

UNITED SECURITY BANCSHARES

Form 10-Q

August 08, 2014

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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 JUNE 30, 2014

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: 000-32897

UNITED SECURITY BANCSHARES

(Exact name of registrant as specified in its charter)

CALIFORNIA

(State or other jurisdiction of incorporation or organization)

91-2112732

(I.R.S. Employer Identification No.)

2126 Inyo Street, Fresno, California

(Address of principal executive offices)

93721

(Zip Code)

Registrants telephone number, including area code (559) 248-4943

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

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 for the past 90 days. Yes No

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).

Large accelerated filer Accelerated filer Non-accelerated filer Small reporting company

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

Aggregate market value of the Common Stock held by non-affiliates as of the last business day of the registrant's most recently completed second fiscal quarter - June 30, 2014: \$59,326,341

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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock, no par value
(Title of Class)

Shares outstanding as of July 31, 2014: 15,097,282

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PART I. Financial Information

United Security Bancshares and Subsidiaries
 Consolidated Balance Sheets – (unaudited)
 June 30, 2014 and December 31, 2013

(in thousands except shares)	June 30, 2014	December 31, 2013
Assets		
Cash and due from banks	\$22,014	\$20,193
Cash and due from Federal Reserve Bank	98,685	115,019
Cash and cash equivalents	120,699	135,212
Interest-bearing deposits in other banks	1,518	1,515
Investment securities available for sale (at fair value)	51,258	43,616
Loans and leases	422,927	395,317
Unearned fees and unamortized loan origination costs	(759)	(304)
Allowance for credit losses	(11,049)	(10,988)
Net loans and leases	411,119	384,025
Accrued interest receivable	1,827	1,644
Premises and equipment – net	11,965	12,122
Other real estate owned	14,100	13,946
Intangible assets	—	62
Goodwill	4,488	4,488
Cash surrender value of life insurance	17,458	17,203
Investment in limited partnerships	944	4,534
Deferred income taxes - net	11,667	11,630
Other assets	5,767	5,932
Total assets	\$652,810	\$635,929
Liabilities & Shareholders' Equity		
Liabilities		
Deposits		
Noninterest bearing	\$227,092	\$214,317
Interest bearing	328,973	328,172
Total deposits	556,065	542,489
Accrued interest payable	39	44
Accounts payable and other liabilities	7,087	5,728
Junior subordinated debentures (at fair value)	10,082	11,125
Total liabilities	573,273	559,386
Shareholders' Equity		
Common stock, no par value 20,000,000 shares authorized, 15,097,282 issued and outstanding at June 30, 2014, and 14,799,888 at December 31, 2013	47,478	45,778
Retained earnings	32,155	30,884
Accumulated other comprehensive loss	(96)	(119)
Total shareholders' equity	79,537	76,543
Total liabilities and shareholders' equity	\$652,810	\$635,929

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United Security Bancshares and Subsidiaries
 Consolidated Statements of Income
 (Unaudited)

(In thousands except shares and EPS)	Quarter Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Interest Income:				
Loans, including fees	\$5,940	\$5,554	\$11,415	\$11,020
Investment securities – AFS – taxable	233	140	461	338
Interest on deposits in FRB	64	70	147	135
Interest on deposits in other banks	1	2	3	4
Total interest income	6,238	5,766	12,026	11,497
Interest Expense:				
Interest on deposits	259	331	521	742
Interest on other borrowings	63	93	124	153
Total interest expense	322	424	645	895
Net Interest Income Before Provision for Credit Losses	5,916	5,342	11,381	10,602
(Recovery) Provision for Credit Losses	(93	) 39	(140	) 30
Net Interest Income	6,009	5,303	11,521	10,572
Noninterest Income:				
Customer service fees	888	902	1,682	1,681
Increase in cash surrender value of bank-owned life insurance	128	140	255	277
(Gain) loss on fair value of financial liability	216	(103	) (129	) (660
Gain on sale of investment in limited partnership	691	—	691	—
Gain on sale of fixed asset	25	—	25	—
Other	157	168	298	328
Total noninterest income	2,105	1,107	2,822	1,626
Noninterest Expense:				
Salaries and employee benefits	2,279	2,113	4,805	4,474
Occupancy expense	956	883	1,829	1,788
Data processing	28	33	69	93
Professional fees	327	375	507	820
Regulatory assessments	239	339	472	698
Director fees	61	59	117	117
Amortization of intangibles	15	46	62	93
Correspondent bank service charges	30	81	59	157
Loss on California tax credit partnership	24	32	47	65
Net cost (gain) on operation and sale of OREO	84	(336	) 364	(1,218
Other	701	529	1,207	1,140
Total noninterest expense	4,744	4,154	9,538	8,227
Income Before Provision for Taxes	3,370	2,256	4,805	3,971
Provision for Taxes on Income	1,323	859	1,849	1,499
Net Income	\$2,047	\$1,397	\$2,956	\$2,472
Net Income per common share				
Basic	\$0.14	\$0.09	\$0.20	\$0.16
Diluted	\$0.14	\$0.09	\$0.20	\$0.16

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Shares on which net income per common shares
were based

Basic	15,097,282	15,095,299	15,097,282	15,093,567
Diluted	15,106,620	15,096,979	15,105,488	15,097,626

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United Security Bancshares and Subsidiaries
 Consolidated Statements of Comprehensive Income
 (Unaudited)

	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013	
Net Income	\$2,047	\$1,397	\$2,956	\$2,472	
Unrealized holdings gains (losses) on securities	57	(305) 8	(415)
Unrealized gains on unrecognized post retirement costs	15	21	31	40	
Other comprehensive income (loss,) before tax	72	(284) 39	(375)
Tax (benefit) expense related to securities	(23	) 122	(3	) 166
Tax expense related to unrecognized post retirement costs	(6) (8) (13) (17)
Total other comprehensive income (loss)	43	(170) 23	(226)
Comprehensive income	\$2,090	\$1,227	\$2,979	\$2,246	

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United Security Bancshares and Subsidiaries
 Consolidated Statements of Changes in Shareholders' Equity
 (unaudited)

(In thousands except shares)	Common stock		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Number of Shares	Amount			
Balance December 31, 2012	14,217,303	\$43,173	\$26,179	\$ 89	\$69,441
Other comprehensive loss				(226)	(226)
Common stock dividends	285,770	1,223	(1,223)		0
Common stock issuance	5,202	12			12
Stock-based compensation expense		9			9
Net Income			2,472		2,472
Balance June 30, 2013	14,508,275	\$44,417	\$27,428	\$ (137)	\$71,708
Other comprehensive loss				18	18
Common stock dividends	291,613	1,341	(1,341)		0
Stock-based compensation expense		20			20
Net Income			4,797		4,797
Balance December 31, 2013	14,799,888	\$45,778	\$30,884	\$ (119)	\$76,543
Other comprehensive loss				23	23
Common stock dividends	297,394	1,685	(1,685)		0
Stock-based compensation expense		15			15
Net Income			2,956		2,956
Balance June 30, 2014	15,097,282	\$47,478	\$32,155	\$ (96)	\$79,537

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United Security Bancshares and Subsidiaries

Consolidated Statements of Cash Flows (unaudited)

	Six Months Ended	
	June 30,	
(In thousands)	2014	2013
Cash Flows From Operating Activities:		
Net Income	\$2,956	\$2,472
Adjustments to reconcile net income:to cash provided by operating activities:		
(Benefit) provision for credit losses	(140	) 30
Depreciation and amortization	667	620
Amortization of investment securities	120	14
Accretion of investment securities	(18	) (34
(Increase) decrease in accrued interest receivable	(183	) 158
Decrease in accrued interest payable	(5	) (11
(Decrease) increase in accounts payable and accrued liabilities	(1,172	) 89
Increase (decrease) in unearned fees	455	(18
Increase in income taxes payable	1,898	1,771
Stock-based compensation expense	15	9
(Benefits) provision for deferred income taxes	(53	) 272
Gain on sale of other real estate owned	(107	) (1,949
Impairment loss on other real estate owned	—	118
Increase in surrender value of life insurance	(255	) (294
Loss on fair value option of financial liabilities	129	660
Loss on tax credit limited partnership interest	47	65
Amortization of CDI	62	93
Gain on sale of investment in limited partnership	(691) —
Gain on sale of premises and equipment	(25) —
Net decrease in other assets	(192	) (221
Net cash provided by operating activities	3,508	3,844
Cash Flows From Investing Activities:		
Net increase in interest-bearing deposits with banks	(3	) (4
Redemption of correspondent bank stock	—	433
Purchase of correspondent bank stock	(97) —
Purchases of available-for-sale securities	(10,192) —
Maturities and calls of available-for-sale securities	—	3,600
Principal payments of available-for-sale securities	2,456	2,322
Net increase in loans	(25,473	) (3,750
Cash proceeds from sales of other real estate owned	1,017	6,651
Investment in limited partnership	(70) —
Cash proceeds from sale of investment in limited partnership	1,250	—
Capital expenditures of premises and equipment	(485	) (280
Net cash (used in) provided by investing activities	(31,597	) 8,972
Cash Flows From Financing Activities:		
Net increase (decrease) in demand deposits and savings accounts	12,422	(10,786
Net increase (decrease) in certificates of deposit	1,154	(5,400

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Proceeds from exercise of stock options	—	12
Net cash provided by (used in) financing activities	13,576	(16,174)