 15, 2008. All other provisions of SFAS No. 157 are effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years.

On October 10, 2008, the FASB issued FSP FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for that Asset Is Not Active.* This FSP clarifies the application of SFAS No. 157 in a market that is not active and reiterates that the results of distressed sales or forced liquidations are not determinative when measuring fair value. It emphasizes that when determining fair value, the use of management s internal assumptions concerning future cash flows discounted at an appropriate risk-adjusted interest rate is acceptable when relevant observable market data do not exist. In some situations, multiple inputs from a variety of sources may provide the best evidence of fair value. The FSP also describes how the use of broker quotes should be considered when assessing the relevance of observable and unobservable inputs. The impact of this statement is minimal, as this FSP provides clarification to existing guidance.

As defined in SFAS No. 157, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Corporation uses various methods including market, income and cost approaches. Based on these approaches, the Corporation often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and / or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Corporation utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques the Corporation is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1 Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury and federal agency securities and federal agency mortgage-backed securities, which are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or similar assets or liabilities.

Level 3 Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

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Assets Measured at Fair Value on a Recurring Basis

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying balance sheet, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Available-for-Sale Securities

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would include highly liquid government bonds, mortgage products and exchange traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include U.S. agency securities, mortgage-backed agency securities, obligations of states and political subdivisions and certain corporate, asset backed and other securities. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. Currently, all of the Corporation s available-for-sale securities are considered to be Level 2 securities.

		Fair Value Measurements at March 31, 2009 Using		
	Assets/Liabilities Measured at Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs Level (2)	Significant Unobservable Inputs (Level 3)
AFS Securities	$76,882,032	$	$ 76,882,032	$

Assets Measured at Fair Value on a Nonrecurring Basis

Following is a description of the valuation methodologies used for instruments measured at fair value on a non-recurring basis and recognized in the accompanying balance sheet, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Impaired Loans

Loan impairment is reported when full payment under the loan terms is not expected. Impaired loans are carried at the present value of estimated future cash flows using the loan s existing rate, or the fair value of collateral if the loan is collateral dependent. A portion of the allowance for loan losses is allocated to impaired loans if the value of such loans is deemed to be less than the unpaid balance. If these allocations cause the allowance for loan losses to require increase, such increase is reported as a component of the provision for loan losses. Loan losses are charged against the allowance when management believes the uncollectability of a loan is confirmed. When the fair value of the collateral is based on an observable market price or a current appraised value, the Corporation records the loan impairment as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Corporation records the loan impairment as nonrecurring Level 3.

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Foreclosed Assets(Other Real Estate)

Foreclosed assets are adjusted to fair value upon transfer of the loans to foreclosed assets. Subsequently, foreclosed assets are carried at the lower of carrying value or fair value. Fair value is based upon independent market prices, appraised values of the collateral or management s estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Corporation records the foreclosed assets as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Corporation records the foreclosed asset as nonrecurring Level 3.

The following table presents the assets carried on the balance sheet by asset type and by level within the FAS No. 157 valuation hierarchy (as described above) as of March 31, 2009, for which a nonrecurring change in fair value has been recorded during the year ended December 31, 2008.

	Carrying Value at March 31, 2009				**Three months ended March 31, 2009 Total gains**
	Total	Level 1	Level 2	Level 3	**(losses)**
Impaired loans (1)	$				