UNITED BANCORP INC /OH/
Form 10-Q
November 10, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2011

OR

¨TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT

For the transition period from ____________ to _______________

Commission File Number: 0-16540

UNITED BANCORP, INC.

(Exact name of registrant as specified in its charter)

Ohio	34-1405357
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

201 South Fourth Street, Martins Ferry, Ohio 43935-0010

(Address of principal executive offices)

(740) 633-0445

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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 x 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). x Yes ¨ No

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

Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer ¨ Smaller Reporting Company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

Yes ¨ No x

Indicate the number of shares outstanding of the issuer's classes of common stock as of the latest practicable date: As of November 9, 2011, 5,361,154 shares of the Company's common stock, $1.00 par value, were issued and outstanding.

ITEM 1. Financial Statements

United Bancorp, Inc.
Condensed Consolidated Balance Sheets
(In thousands, except share data)

	September 30, 2011 (Unaudited)	December 31, 2010
Assets		
Cash and due from banks	$ 4,878	$ 5,006
Interest-bearing demand deposits	14,206	5,929
Cash and cash equivalents	19,084	10,935
Certificates of deposit in other financial institutions	—	2,564
Available-for-sale securities	82,363	96,155
Held-to-maturity securities	4,555	6,331
Loans, net of allowance for loan losses of $3,061 and $2,740 at September 30, 2011 and December 31, 2010, respectively	275,856	276,037
Premises and equipment	9,938	9,278
Federal Home Loan Bank stock	4,810	4,810
Foreclosed assets held for sale, net	2,214	1,912
Intangible assets	453	543
Accrued interest receivable	1,403	1,441
Deferred income taxes	589	801
Bank-owned life insurance	10,583	10,401
Other assets	2,241	2,227
Total assets	$ 414,089	$ 423,435
Liabilities and Stockholders' Equity		
Liabilities		
Deposits		
Demand	$ 134,617	$ 131,600
Savings	55,567	52,463
Time	133,495	141,383
Total deposits	323,679	325,446
Short-term borrowings	13,358	11,843
Federal Home Loan Bank advances	33,631	43,450
Subordinated debentures	4,000	4,000
Interest payable and other liabilities	2,778	3,115
Total liabilities	377,446	387,854
Stockholders' Equity		
Preferred stock, no par value, authorized 2,000,000 shares; no shares issued	—	—
Common stock, $1 par value; authorized 10,000,000 shares; issued 5,370,304 shares	5,370	5,370

Additional paid-in capital	18,019	20,133
Retained earnings	17,599	15,308
Stock held by deferred compensation plan; 2011 – 193,967 shares, 2010 – 176,392 shares	(1,804)	(1,657)
Unearned ESOP compensation	(2,130)	(2,311)
Accumulated other comprehensive loss	(300)	(707)
Treasury stock, at cost 2011 – 9,150 shares, 2010 – 45,717 shares	(111)	(555)
Total stockholders' equity	36,643	35,581
Total liabilities and stockholders' equity	$ 414,089	$ 423,435

See Notes to Condensed Consolidated Financial Statements

United Bancorp, Inc.
Condensed Consolidated Statements of Income
(In thousands, except per share data)

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
	(Unaudited)			
Interest and dividend income				
Loans, including fees	$4,415	$4,493	$13,194	$13,022
Taxable securities	356	443	1,113	1,906
Non-taxable securities	247	367	831	1,166
Federal funds sold	4	24	15	57
Dividends on Federal Home Loan Bank stock and other	49	76	168	295
Total interest and dividend income	5,071	5,403	15,321	16,446
Interest expense				
Deposits				
Demand	27	34	92	130
Savings	15	15	49	65
Time	698	1,018	2,143	3,324
Borrowings	401	515	1,333	1,582
Total interest expense	1,141	1,582	3,617	5,101
Net interest income	3,930	3,821	11,704	11,345
Provision for loan losses	401	321	1,543	1,051
Net interest income after provision for loan losses	3,529	3,500	10,161	10,294
Noninterest income				
Service charges on deposit accounts	559	568	1,582	1,726
Realized gains on sales of securities	—	47	370	47
Realized gains on sales of loans	33	48	76	92
Realized (losses) gains on sales of other real estate and repossessed assets	(5)	37	(10)	36
BOLI benefit in excess of surrender value	—	—	100	—
Other income	245	196	673	630
Total noninterest income	832	896	2,791	2,531
Noninterest expense				
Salaries and employee benefits	1,632	1,747	5,103	5,269
Occupancy and equipment	458	433	1,341	1,280
Professional services	262	174	690	568
Insurance	73	97	200	292
FDIC insurance	33	137	240	377

Franchise and other taxes	129	126	373	384
Advertising	61	93	184	240
Stationery and office supplies	75	57	175	196
Amortization of intangibles	29	30	89	84
Core processing conversion expenses	—	184	—	184
Provision for losses on foreclosed real estate	—	70	49	70
Other expenses	548	539	1,623	1,585
Total noninterest expense	3,300	3,687	10,067	10,529
Income before federal income taxes	1,061	709	2,885	2,296
Federal income taxes	260	(1)	594	202
Net income	$801	$710	$2,291	$2,094
EARNINGS PER COMMON SHARE				
Basic	$0.16	$0.15	$0.47	$0.43
Diluted	$0.16	$0.15	$0.46	$0.43
DIVIDENDS PER COMMON SHARE	$0.14	$0.14	$0.42	$0.42

See Notes to Condensed Consolidated Financial Statements

United Bancorp, Inc.
Condensed Consolidated Statements of Comprehensive Income
(In thousands)

	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
	(Unaudited)			
Net income	$801	$710	$2,291	$2,094
Other comprehensive income, net of tax:				
Unrealized holding gains on securities during the period, net of taxes of $45, $58, $335 and $432 for each respective period	87	113	651	838
Reclassification adjustment for realized gains included in income, net of taxes of $0, $16, $126 and $16 for each respective period	—	(31)	(244)	(31)
Comprehensive income	$888	$792	$2,698	$2,901
Accumulated other comprehensive (loss) income	$(300)	$300	$(300)	$300

See Notes to Condensed Consolidated Financial Statements

United Bancorp, Inc.
Condensed Consolidated Statements of Cash Flows
For the Nine Months Ended September 30, 2011 and 2010
(In thousands)

	2011	2010
	(Unaudited)	
Operating Activities		
Net income	$2,291	$2,094
Items not requiring (providing) cash		
Depreciation and amortization	725	574
Amortization of intangible assets	89	84
Expense related to share based compensation plans	160	164
Provision for loan losses	1,543	1,051
Provision for losses on foreclosed real estate	49	70
Increase in value of bank-owned life insurance	(182)	(291)
Realized gains on sales of securities	(370)	(47)
Amortization of premiums (discounts) on securities, net	(71)	84
Originations of loans held for sale	(4,805)	(5,727)
Proceeds from sale of loans held for sale	4,881	5,819
Realized gains on sales of loans	(76)	(92)
Amortization of ESOP	132	151
Realized losses (gains) on sales of other real estate and repossessed assets	10	(36)
Amortization of mortgage servicing rights	23	28
Net change in accrued interest receivable and other assets	(68)	(1,002)
Net change in accrued expenses and other liabilities	(336)	255
Net cash provided by operating activities	3,995	3,179
Investing Activities		
Securities available for sale:		
Maturities, prepayments and calls	70,587	58,883
Purchases	(64,644)	(44,197)
Securities held to maturity:		
Maturities, prepayments and calls	1,495	5,929
Proceeds from sale of held-to-maturity securities	302	—
Proceeds from sale of available-for-sale securities	8,886	—
Net change in loans	(1,832)	(21,356)
Net change in certificates of deposit in other financial institutions	2,564	13,484
Purchases of premises and equipment	(1,421)	(152)
Proceeds from disposal of premises and equipment	35	—
Proceeds from sale of other real estate and repossessed assets	183	580
Net cash provided by investing activities	16,155	13,171

See Notes to Condensed Consolidated Financial Statements

United Bancorp, Inc.
Condensed Consolidated Statements of Cash Flows (continued)
For the Nine Months Ended September 30, 2011 and 2010
(In thousands)

	2011	2010
	(Unaudited)	
Financing Activities		
Net change in deposits	$(1,767)	$(4,114)
Net change in borrowings	(8,304)	(747)
Shares purchased for deferred compensation plan	72	108
Proceeds from purchase of shares by dividend reinvestment plan	236	317
Cash dividends paid on common stock	(2,238)	(2,217)
Net cash used in financing activities	(12,001)	(6,653)
Increase in Cash and Cash Equivalents	8,149	9,697
Cash and Cash Equivalents, Beginning of Period	10,935	31,271
Cash and Cash Equivalents, End of Period	$19,084	$40,968
Supplemental Cash Flows Information		
Interest paid on deposits and borrowings	$3,722	$5,169
Federal income taxes paid	$765	$520
Supplemental Disclosure of Non-Cash Investing and Financing Activities		
Transfers from loans to foreclosed assets held for sale	$545	$977

See Notes to Condensed Consolidated Financial Statements

United Bancorp, Inc.
Notes to Condensed Consolidated Financial Statements
For the Three and Nine Months Ended September 30, 2011 and 2010

Note 1: Summary of Significant Accounting Policies

These interim financial statements are prepared without audit and reflect all adjustments which, in the opinion of management, are necessary to present fairly the financial position of United Bancorp, Inc. ("Company") at September 30, 2011, and its results of operations and cash flows for the interim periods presented. All such adjustments are normal and recurring in nature. The accompanying condensed consolidated financial statements have been prepared in accordance with the instructions for Form 10-Q and, therefore, do not purport to contain all the necessary financial disclosures required by accounting principles generally accepted in the United States of America that might otherwise be necessary in the circumstances and should be read in conjunction with the Company's consolidated financial statements and related notes for the year ended December 31, 2010 included in its Annual Report on Form 10-K. Reference is made to the accounting policies of the Company described in the Notes to the Consolidated Financial Statements contained in its Annual Report on Form 10-K. The results of operations for the three and nine months ended September 30, 2011, are not necessarily indicative of the results to be expected for the full year. The condensed consolidated balance sheet of the Company as of December 31, 2010 has been derived from the audited consolidated balance sheet of the Company as of that date.

Principles of Consolidation

The consolidated financial statements include the accounts of United Bancorp, Inc. ("United" or "the Company") and its wholly-owned subsidiary, The Citizens Savings Bank of Martins Ferry, Ohio ("the Bank" or "Citizens"). The Company operates in two divisions, The Community Bank, a division of The Citizens Savings Bank and The Citizens Bank, a division of The Citizens Savings Bank. All intercompany transactions and balances have been eliminated in consolidation.

Nature of Operations

The Company's revenues, operating income, and assets are almost exclusively derived from banking. Accordingly, all of the Company's banking operations are considered by management to be aggregated in one reportable operating segment. Customers are mainly located in Athens, Belmont, Carroll, Fairfield, Harrison, Hocking, Jefferson, and Tuscarawas Counties and the surrounding localities in northeastern, east-central and southeastern Ohio, and include a wide range of individuals, businesses and other organizations. The Citizens Bank division conducts its business through its main office in Martins Ferry, Ohio and twelve branches in Bridgeport, Colerain, Dellroy, Dillonvale, Dover, Jewett, New Philadelphia, St. Clairsville East, St. Clairsville West, Sherrodsville, Strasburg, and Tiltonsville, Ohio. The Community Bank division conducts its business through its main office in Lancaster, Ohio and seven offices in Amesville, Glouster, Lancaster, and Nelsonville, Ohio. The Company's primary deposit products are checking, savings, and term certificate accounts, and its primary lending products are residential mortgage, commercial, and installment loans. Substantially all loans are secured by specific items of collateral including business assets, consumer assets and real estate and are not considered "sub prime" type loans. The targeted lending areas of our Bank operations encompass four separate metropolitan areas, minimizing the risk to changes in economic conditions in the communities housing the Company's 20 branch locations.

United Bancorp, Inc.
Notes to Condensed Consolidated Financial Statements
For the Three and Nine Months Ended September 30, 2011 and 2010

The Company's primary deposit products are checking, savings and term certificate accounts and its primary lending products are residential mortgage, commercial and installment loans. Substantially all loans are secured by specific items of collateral including business assets, consumer assets and real estate. Commercial loans are expected to be repaid from cash flow from operations of businesses. Real estate loans are secured by both residential and commercial real estate. Net interest income is affected by the relative amount of interest-earning assets and interest-bearing liabilities and the interest received or paid on these balances. The level of interest rates paid or received by the Company can be significantly influenced by a number of environmental factors, such as governmental monetary and fiscal policies, that are outside of management's control.

Use of Estimates

To prepare financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided and future results could differ. The allowance for loan losses and fair values of financial instruments are particularly subject to change.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding principal balances adjusted for any charge-offs, the allowance for loan losses and any unamortized deferred fees or costs on originated loans.

For loans amortized at cost, interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, as well as premiums and discounts, are deferred and amortized as a level yield adjustment over the respective term of the loan.

The accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to income. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a monthly basis by management and the Citizens Board of Directors and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

United Bancorp, Inc.
Notes to Condensed Consolidated Financial Statements
For the Three and Nine Months Ended September 30, 2011 and 2010

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers nonclassified loans and is based on historical charge-off experience and expected loss given default derived from the Company's internal risk rating process. Other adjustments may be made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risking rating data.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent.

Groups of loans with similar risk characteristics are collectively evaluated for impairment based on the group's historical loss experience adjusted for changes in trends, conditions and other relevant factors that affect repayment of the loans. Accordingly, the Company does not separately identify individual consumer and residential loans for impairment measurements, unless such loans are the subject of a restructuring agreement due to financial difficulties of the borrower.

United Bancorp, Inc.
Notes to Condensed Consolidated Financial Statements
For the Three and Nine Months Ended September 30, 2011 and 2010

Earnings Per Share

Basic earnings per common share is computed based upon the weighted-average number of common shares outstanding during the period, less shares in the ESOP which are unallocated and not committed to be released and non-vested restricted stock. At September 30, 2011 and 2010, the ESOP held 218,627 and 242,266 unallocated shares, respectively, which were not included in weighted-average common shares outstanding. In addition, at September 30, 2011 and 2010, the Company has 170,000 and 180,000 shares, respectively of non-vested restricted stock, which were not included in weighted-average common shares outstanding. Diluted earnings per common share include the dilutive effect of additional potential common shares issuable under the Company's stock compensation plans.

	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
	(In thousands, except share and per share data)			
Basic				
Net income	$ 801	$ 710	$ 2,291	$ 2,094
Dividends on non-vested restricted stock	(24)	(25)	(71)	(75)
Net earnings allocated to stockholders	$ 777	$ 685	$ 2,220	$ 2,019
Weighted average common shares outstanding	4,775,728	4,705,278	4,760,297	4,681,892
Basic earnings per common share	$ 0.16	$ 0.15	$ 0.47	$ 0.43
Diluted				
Net earnings allocated to stockholders	$ 777	$ 685	$ 2,220	$ 2,019
Weighted average common shares outstanding for basic earnings per common share	4,775,728	4,705,278	4,760,297	4,681,892
Add: Dilutive effects of assumed exercise of stock options and restricted stock	46,432	15,905	40,253	20,907
Average shares and dilutive potential common shares	4,822,160	4,721,183	4,800,550	4,702,799
Diluted earnings per common share	$ 0.16	$ 0.15	$ 0.46	$ 0.43
Number of stock options not considered in computing diluted earnings per share due to antidilutive nature	53,714	53,714	53,714	53,714

Options to purchase 53,714 shares of common stock, at a weighted-average exercise price of $10.34 per share, were outstanding at both September 30, 2011 and 2010, but were not included in the computation of diluted earnings per share because the options’ exercise price was greater than the average market price of the common shares.

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United Bancorp, Inc.
Notes to Condensed Consolidated Financial Statements
For the Three and Nine Months Ended September 30, 2011 and 2010

Income Taxes

The Company is subject to income taxes in the U.S. federal jurisdiction, as well as various state jurisdictions. Tax regulations within each jurisdiction are subject to the interpretation of the related tax laws and regulations and require significant judgment to apply. With few exceptions, the Company is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for the years before 2008.

Recent Accounting Pronouncements

FASB Accounting Standards Update (ASU) 2010-20, Receivables: Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses (Topic 310), issued on July 21, 2010, concerns improved disclosures regarding the credit quality in a financial institution's loan portfolio. The guidance requires additional disaggregation of the credit portfolio by portfolio segment and class of receivable, a revised roll forward of the allowance for credit losses, presentation of the credit portfolio by credit quality indicators, an aging schedule of past due receivables, disclosure of troubled debt restructurings and purchases and sales of receivables by portfolio segment. The period-end disclosures were effective for periods ending on or after December 15, 2010 (December 31, 2010 for the Company). The activity disclosures are effective for periods beginning on or after December 15, 2010 (January 1, 2011 for the Company). The Company adopted FASB ASU 2010-20 as required, without a material effect on the Company's financial condition or results of operations.

FASB ASU 2011-02, Receivables (Topic 310), A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring, issued in April 2011, amends Subtopic 310-40 to clarify existing guidance related to a creditor's evaluation of whether a restructuring of debt is considered a troubled debt restructuring. The amendments add additional clarity in determining whether a creditor has granted a concession and whether a debtor is experiencing financial difficulties. The updated guidance and related disclosure requirements are effective for financial statements issued for the first interim or annual period beginning on or after June 15, 2011, and should be applied retroactively to the beginning of the annual period of adoption. Early adoption is permitted. The Company adopted FASB ASU 2011-02 as required, without a material effect on the Company's financial condition or results of operations.

FASB ASU 2011-03, Transfers and Servicing (Topic 860), Reconsideration of Effective Control for Repurchase Agreements, issued in April 2011, improves the accounting for repurchase agreements and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. The updated guidance is effective for the first interim or annual period beginning on or after December 15, 2011 and should be applied prospectively. Management is currently evaluating the impact of the guidance on the Company's condensed consolidated financial statements.

FASB ASU 2011-04, Fair Value Measurement (Topic 820), Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements, issued in May 2011, provides guidance in common fair value measurement and disclosure requirements. The amendment changes the wording used to describe many of the requirements for measuring fair value and for disclosing information about fair value measurements. The amendments are effective during interim and annual periods beginning after December 15, 2011. Management is currently evaluating the impact of the guidance on the Company's condensed consolidated financial statements.

United Bancorp, Inc.
Notes to Condensed Consolidated Financial Statements
For the Three and Nine Months Ended September 30, 2011 and 2010

FASB ASU 2011-05, Comprehensive Income (Topic 220), Presentation of Comprehensive Income, issued in June 2011, is designed to improve the comparability, consistency, and transparency of financial reporting and to increase the prominence of items reported in comprehensive income. The amendments are effective during interim and annual periods beginning after December 15, 2011. Management does not expect adoption of this standard to have a material impact on the Company's condensed consolidated financial statements.

FASB ASU 2011-08, Intangibles (Topic 350), Testing Goodwill for Impairment, issued in September 2011, is designed to simplify how entities, both public and nonpublic, test goodwill for impairment. The amendments permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test in Topic 350. The amendments are effective during interim and annual periods beginning after December 15, 2011. Early adoption is permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011, if an entity's financial statements for the most recent annual or interim period have not yet been issued. Management does not expect adoption of this standard to have a material impact on the Company's consolidated financial statements.

Securities

The amortized cost and approximate fair values, together with gross unrealized gains and losses of securities are as follows:

Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value