INVESTORS REAL ESTATE TRUST
Form S-3/A
February 02, 2005

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As filed with the Securities and Exchange Commission on February 2, 2005

Registration No. 333-122289

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

Pre-Effective Amendment No. 1
to
Form S-3

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

Investors Real Estate Trust
(Exact name of registrant as specified in its charter)

North Dakota	**45-0311232**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

12 South Main Street
Minot, ND 58701
(701) 837-4738
(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant s Principal Executive Offices)

Karin Wentz, Esq.
Associate General Counsel
21500 Highway 7
P.O. Box 560
Excelsior, MN 55331
(952) 401-6600
(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

Copies to:

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Minneapolis, Minnesota 55402-3796
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Approximate date of commencement of proposed sale to the public: From time to time after the registration statement becomes effective.

If the only securities being registered on this form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. o

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. þ

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of earlier effective registration statement for same offering. o

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for same offering. o

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. o

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	**Amount to be registered**	**Proposed maximum offering price per unit**	**Proposed maximum Aggregate offering price**	**Amount of registration fee**
Common Shares of Beneficial Interest, no par value	440,758 shares	$9.98(1)	$ 4,398,764.84(1)	$ 517.73(2)

(1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(c) of Regulation C under the Securities Act of 1933 as of the close of the market on February 1, 2005.

(2) $398.56 of this fee was previously paid by the Registrant in connection with the filing of the Registration Statement on Form S-3 on January 25, 2005.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant files a further amendment which specifically states that this Registration Statement will thereafter become effective in accordance with Section 8(a) of the Securities Act, or until the Registration Statement becomes effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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Information contained in this Prospectus is not complete and may be changed. The Selling Shareholders may not sell the securities covered by this Prospectus until the Securities and Exchange Commission declares effective the registration statement of which this Prospectus is a part. This Prospectus is not an offer to sell these securities and it is not an offer to buy these securities in any state where such an offer or sale is not permitted.

Subject to Completion, Dated February 2, 2005

PROSPECTUS

Investors Real Estate Trust

440,758 Common Shares of Beneficial Interest

This prospectus relates to the possible issuance, from time to time, of up to 440,758 common shares of beneficial interest, no par value, to the holders of limited partnership units, or LP Units, of our operating partnership, IRET PROPERTIES, a North Dakota Limited Partnership, or IRET Properties. Our common shares are the functional equivalent of common stock, having the rights and preferences normally associated with common stock. We may issue the common shares covered by this prospectus to the holders of LP Units to the extent that they redeem their LP Units of IRET Properties and we elect to issue common shares in connection with such redemption. We may also elect to pay cash for redeemed LP Units in lieu of issuing common shares. We will not receive any proceeds from any common shares issued in exchange for the redemption of LP Units. The persons receiving common shares covered by this prospectus upon redemption of LP Units are referred to herein individually as a selling shareholder, and collectively as the selling shareholders.

This prospectus also relates to the offer and resale, from time to time, by the selling shareholders of the common shares covered by this prospectus. We will not receive any proceeds from the possible resale of common shares by any selling shareholder.

We are registering the common shares covered by this prospectus as required under the Agreement of Limited Partnership of IRET Properties, dated January 31, 1997, and as amended to date. The registration of the common shares does not necessarily mean that any of the LP Units will be submitted for redemption or that any of the common shares to be issued upon such redemption will be offered or sold by the selling shareholders.

The selling shareholders may resell the common shares covered by this prospectus from time to time on the NASDAQ National Market or such other national securities exchange or automated interdealer quotation system on which our common shares are then listed or quoted, through negotiated transactions or otherwise at market prices prevailing at the time of the sale or at negotiated prices. The selling shareholders may engage brokers or dealers who may receive commissions or discounts from such selling shareholders.

Our common shares are traded on the NASDAQ National Market under the symbol IRETS. Our principal executive office is located at 12 South Main, Minot, North Dakota 58701 and our telephone number is (701) 837-4738.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Investing in our common shares involves risks. See Risk Factors beginning on page 1 of this prospectus.

The date of this Prospectus is February __, 2005.

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ABOUT THIS PROSPECTUS

You should not assume that the information appearing in this prospectus is accurate as of any date other than the date on the front of this prospectus. Our business, financial condition, results of operations and prospects may have changed since then. Updated information may have been subsequently provided as explained in this prospectus under Where You Can Find More Information.

It is important for you to read and consider all of the information contained in this prospectus in making your decision to invest in our common shares. You should also read and consider the information in the documents we have referred you to in Where You Can Find More Information.

You should rely only on the information contained or incorporated by reference in this prospectus. We have not authorized any other person to provide you with different or additional information. If anyone provides you with different or additional information, you should not rely on it.

As used in this prospectus supplement, references to we, our, us, the Company, IRET and similar references a Investors Real Estate Trust and its consolidated subsidiaries, unless otherwise expressly stated or the context otherwise requires. References to common shares are to our common shares of beneficial interest, no par value. References to Series A preferred shares are to our 8.25% Series A Cumulative Redeemable Preferred Shares of Beneficial Interest, no par value. References to shares of beneficial interest are to all of our shares of beneficial interest including, without limitation, our common shares, our Series A preferred shares and any other shares of beneficial interest that we may issue in the future.

RISK FACTORS

In addition to the other information contained or incorporated by reference in this prospectus, prospective investors should consider carefully the following factors when evaluating an investment in our common shares offered by this prospectus. You should also review our disclosures under the heading Special Note Regarding Forward-Looking Statements in this prospectus.

Risks Related to Our Properties and Business

Our increasing ownership of commercial properties subjects us to different risks than our traditional base of multi-family residential properties. Historically, the assets in our investment portfolio consisted predominantly of multi-family residential properties. More recently, our investment activities have caused this balance to shift so that the percentage of commercial properties held in our portfolio has increased significantly. Within the past 12 months, approximately 99.5% of our property acquisitions, on a total carrying amount basis, have been commercial properties, due to the greater availability of these properties on terms that meet our financial and strategic objectives. Total carrying amount is the amount we have invested in our properties (original investment plus improvements, if any) less accumulated depreciation. Based on total carrying amount, commercial properties now comprise a majority of our real estate assets, with the majority of our commercial properties being located in the Minneapolis/ St. Paul metropolitan area. Based on current market conditions, we anticipate that the percentage of commercial properties that we may acquire will continue to significantly exceed the number of multi-family residential properties that we may acquire during the next 12 months.

Our historical experience in acquiring and operating multi-family residential properties may not be directly applicable to the acquisition and operation of commercial properties. Commercial properties involve different risks than multi-family residential properties, including:

direct exposure to business and economic downturns;

exposure to tenant lease terminations or bankruptcies; and

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competition from real estate investors with greater experience in developing and owning commercial properties. Our earnings may be negatively affected if we are not successful in our acquisition and operation of commercial properties.

Our geographic concentration in Minnesota and North Dakota may result in losses due to our significant exposure to the effects of economic and real estate conditions in those markets. For the fiscal year ended April 30, 2004, and the six month period ended October 31, 2004, we received approximately 79.7% and 80.2%, respectively, of our combined commercial segments gross revenue from commercial properties in Minnesota and approximately 8.9% and 6.4%, respectively, of our combined commercial segments gross revenue from commercial properties in North Dakota. For those same periods, we received approximately 21.4% and 21.7%, respectively, of our multi-family residential segment gross revenue from multi-family residential properties in Minnesota and 29.1% and 30.0%, respectively, of our multi-family residential segment gross revenue from multi-family residential properties in North Dakota. As of October 31, 2004, Minnesota accounted for approximately 79.5% of our combined commercial segments real estate portfolio and 22.4% of our multi-family residential segment real estate portfolio, each as determined by total asset value, while North Dakota accounted for approximately 6.0% of our combined commercial segments real estate portfolio and 27.2% of our multi-family residential segment real estate portfolio.

As a result of this concentration, we are subject to substantially greater risk than if our investments were more geographically dispersed. Specifically, we are more significantly exposed to the effects of economic and real estate conditions in those particular markets, such as building by competitors, local vacancy and rental rates and general levels of employment and economic activity.

The economic climate in Minnesota is highly dependent on the service, manufacturing and high technology industries. The North Dakota economy is dependent on the agricultural, government, business and personal services and wholesale and retail industries. Economic weakening, or lack of recovery from the recent weakness, in any of these industries may adversely affect the performance of our real estate portfolio by decreasing demand for rental space.

Increasing physical and economic vacancy rates and declining rental rates will negatively impact earnings. As of October 31, 2004, approximately 1.0 million square feet, or 12.7% of our total commercial property square footage, was vacant. In addition, leases covering approximately 8.1% of our total combined commercial segments annualized base rents will expire during the remainder of fiscal 2005. Leases covering approximately 7.3% of our total combined commercial segments annualized base rents will expire during fiscal 2006. At October 31, 2004, the economic occupancy of our total commercial properties, on a stabilized property basis, was approximately 89.8%. We define economic occupancy as total possible revenue less vacancy loss as a percentage of total possible revenue. Total possible revenue is determined by valuing occupied units or square footage at contract rates and vacant units or square footage at market rates. Stabilized properties are those properties that we owned for the entirety of both periods being compared, and include properties that were redeveloped or expanded during the period being compared. Properties purchased or sold during the periods being compared are excluded from our stabilized property analysis. If we are unable to rent or sell those properties that are vacant or affected by expiring leases, properties producing approximately 20% of our total combined commercial segments annualized base rents will be vacant by April 30, 2005. Even greater vacancies will be created to the extent that a number of tenants, or any one significant tenant, file for bankruptcy protection and reject our leases. At October 31, 2004, the economic occupancy of our multi-family residential properties, on a stabilized property basis, was approximately 91.1%. Multi-family residential vacancies could increase from current levels due to general economic conditions, local economic or competitive conditions, the trend toward home ownership facilitated by low interest rates, unsatisfactory property management, the physical condition of our properties or other factors. Increased vacancies in both our commercial and multi-family residential properties will negatively impact our earnings, will cause a decline in the value of our real estate portfolio and may adversely affect our ability to make distributions to the holders of our shares of beneficial interest.

Multi-family residential property economic occupancy rates, on a stabilized property basis, were 91.1% for each of the six months ended October 31, 2004 and 2003. Commercial property economic occupancy rates, on a stabilized property basis, decreased to 89.8% from 94.1% for the six months ended October 31, 2004 and 2003, respectively. To maintain our physical occupancy levels, we may offer tenants incentives, generally in the form of lower rents, which results in decreased revenues and income from operations at our stabilized properties. We estimate that rent concessions offered during the six months ended October 31, 2004, lowered our operating revenues by approximately $1.9 million, as compared to an estimated $1.2 million reduction in operating revenues attributable to rent concessions offered in the six months ended October 31, 2003.

Inability to manage our rapid growth effectively may adversely affect our operating results. Our total assets have increased from $685 million at April 30, 2002, to $1,153.5 million at October 31, 2004, principally through the acquisition of additional real estate properties. Subject to our continued ability to raise equity capital and issue LP Units of IRET Properties, and identify suitable investment properties, our goal is to acquire approximately $100 million to $200 million of real estate assets on an annual basis. Effective management of this level of growth will present challenges, including:

- the need to expand our management team and staff;
- the need to enhance internal operating systems and controls;
- increased reliance on outside advisors and property managers; and
- the ability to consistently achieve targeted returns.

If we are unable to effectively manage our growth, our operating results will be adversely affected.

Competition may negatively impact our earnings. We compete with many kinds of institutions, including other REITs, private partnerships, individuals, pension funds and banks, for tenants and investment opportunities. Many of these institutions are active in the markets in which we invest and have greater financial and other resources that may be used to compete against us. With respect to tenants, this competition may affect our ability to lease our properties, the price at which we are able to lease our properties and the cost of required renovations or build-outs. With respect to acquisition and development investment opportunities, this competition may cause us to pay higher prices for new properties than we otherwise would have paid, or may prevent us from purchasing a desired property at all.

An inability to continue to make accretive property acquisitions may adversely affect our ability to increase our operating income. From our fiscal year ended April 30, 2002, to our fiscal year ended April 30, 2004, our operating income decreased from $11.9 million to $10.9 million. Our basic and diluted net income per common share was $0.24 as of April 30, 2004, compared to $0.38 and $0.42, respectively, as of April 30, 2003 and 2002. If we are unable to continue to make real estate acquisitions on terms that meet our financial and strategic objectives, whether due to market conditions, a changed competitive environment or unavailability of capital, our ability to increase our operating income may be materially and adversely affected.

High leverage on our overall portfolio may result in losses. As of October 31, 2004, our ratio of total indebtedness to total net assets was approximately 176.0%. As of April 30, 2004, 2003 and 2002, our percentage of total indebtedness to total net assets was approximately 178.0%, 186.0% and 211.0%, respectively. Under our Second Restated Trustees Regulations (Bylaws), we may increase our total indebtedness up to 300.0% of net assets before depreciation in the aggregate, or by an additional approximately $497.0 million. There is no limitation on the increase that may be permitted if approved by a majority of the independent members of our board of trustees and disclosed to the holders of our shares of beneficial interest in the next quarterly report, along with justification for any excess.

This amount of leverage may expose us to cash flow problems if rental income decreases. Under those circumstances, in order to pay our debt obligations we might be required to sell properties at a loss or be unable to make distributions to the holders of our shares of beneficial interest. A failure to pay amounts due may result in a default on our obligations and the loss of the property through foreclosure.

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Our inability to renew, repay or refinance our debt may result in losses. We are subject to the normal risks associated with debt financing, including the risk that:

our cash flow will be insufficient to meet required payments of principal and interest;

we will not be able to renew, refinance or repay our indebtedness when due; and

the terms of any renewal or refinancing will be less favorable than the terms of our current indebtedness.

If we are unable to refinance our indebtedness on acceptable terms, or at all, we may be forced to dispose of one or more of the properties on disadvantageous terms, which may result in losses to us. These losses could have a material adverse effect on us, our ability to make distributions to the holders of our shares of beneficial interest and our ability to pay amounts due on our debt. Furthermore, if a property is mortgaged to secure payment of indebtedness and we are unable to meet mortgage payments, the mortgagee could foreclose upon the property, appoint a receiver and receive an assignment of rents and leases or pursue other remedies, all with a consequent loss of our revenues and asset value. Foreclosures could also create taxable income without accompanying cash proceeds, thereby hindering our ability to meet the REIT distribution requirements of the Internal Revenue Code.

The principal balance of our indebtedness in mortgage loans secured by individual properties totaled $682 million as of October 31, 2004. Of the outstanding mortgages, both fixed and variable, $8.9 million in principal amount will come due during fiscal year 2005, $18.7 million in principal amount will come due during fiscal year 2006 and the remaining balance will come due in later fiscal years.

The cost of our indebtedness may increase which could affect our ability to make distributions and pay amounts due on our debt. We have incurred, and we expect to continue to incur, indebtedness that bears interest at a variable rate. As of October 31, 2004, $37.8 million, or approximately 5.5%, of the principal amount of our total mortgage indebtedness was subject to variable interest rate agreements. The interest rates on our variable rate mortgages range from approximately 4.0% to approximately 8.0%. An increase of one percent in our variable interest rate would collectively increase our interest payments by $378,000 annually. In addition, portions of our fixed-rate indebtedness incurred for past property acquisitions will come due on a periodic basis. For example, in each of our fiscal years ending April 30, 2005, 2006 and 2007, approximately $8.0 million to $19.0 million of our fixed-rate debt will come due. Accordingly, increases in interest rates will increase our interest costs, which could have a material adverse effect on us, our ability to make distributions to the holders of our shares of beneficial interest and our ability to pay amounts due on our debt.

Our current or future insurance may not protect us against possible losses. We carry comprehensive liability, fire, extended coverage and rental loss insurance with respect to our properties at levels that we believe to be adequate. However, the coverage limits of our current or future policies may be insufficient to cover the full cost of repair or replacement of all potential losses. Moreover, this level of coverage may not continue to be available in the future or, if available, may be available only at unacceptable cost or with unacceptable terms.

Additionally, there may be certain extraordinary losses, such as those resulting from civil unrest, terrorism or environmental contamination, which are not generally, or fully, insured against because they are either uninsurable or not economically insurable. For example, we do not currently carry insurance against losses as a result of environmental contamination. Should an uninsured or underinsured loss occur to a property, we could be required to use our own funds for restoration or lose all or part of our investment in, and anticipated revenues from, the property. In any event, we would continue to be obligated on any mortgage indebtedness on the property. Any loss could have a material adverse effect on us, our ability to make distributions to the holders of our shares of beneficial interest and our ability to pay amounts due on our debt.

We have significant investments in medical office properties and adverse trends in healthcare provider operations may negatively affect our lease revenues from these properties. We have acquired a significant number of specialty medical properties and may acquire more in the future. As of October 31, 2004, our real estate portfolio included 29 medical office properties, having a total carrying amount of $200 million, or approximately 19% of the total asset value of our entire real estate portfolio. The healthcare industry is currently experiencing changes in the demand for, and methods of delivery of, healthcare services; changes in third-party reimbursement policies; significant unused capacity in certain areas, which has created substantial competition for patients among healthcare providers in those areas; continuing pressure by private and governmental payors to reduce payments to providers of services; and increased scrutiny of billing, referral and other practices by federal and state authorities. Sources of revenue for our medical property tenants may include the federal Medicare program, state Medicaid programs, private insurance carriers and health maintenance organizations, among others. Efforts by such payors to reduce healthcare costs will likely continue, which may result in reductions or slower growth in reimbursement for certain services provided by some of our tenants. These factors may adversely affect the economic performance of some or all of our medical services tenants and, in turn, our lease revenues. In addition, if we or our tenants terminate the leases for these properties, or our tenants lose their regulatory authority to operate such properties, we may not be able to locate suitable replacement tenants to lease the properties for their specialized uses. Alternatively, we may be required to spend substantial amounts to adapt the properties to other uses. Any loss of revenues and/or additional capital expenditures occurring as a result could hinder our ability to make distributions to the holders of our shares of beneficial interest.

Adverse changes in applicable laws may affect our potential liabilities relating to our properties and operations. Increases in real estate taxes and income, service and transfer taxes cannot always be passed through to all tenants in the form of higher rents. As a result, any increase may adversely affect our cash available for distribution, our ability to make distributions to the holders of our shares of beneficial interest and our ability to pay amounts due on our debt. Similarly, changes in laws that increase the potential liability for environmental conditions existing on properties, that increase the restrictions on discharges or other conditions or that affect development, construction and safety requirements may result in significant unanticipated expenditures that could have a material adverse effect on us, our ability to make distributions to the holders of our shares of beneficial interest and our ability to pay amounts due on our debt. In addition, future enactment of rent control or rent stabilization laws or other laws regulating multi-family residential properties may reduce rental revenues or increase operating costs.

Complying with laws benefiting disabled persons may affect our costs and investment strategies. Federal, state and local laws and regulations designed to improve disabled persons access to and use of buildings, including the Americans with Disabilities Act, may require modifications to, or restrict renovations of, existing buildings. Additionally, these laws and regulations may require that structural features be added to buildings under construction. Any legislation or regulations that may be adopted in the future may impose further burdens or restrictions on us with respect to improved access to, and use of these buildings by, disabled persons. The costs of complying with these laws and regulations may be substantial and limits or restrictions on construction, or the completion of required renovations, may limit the implementation of our investment strategy or reduce overall returns on our investments. This could have an adverse effect on us, our ability to make distributions to the holders of our shares of beneficial interest and our ability to pay amounts due on our debt.

We may be responsible for potential liabilities under environmental laws. Under various federal, state and local laws, ordinances and regulations, a current or previous owner or operator of real estate may be liable for the costs of removal of, or remediation of, hazardous or toxic substances in, on, around or under that property. These laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the presence of the hazardous or toxic substances. The presence of these substances, or the failure to properly remediate any property containing these substances, may adversely affect the owner s or operator s ability to sell or rent the affected property or to borrow using the property as collateral. Persons who arrange for the disposal or treatment of hazardous or toxic substances may also be liable for the costs of removal of, or remediation of, these substances at that disposal or treatment facility, whether or not the facility is owned or operated by that person. In connection with our current or former ownership (direct or indirect), operation, management, development and/or control of real properties, we may be potentially liable for removal or remediation costs with respect to hazardous or toxic substances as those properties, as well as certain other costs, including governmental fines and claims for injuries to persons and property. A finding of liability for an environmental condition as to any one or more properties could have a material adverse effect on us, our ability to make distributions to the holders of our shares of beneficial interest and our ability to pay amounts due on our debt.

It is generally our policy to obtain a Phase I environmental study on each property that we seek to acquire. If the Phase I indicates any possible environmental problems, it is our policy is to order a Phase II study, which

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involves testing the soil and ground water for actual hazardous substances. However, Phase I and Phase II environmental studies, or any other environmental studies undertaken with respect to any of our current or future properties, may not reveal the full extent of potential environmental liabilities. We currently do not carry insurance for environmental liabilities.

We may be unable to retain or attract qualified management. We are dependent upon our senior officers for essentially all aspects of our business operations. Our senior officers have experience in the specialized business segments in which we operate and the loss of them would likely have a material adverse effect on our operations. We do not have employment contracts with any of our senior officers. As a result, any senior officer may terminate his or her relationship with us at any time, without providing advance notice. The location of our corporate headquarters in Minot, North Dakota, may make it more difficult and expensive to attract, relocate and retain current and future officers and employees.

Failure to achieve and maintain effective internal controls in accordance with Section 404 of the Sarbanes-Oxley Act could have a material adverse effect on our business, operating results and stock price, and compliance will result in additional expenses. We are in the process of documenting and testing our internal control procedures in order to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act, which requires annual management assessments of the effectiveness of our internal controls over financial reporting and a report by our independent auditors addressing these assessments. During the course of our testing we may identify deficiencies which we may not be able to remediate in time to meet the deadline imposed by the Sarbanes-Oxley Act for compliance with the requirements of Section 404. In addition, if we fail to maintain the adequacy of our internal controls, as such standards may be modified, supplemented or amended from time to time, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal controls over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act. Failure to achieve and maintain an effective internal control environment could have a material adverse effect on our business, operating results, and stock price. Additionally, our efforts to comply with Section 404 of the Sarbanes-Oxley Act and the related regulations have required, and we believe will continue to require, the commitment of significant financial and managerial resources.

Risks Related to the Purchase of our Shares of Beneficial Interest

Our future growth depends, in part, on our ability to raise additional equity capital, which will have the effect of diluting the interests of the holders of our common shares. Our future growth depends upon, among other things, our ability to raise equity capital and issue LP Units of IRET Properties. The issuance of additional common shares and of LP Units, for which we subsequently issue common shares upon the redemption of LP Units, will dilute the interests of the current holders of our common shares.

We may issue additional classes or series of our shares of beneficial interest with rights and preferences that are superior to the rights and preferences of our common shares. Without the approval of the holders of our common shares, our board of trustees may establish additional classes or series of our shares of beneficial interest, and, like our Series A preferred shares, such classes or series may have rights and preferences that are superior to the rights and preferences of our common shares. Any such class or series of preferred shares of beneficial interest may contain dividend rights, conversion rights, voting rights, terms of redemption, redemption prices, liquidation preferences or other rights and preferences that are superior to the rights of the holders of our common shares. We have issued in the past, and may issue in the future, preferred shares of beneficial interest having rights and preferences that are superior to those of our common shares. Such offering will only occur if and when, among other things, the market conditions for an offering of preferred shares of beneficial interest are such that the dividend rate established in respect of the preferred shares of beneficial interest will be acceptable to us and our board of trustees.

Payment of distributions on our shares of beneficial interest is not guaranteed. Our board of trustees must approve our payment of distributions and may elect at any time, or from time to time, and for an indefinite duration, to reduce the distributions payable on our shares of beneficial interest or to not pay distributions on our shares of beneficial interest. Our board of trustees may reduce distributions for a variety of reasons, including, but not limited to, the following:

operating results below expectations that cannot support the current distribution payment;

unanticipated cash requirements; or

concluding that the payment of distributions would cause us to breach the terms of certain agreements or contracts, such as financial ratio covenants.

Changes in market conditions could adversely affect the price of our shares of beneficial interest. As is the case with any publicly-traded securities, certain factors outside of our control could influence the value of our common shares, Series A preferred shares and any other classes or series of preferred shares of beneficial interest to be issued in the future. These conditions include, but are not limited to:

market perception of REITs in general;

market perception of REITs relative to other investment opportunities;

market perception of our financial condition, performance, dividends and growth potential;

prevailing interest rates; and

general economic and business conditions.

Low trading volume on the NASDAQ National Market may prevent the timely resale of our common shares. No assurance can be given that a holder of our common shares will be able to resell such shares when desired. Our common shares are currently traded on the NASDAQ National Market. The average daily trading volume for the period of May 1, 2003, through April 30, 2004, was 50,297 shares and the average monthly trading volume for the period of May 2003 through April 2004 was 1,293,517 shares. The average daily trading volume for the period of May 1, 2004 through October 31, 2004 was 59,522 shares and the average monthly trading volume for the period of May 2004 through October 2004 was 1,249,963 shares. As a result of this trading volume, an owner of our common shares may encounter difficulty in selling such shares in a timely manner and may incur a substantial loss.

Risks Related to Our Structure and Organization

We may incur tax liabilities as a consequence of failing to qualify as a REIT. Although our management believes that we are organized and have operated and are operating in such a manner to qualify as a real estate investment trust, as that term is defined under the Internal Revenue Code, no assurance can be given that we have in fact operated, or will be able to continue to operate, in a manner to qualify or remain so qualified. Qualification as a real estate investment trust, or REIT, involves the application of highly technical and complex Internal Revenue Code provisions for which there are only limited judicial or administrative interpretations, and further involves the determination of factual matters and circumstances not entirely within our control. See Certain Tax Considerations below. For example, in order to qualify as a REIT, at least 95% of our gross income in any year must be derived from qualifying sources, and we must make distributions to the holders of our shares of beneficial interest aggregating annually at least 90% of our REIT taxable income (excluding net capital gains). Thus, to the extent revenues from non-qualifying sources, such as income from third-party management, represents more than five percent of our gross income in any taxable year, we will not satisfy the 95% income test and may fail to qualify as a REIT, unless certain relief provisions contained in the Internal Revenue Code apply. Even if relief provisions apply, however, a tax would be imposed with respect to excess net income. Additionally, if IRET Properties or one or more of our subsidiaries is determined to be taxable as a corporation, we may fail to qualify as a REIT. Either our failure to qualify as a REIT, for any reason, or the imposition of taxes on excess net income from non-qualifying sources, could have a material adverse effect on us, our ability to make distributions to the holders of our shares of beneficial interest and our ability to pay amounts due on our debt. Furthermore, new legislation, regulations, administrative interpretations or court decisions could change the tax laws with respect to our qualification as a REIT or the federal income tax consequences of our qualification.

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If we failed to qualify as a REIT, we would be subject to federal income tax (including any applicable alternative minimum tax) on our taxable income at corporate rates, which would likely have a material adverse effect on us, our ability to make distributions to the holders of our shares of beneficial interest and our ability to pay amounts due on our debt. In addition, unless entitled to relief under applicable statutory provisions, we would also be disqualified from treatment as a REIT for the four taxable years following the year during which we lost our qualification. This treatment would reduce funds available for investment or distributions to the holders of our shares of beneficial interest because of the additional tax liability to us for the year or years involved. In addition, we would no longer be required to make distributions to holders of our common shares. To the extent that distributions to the holders of our shares of beneficial interest would have been made in anticipation of qualifying as a REIT, we might be required to borrow funds or to liquidate certain investments to pay the applicable tax.

Certain provisions of our Third Restated Declaration of Trust may limit a change in control and deter a takeover. In order to maintain our qualification as a REIT, our Articles of Amendment and Third Restated Declaration of Trust, as amended to date, or our Third Restated Declaration of Trust, provides that any transaction, other than a transaction entered into through the NASDAQ National Market or other similar exchange, that would result in our disqualification as a REIT under Section 856 of the Internal Revenue Code, including any transaction that would result in (i) a person owning in excess of the ownership limit, which as of the date of this prospectus supplement is 9.8%, in number or value, of our outstanding shares of beneficial interest, (ii) fewer than 100 people owning our shares of beneficial interest, (iii) us being closely held within the meaning of Section 856(h) of the Internal Revenue Code, or (iv) 50% or more of the fair market value of our shares of beneficial interest being held by persons other than United States persons, as defined in Section 7701(a)(30) of the Internal Revenue Code, will be void ab initio. If the transaction is not void ab initio, then the shares of beneficial interest in excess of the ownership limit, that would cause us to be closely held, that would result in 50% or more of the fair market value of our shares of beneficial interest to be held by persons other than United States persons or that otherwise would result in our disqualification as a REIT, will automatically be exchanged for an equal number of excess shares, and these excess shares will be transferred to an excess share trustee for the exclusive benefit of the charitable beneficiaries named by our board of trustees. These limitations may have the effect of preventing a change in control or takeover of us by a third-party, even if the change in control or takeover would be in the best interests of the holders of our shares of beneficial interest.

Our board of trustees may make changes to our major policies without approval of the holders of our shares of beneficial interest. Our major policies, including policies relating to development, acquisitions, financing, growth, debt capitalization and distributions, are determined by our board of trustees. Our board of trustees may amend or revoke those policies, and other policies, without advance notice to, or the approval of, the holders of our shares of beneficial interest.

IRET

We are a self-advised equity REIT organized under the laws of North Dakota. Our business consists of owning and operating income-producing real properties. Our investments include multi-family residential properties, consisting of apartment buildings, complexes and communities, and commercial properties, consisting of office, industrial, medical and retail properties. These properties are located primarily in the upper Midwest states of Minnesota and North Dakota.

Our primary source of income and cash is rents associated with multi-family residential and commercial property leases. Our commercial properties are typically leased to tenants under long term lease arrangements, with no single tenant currently accounting for more than approximately 5.6% of our total annual commercial rental revenues. At October 31, 2004, the economic occupancy rate for our stabilized multi-family residential properties was approximately 91.1%, and the economic occupancy of our total commercial properties, on a stabilized property basis, was approximately 89.8%. We define economic occupancy as total possible revenue less vacancy loss as a percentage of total possible revenue. Total possible revenue is determined by valuing occupied units or square footage at contract rates and vacant units or square footage at market rates. Stabilized properties are those properties that we owned for the entirety of both periods being compared, and include properties that were redeveloped or expanded during the period being compared. Properties purchased or sold during the periods being compared are excluded from our stabilized property analysis. Results reported on a stabilized property basis are not computed in accordance with accounting principles generally accepted in the United States of America (GAAP).

We operate in a manner intended to enable us to qualify as a REIT under the Internal Revenue Code. We own our assets and conduct our day-to-day business operations through an operating partnership, IRET Properties, a North Dakota Limited Partnership, of which IRET, Inc., a North Dakota corporation and our wholly-owned subsidiary, is the sole general partner.

RECENT DEVELOPMENTS

In November 2004 we completed a best efforts offering to sell up to 1.5 million of our common shares of beneficial interest at $10.15 per share. We sold 1.4 million shares in this offering, and received proceeds of approximately $13.4 million, after broker commissions totaling $0.9 million, but before other expenses of the offering.

On January 3, 2005, our board of trustees declared a regular quarterly distribution of 16.15 cents per common share and LP Unit payable on or about January 27, 2005, to common shareholders and unitholders of record at the close of business on January 13, 2005. This 16.15 cent per common share/LP Unit distribution is the 135th consecutive quarterly distribution paid by IRET since its inception in 1970, and represents an increase of .05 cents or 0.3% over the previous regular quarterly distribution of 16.10 cents per common share/LP Unit paid October 1, 2004.

NO PROCEEDS TO IRET

We will not receive any proceeds from the issuance of the common shares, if any, covered by this prospectus or from the resale of the common shares, if any, covered by this prospectus by the selling shareholders. All of the proceeds from the resale of the common shares covered by this prospectus will go to the selling shareholders who offer and sell their shares.

SELLING SHAREHOLDERS

We may issue the common shares covered by this prospectus to the selling shareholders in exchange for LP Units if and to the extent that the selling shareholders redeem LP Units and we elect to issue common shares in exchange for such LP Units. The selling shareholders will have received all common shares that they may offer for sale under the prospectus by redeeming the LP Units to which this prospectus relates. The following table sets forth certain information with respect to the selling shareholders and their ownership of common shares as of January 20, 2005. No selling shareholder has held any position, office or had any other material relationship with us, or any of our predecessors or affiliates, during the past three years. Except as indicated below, the common shares owned by each selling shareholder, including all common shares to be issued in exchange for currently redeemable LP Units for common shares covered by this prospectus, represents less than 1.0% of the sum of the common shares outstanding as of January 20, 2005, plus all common shares to be issued in exchange for LP Units by the selling shareholders pursuant to this prospectus, assuming redemption of all LP Units in exchange for common shares.

Since the selling shareholders may sell all, some or none of the common shares issued upon redemption of LP Units, and since there are currently no agreements, arrangements or understandings with respect to the sale of any of such common shares, no estimate can be given as to the number or percentage of common shares that will be held by the selling shareholders upon termination of any offering made hereby. The common shares covered by this prospectus represent approximately 1.0% of the sum of our total common shares outstanding as of January 20, 2005, plus all common shares to be issued in exchange for LP Units by the selling shareholders pursuant to this prospectus, assuming redemption of all LP Units in exchange for common shares.

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Name of Selling Shareholder	Shares Owned Prior to the Offering (1)	Shares Being Offered (2)	Shares Owned After the Offering (3)	Percentage of Shares Owned After the Offering
Ronald A. and Mary K. Morton	41,123	40,363	760	*
Timothy J. Wensman	40,363	40,363	0	*
Benton Business Park Partnership, a Minnesota limited liability partnership	31,117	31,117	0	*
West River Business Park Partnership, LLP, a Minnesota limited liability partnership	54,355	54,355	0	*
David R. Frauenshuh	500,202(4)	166,925	333,277	*
Richard V. Wicka	97,044	40,144	56,900	*
Randy T. McKay	94,950	36,168	58,782	*
Gary L. Lindstrom	57,460	27,821	29,639	*
Mark D. Jorgens	8,542	1,751	6,791	*
Dean M. Williamson	5,500	1,751	3,749	*

(1) Represents common shares currently owned by and registered in the name of the selling shareholder or issuable in exchange for an equal number of currently redeemable LP Units owned by the selling shareholder, including the LP Units to be redeemed for common shares covered by this prospectus.

(2) Assumes that all LP Units held by the selling shareholder are exchanged for common shares and that all such common shares are being resold pursuant to this prospectus.

(3) Assumes the sale of all of the common shares issued upon redemption of LP Units. The selling shareholders may, however, sell all, some or none of the common shares issued upon redemption of LP Units and, to our knowledge, as of the date of this prospectus, there are no agreements, arrangements or understandings with respect to the sale of such common shares.

(4) Represents approximately 1.1% of the sum of the common shares outstanding as of January 20, 2005, plus all common shares to be issued in exchange for LP Units by the selling shareholders pursuant to this prospectus, assuming redemption of all LP Units in exchange for common shares.

* Represents less than one percent of the sum of the common shares outstanding as of January 20, 2005, plus all common shares to be issued in exchange for LP Units by the selling shareholders pursuant to this prospectus, assuming redemption of all LP Units in exchange for common shares.

PLAN OF DISTRIBUTION

This prospectus relates to the possible issuance of up to 440,758 common shares if, and to the extent that, the holders of an equal number of LP Units submit such LP Units for redemption and we issue common shares in exchange for such redeemed LP Units. We will not receive any proceeds from any issuance of common shares in exchange for LP Units. This prospectus also relates to the possible offer and sale by the selling shareholders, from time to time, of any common shares we issue in exchange for LP Units. We will not receive any proceeds from the sale of the common shares by the selling shareholders.

We are registering the common shares covered by this prospectus for resale pursuant to our obligations under the Agreement of Limited Partnership of IRET Properties in order to provide the transferees of the selling shareholders with freely tradable securities. Registration does not, however, necessarily mean that any LP Units will be submitted for redemption or that any of the common shares to be issued upon such redemption will be offered or sold by the selling shareholders.

The selling shareholders, or their pledgees, donees, transferees or other successors in interest, may offer and sell the common shares covered by this prospectus in the following manner:

- on the NASDAQ National Market or other quotation system or national exchange on which our common shares are listed or traded at the time of sale;

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- in the over-the-counter market;
- in privately negotiated transactions;
- in underwritten transactions; or
- otherwise, at prices then prevailing or related to the then current market price or at negotiated prices.

The offering price of the common shares covered by this prospectus and offered from time to time will be determined by the selling shareholders and, at the time of determination, may be higher or lower than the market price of the common shares on the NASDAQ National Market.

In connection with an underwritten offering, underwriters or agents may receive compensation in the form of discounts, concessions or commissions from a selling shareholder or from purchasers of offered common shares for whom they may act as agents, and underwriters may sell offered common shares to or through dealers, and such dealers may receive compensation in the form of discounts, concessions or commissions from the underwriters and/or commissions from the purchasers from whom they may act as agents.

Offered common shares may be sold directly or through broker-dealers acting as principal or agent, or pursuant to a distribution by one or more underwriters on a firm commitment or best-efforts basis. The methods by which offered common shares may be sold include:

- a block trade in which the broker-dealer so engaged will attempt to sell offered common shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;
- purchases by a broker-dealer as principal and resale by such broker-dealer for its own account pursuant to this prospectus;
- ordinary brokerage transactions and transactions in which the broker solicits purchases;
- an exchange distribution in accordance with the rules of the exchange or quotation system;
- privately negotiated transactions; and
- underwritten transactions.

The selling shareholders and any underwriters, dealer or agents participating in the distribution of offered common shares may be deemed to be underwriters within the meaning of the Securities Act of 1933. Any profit on the sale of offered common shares by the selling shareholders and any commissions received by any such broker-dealers may be deemed to be underwriting commissions under the Securities Act of 1933.

When a selling shareholder elects to make a particular offer of common shares, a prospectus supplement, if required, will be distributed that identifies any underwriters, dealers or agents and any discounts, commissions and other terms constituting compensation from such selling shareholder and any other required information.

In order to comply with state securities laws, if applicable, offered common shares may be sold only through registered or licensed brokers or dealers. In addition, in certain states, offered common shares may not be sold unless they have been registered or qualified for sale in such state or an exemption from such registration or qualification requirement is available and complied with.

We have agreed to pay all costs and expenses incurred in connection with the registration under the Securities Act of 1933 of the common shares covered by this prospectus, including, but not limited to, all registration and filing fees, printing expenses and fees and disbursements of our legal counsel and accountants. The selling shareholders will pay any brokerage fees and commissions, fees and disbursements of legal counsel for the selling shareholders and stock transfer and other taxes attributable to the sale of common shares covered by this prospectus.

DESCRIPTION OF SHARES OF BENEFICIAL INTEREST

The following is a summary of the material terms of our shares of beneficial interest. This summary is not a complete legal description of the common shares offered by this prospectus or our Series A preferred shares and is qualified in its entirety by reference to our Third Restated Declaration of Trust, the Articles Supplementary to our Third Restated Declaration of Trust classifying and designating our Series A preferred shares and our Bylaws. We have filed copies of our Third Restated Declaration of Trust, the Articles Supplementary to our Third Restated Declaration of Trust classifying and designating our Series A preferred shares and our Bylaws with the Securities and Exchange Commission and have incorporated by reference such documents as exhibits to the registration statement of which this prospectus is a part.

General

We are authorized, under our Third Restated Declaration of Trust, to issue an unlimited number of our shares of beneficial interest. Our board of trustees is authorized, under our Third Restated Declaration of Trust, to provide for the issuance of shares of beneficial interest upon terms and conditions and pursuant to agreements as the board of trustees may determine and, further, to establish by resolution more than one class or series of shares of beneficial interest and to fix the relative rights and preferences of these different classes or series. The rights and preferences of any class or series of shares of beneficial interest will be stated in the articles supplementary to our Third Restated Declaration of Trust establishing the terms of that class or series adopted by our board of trustees and will become part of our Third Restated Declaration of Trust. As of January 20, 2005, our authorized shares of beneficial interest consisted of an unlimited number of common shares, of which 44,090,132 were issued and outstanding, and an unlimited number of Series A preferred shares, of which 1,150,000 were issued and outstanding.

The voting rights and rights to distributions of the holders of common shares are subject to the prior rights of the holders of our Series A preferred shares and any other subsequently-issued classes or series of preferred shares. Unless otherwise required by applicable law or regulation, other classes or series of preferred shares are issuable without further authorization by holders of the common shares and on such terms and for such consideration as may be determined by our board of trustees. Other classes or series of preferred shares may have varying voting rights, redemption and conversion features, distribution (including liquidating distribution) rights and preferences, and other rights, including rights of approval of specified transactions. Any subsequently-issued class or series of preferred shares could be given rights that are superior to rights of holders of common shares and a class or series having preferential distribution rights could limit common share distributions and reduce the amount holders of common shares would otherwise receive on dissolution.

Ownership and Transfer Restrictions.

Our Third Restated Declaration of Trust contains provisions that are intended to help preserve our status as a REIT for federal income tax purposes. Specifically, our Third Restated Declaration of Trust provides that any transaction, other than a transaction entered into through the NASDAQ National Market or other similar exchange, that would result in our disqualification as a REIT under Section 856 of the Internal Revenue Code, including any transaction that would result in (i) a person owning shares of beneficial interest in excess of the ownership limit, which as of the date of this prospective supplement is 9.8%, in number or value, of our outstanding shares of beneficial interest, (ii) less than 100 people owning our shares of beneficial interest, (iii) us being closely held, or (iv) 50% or more of the fair market value of our shares of beneficial interest being held by persons other than United States persons, will be void ab initio. If such transaction is not void ab initio, then the shares of beneficial interest that are in excess of the ownership limit, that would cause us to be closely held, that would result in 50% or more of the fair market value of our shares of beneficial interest to be held by persons other than United States persons or that otherwise would result in our disqualification as a REIT, would automatically be exchanged for an equal number of excess shares, and these excess shares will be transferred to an excess share trustee for the exclusive benefit of the charitable beneficiaries named by our board of trustees.

In such event, any distributions on excess shares will be paid to the excess share trust for the benefit of the charitable beneficiaries. The excess share trustee will be entitled to vote the excess shares, if applicable, on any matter. The excess share trustee may only transfer the excess shares held in the excess share trust as follows:

if shares of beneficial interest were transferred to the excess share trustee due to a transaction or event that would have caused a violation of the ownership limit or would have caused us to be closely held then, at the direction of our board of trustees, the excess share trustee will transfer the excess shares to the person who makes the highest offer for the excess shares, pays the purchase price and whose ownership will not violate the ownership limit or cause us to be closely held; or

if excess shares were transferred to the excess share trustee due to a transaction or event that would have caused persons other than United States persons to own more than 50% of the value of our shares of beneficial interest then, at the direction of our board of trustees, the excess share trustee will transfer the excess shares to the United States person who makes the highest offer for the excess shares and pays the purchase price.

We have certain rights to purchase excess shares from the excess share trustee and must have waived these rights prior to a transfer as described above.

Common Shares

General. Our Third Restated Declaration of Trust authorizes the issuance of an unlimited number of our common shares. As of January 20, 2005, there were 44,090,132 of our common shares outstanding and 10,938,432 of our common shares to be issued upon conversion of previously issued LP Units, and there were no warrants, options or other contractual arrangements, other than the LP Units, requiring the issuance of our common shares or any other shares of beneficial interest.

All of our common shares offered by this prospectus will be duly authorized, fully paid and nonassessable when exchanged for LP Units in accordance with the terms of the Agreement of Limited Partnership of IRET Properties.

Voting Rights. Subject to the provisions of our Third Restated Declaration of Trust regarding the restriction on the transfer of our common shares, our common shares have non-cumulative voting rights at the rate of one vote per common share on all matters submitted to the shareholders, including the election of members of our board of trustees.

Our Third Restated Declaration of Trust generally provides that whenever any action is to be taken by the holders of our common shares, including the amendment of our Third Restated Declaration of Trust if such amendment is previously approved by our board of trustees, such action will be authorized by a majority of the voting power of the holders of our common shares present in person or by proxy at a meeting at which a quorum is present, except as otherwise required by law, our Third Restated Declaration of Trust or our Bylaws. Our Third Restated Declaration of Trust further provides the following:

(i) that the following actions will be authorized by the affirmative vote of the holders of our common shares holding common shares possessing a majority of the voting power of our common shares then outstanding and entitled to vote on such action:

our termination;

our merger with or into another entity;

our consolidation with one or more other entities into a new entity;

the disposition of all or substantially all of our assets; and

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the amendment of the Third Restated Declaration of Trust, if such amendment has not been previously approved by our board of trustees.

(ii) that a member of our board of trustees may be removed with or without cause by the holders of our common shares by the affirmative vote of not less than two-thirds of our common shares then outstanding and entitled to vote on such matter.

Our Third Restated Declaration of Trust also permits our board of trustees, by a two-thirds vote and without any action by the holders of our common shares, to amend our Third Restated Declaration of Trust from time to time as necessary to enable us to continue to qualify as a real estate investment trust under the Internal Revenue Code.

Dividend, Distribution, Liquidation and Other Rights. Subject to the preferential rights of our Series A preferred shares, any other preferred shares of beneficial interest that we may issue in the future and the provisions of the Third Restated Declaration of Trust regarding the restriction on the transfer of our common shares, holders of our common shares are entitled to receive dividends on their common shares if, as and when authorized and declared by our board of trustees and to share ratably in our assets legally available for distribution to our shareholders in the event of our liquidation, dissolution or winding up after payment of, or adequate provision for, all known debts and liabilities. Our common shares have equal dividend, distribution, liquidation and other rights. Our common shares have no preference, conversion, exchange, sinking fund or redemption rights.

Listing. Our common shares are listed on the NASDAQ National Market under the symbol IRETS.

Transfer Agent and Registrar. We act as our own transfer agent and registrar with respect to our common shares.

Series A Preferred Shares

General. Our Third Restated Declaration of Trust, as amended by the Articles Supplementary, authorizes the issuance of an unlimited number of our Series A preferred shares. As of January 20, 2005, there were 1,150,000 of our Series A preferred shares outstanding and there were no warrants, options or other contractual arrangements requiring the issuance of additional Series A preferred shares or any other shares of beneficial interest. Unless redeemed, our Series A preferred shares have a perpetual term with no stated maturity date.

Ranking. With respect to the payment of distributions and distribution of our assets and rights upon our liquidation, dissolution or winding up, whether voluntary or involuntary, our Series A preferred shares will rank:

senior to our common shares and to all other shares of beneficial interest that, by their terms, rank junior to our Series A preferred shares,

on a parity with all shares of beneficial interest that we issue, the terms of which specifically provide that those shares of beneficial interest rank on a parity with our Series A preferred shares, and

junior to all shares of beneficial interest issued by us whose senior ranking is consented to as described under Voting Rights below.

We do not currently have any other shares of beneficial interest outstanding that rank on a parity with, or senior to, our Series A preferred shares.

Distributions. Holders of our Series A preferred shares will be entitled to receive, when, as and if declared by our board of trustees, out of funds legally available for that purpose, cumulative quarterly cash distributions at the rate of 8.25% of the $25.00 liquidation preference per year (equivalent to an annual rate of $2.0625 per Series A preferred share). Distributions on our Series A preferred shares will accrue and be cumulative from and including the date of initial issuance or from and including the day immediately following the most recent date as to which distributions have been paid. Distributions will be payable quarterly in arrears on March 31, June 30, September 30 and December 31 of each year, or, if not a business day, the succeeding business day (without interest for the intervening period). Distributions will accrue regardless of whether we have earnings, whether we have funds legally available for payment or whether the distributions are declared. The first distribution on our Series A preferred shares was paid on June 30, 2004. Distributions will be computed on the basis of a 360-day year consisting of twelve 30-day months. Each payment of distributions will include distributions accrued to and including the date on which paid. Distributions will be payable to record holders of our Series A preferred shares as they appear in our records at the close of the business on the applicable record date, which will be the 15th day of the calendar month in which the applicable distribution payment date falls or such other date designated by our board of trustees for the payment of distributions that is not more than 30 nor less than 10 days prior to the distribution payment date.

No full distributions will be authorized or paid or set apart for payment on any class or series of shares of beneficial interest ranking, as to distributions, on a parity with our Series A preferred shares unless all accrued distributions on our Series A preferred shares for all past distribution periods and the then current distribution period have been, or contemporaneously are, authorized and paid in full or a sum sufficient for the payment in full of such distributions is set apart for that payment. When distributions are not paid in full (or a sum sufficient for their full payment is not so set apart) on our Series A preferred shares and any other class or series of shares of beneficial interest ranking on a parity as to distributions with our Series A preferred shares, all distributions declared upon our Series A preferred shares and any other such shares of beneficial interest will be authorized pro rata so that the amount of distributions authorized per share on our Series A preferred shares and all other such shares of beneficial interest will in all cases bear to each other the same ratio that accrued and unpaid distributions per share on our Series A preferred shares and all other shares of beneficial interest bear to each other.

Except as provided in the immediately preceding paragraph, unless all accrued distributions on our Series A preferred shares for all past distribution periods and the then current distribution period have been, or contemporaneously are, authorized and paid in full or a sum sufficient for the payment in full of such distributions is set apart for payment, no distributions (other than in the form of our common shares or any other shares of beneficial interest ranking junior to our Series A preferred shares as to distributions and upon our liquidation, dissolution or winding up, whether voluntary or involuntary) or other distribution will be authorized, paid or set aside for payment or made upon our common shares or any other shares of beneficial interest ranking junior to, or on a parity with, our Series A preferred shares as to distributions or upon our liquidation, dissolution or winding up, whether voluntary or involuntary, nor will any common shares or any other shares of beneficial interest ranking junior to or on a parity with our Series A preferred shares as to distributions or upon our liquidation, dissolution or winding up, whether voluntary or involuntary, be redeemed, purchased or otherwise acquired for any consideration (or any monies be paid to or made available for a sinking fund for the redemption of any such shares of beneficial interest) by us (except by conversion into or exchange for other shares of beneficial interest ranking junior to our Series A preferred shares as to distributions and upon our liquidation, dissolution or winding up, whether voluntary or involuntary, and except for the acquisition of shares of beneficial interest that have been designated as excess shares in accordance with the terms of our Third Restated Declaration of Trust).

Distributions on our Series A preferred shares will accrue whether or not we have earnings, whether or not there are funds legally available for the payment of the distributions and whether or not the distributions k 2.5pt double; text-align: right">— $77 Ending balance: collectively evaluated for impairment $532 $768 $447 $291 $177 $2,215 Loans: Ending balance: individually evaluated for impairment $129 $841 $— $462 $— $1,432 Ending balance: collectively evaluated for impairment $51,732 $216,508 $75,158 $12,739 $— $356,137

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United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Six Months Ended June 30, 2017 and 2016

Allowance for Loan Losses and Recorded Investment in Loans

As of and for the three and six month period ended June 30, 2016

	Commercial	Commercial Real Estate	Residential	Installment	Unallocated	Total
	(In thousands)					
Allowance for loan losses:						
Balance, April 1, 2016	$192	$702	$166	$236	$1,079	$2,375
Provision charged to expense	231	(278)	(15)	9	158	105
Losses charged off	—	—	—	(120)	—	(120)
Recoveries	74	3	12	16	—	105
Balance, June 30, 2016	$497	$427	$163	$141	$1,237	$2,465
Balance, January 1, 2016	$184	$597	$170	$113	$1,373	$2,437
Provision charged to expense	238	(177)	72	179	(136)	176
Losses charged off	(2)	—	(91)	(191)	—	(284)
Recoveries	77	7	12	40	—	136
Balance, June 30, 2016	$497	$427	$163	$141	$1,237	$2,465
Loans:						
Ending balance: individually evaluated for impairment	$1	$1,368	$—	$—	$—	$1,369
Ending balance: collectively evaluated for impairment	$86,538	$167,149	$78,307	$15,459	$—	$347,453

Allowance for Loan Losses and Recorded Investment in Loans

As of December 31, 2016

	Commercial	Commercial Real Estate	Residential	Installment	Unallocated	Total
	(In thousands)					
Allowance for loan losses:						
	$11	$108	$—	$—	$—	$119

Ending balance: individually evaluated for impairment						
Ending balance: collectively evaluated for impairment	$484	$ 696	$ 591	$ 107	$ 344	$2,222
Loans:						
Ending balance: individually evaluated for impairment	$3,148	$ 1,178	$ —	$ 326	$ —	$4,652
Ending balance: collectively evaluated for impairment	$71,366	$ 190,508	$ 76,154	$ 14,041	$ —	$352,069

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United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Six Months Ended June 30, 2017 and 2016

The following tables show the portfolio quality indicators.

	June 30, 2017				
Loan Class	Commercial	Commercial Real Estate	Residential	Installment	Total
	(In thousands)				
Pass Grade	$48,798	$ 213,161	$ 75,158	$ 12,739	$349,856
Special Mention	140	3,171	—	—	3,311
Substandard	2,923	1,017	—	462	4,402
Doubtful	—	—	—	—	—
	$51,861	$ 217,349	$ 75,158	$ 13,201	$357,569

	December 31, 2016				
Loan Class	Commercial	Commercial Real Estate	Residential	Installment	Total
	(In thousands)				
Pass Grade	$71,302	$ 187,255	$ 76,154	$ 14,041	$348,752
Special Mention	64	3,253	—	—	3,317
Substandard	3,148	1,178	—	326	4,652
Doubtful	—	—	—	—	—
	$74,514	$ 191,686	$ 76,154	$ 14,367	$356,721

To facilitate the monitoring of credit quality within the loan portfolio, and for purposes of analyzing historical loss rates used in the determination of the ALLL, the Company utilizes the following categories of credit grades: pass, special mention, substandard, and doubtful. The four categories, which are derived from standard regulatory rating definitions, are assigned upon initial approval of credit to borrowers and updated periodically thereafter. Pass ratings, which are assigned to those borrowers that do not have identified potential or well defined weaknesses and for which there is a high likelihood of orderly repayment, are updated periodically based on the size and credit characteristics of the borrower. All other categories are updated on at least a quarterly basis.

The Company assigns a special mention rating to loans that have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may, at some future date, result in the deterioration of the repayment prospects for the loan or the Company's credit position.

The Company assigns a substandard rating to loans that are inadequately protected by the current sound worth and paying capacity of the borrower or of the collateral pledged. Substandard loans have well defined weaknesses or weaknesses that could jeopardize the orderly repayment of the debt. Loans and leases in this grade also are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies noted are not addressed and corrected.

The Company assigns a doubtful rating to loans that have all the attributes of a substandard rating with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. The possibility of loss is extremely high, but because of certain important and reasonable specific pending factors that may work to the advantage of and strengthen the credit quality of the loan or lease, its classification as an estimated loss is deferred until its more exact status may be determined. Pending factors may include a proposed merger or acquisition, liquidation proceeding, capital injection, perfecting liens on additional collateral or refinancing plans.

United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Six Months Ended June 30, 2017 and 2016

The Company evaluates the loan risk grading system definitions and allowance for loan losses methodology on an ongoing basis. No significant changes were made to either during the past year to date period.

Loan Portfolio Aging Analysis

As of June 30, 2017

	30-59 Days Past Due and Accruing	60-89 Days Past Due and Accruing	Greater Than 90 Days and Accruing	Non Accrual	Total Past Due and Non Accrual	Current	Total Loans Receivable
	(In thousands)						
Commercial	$—	$ 97	$ —	$ 90	$ 187	$75,383	$ 75,570
Commercial real estate	—	31	—	635	666	192,974	193,640
Residential	655	123	—	871	1,649	73,509	75,158
Installment	73	7	—	8	88	13,113	13,201
Total	$728	$ 258	$ —	$ 1,604	$ 2,590	$354,979	$ 357,569

Loan Portfolio Aging Analysis

As of December 31, 2016

	30-59 Days Past Due and Accruing	60-89 Days Past Due and Accruing	Greater Than 90 Days and Accruing	Non Accrual	Total Past Due and Non Accrual	Current	Total Loans Receivable
	(In thousands)						
Commercial	$153	$ 105	$ 75	$ 49	$ 382	$74,132	$ 74,514

Commercial real estate	—	55	—	335	390	191,296	191,686
Residential	805	135	161	922	2,023	74,131	76,154
Installment	213	8	—	55	276	14,091	14,367
Total	$1,171	$ 303	$ 236	$ 1,361	$ 3,071	$353,650	$ 356,721

A loan is considered impaired, in accordance with the impairment accounting guidance (ASC 310-10-35-16), when based on current information and events, it is probable the Company will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Impaired loans include nonperforming commercial loans but also include loans modified in troubled debt restructurings where concessions have been granted to borrowers experiencing financial difficulties. These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection.

United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Six Months Ended June 30, 2017 and 2016

Impaired Loans

	As of June 30, 2017			For the three months ended June 30, 2017		For the six months ended June 30, 2017	
	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized	Average Investment in Impaired Loans	Interest Income Recognized
	(In thousands)						
Loans without a specific valuation allowance:							
Commercial	$129	$ 129	$ —	$ 131	$ 1	$ 128	$ 2
Commercial real estate	401	401	—	808	3	825	5
Residential	—	—	—	—	—	—	—
Installment	462	462	—	463	3	477	3
	992	992	—	1,402	7	1,430	10
Loans with a specific valuation allowance:							
Commercial	—	—	—	—	—	—	3
Commercial real estate	440	440	77	489	6	498	12
Residential	—	—	—	—	—	—	—
Installment	—	—	—	—	—	—	—
	440	440	77	489	6	498	15
Total:							
Commercial	$129	$ 129	$ —	$ 131	$ 1	$ 128	$ 5
Commercial real estate	$841	$ 841	$ 77	$ 1,297	$ 9	$ 1,323	$ 17
Residential	$—	$ —	$ —	$ —	$ —	$ —	$ —
Installment	$462	$ 462	$ —	$ 463	$ 3	$ 477	$ 3

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United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Six Months Ended June 30, 2017 and 2016

Impaired Loans

	As of December 31, 2016			For the three months ended June 30, 2016		For the six months ended June 30, 2016	
	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized	Average Investment in Impaired Loans	Interest Income Recognized
	(In thousands)						
Loans without a specific valuation allowance:							
Commercial	$2,975	$ 2,975	$ —	$ 1	$ —	$ 1	$ —
Commercial real estate	658	766	—	875	9	884	17
Residential	—	—	—	—	—	—	—
Installment	326	326	—	—	—	—	—
	3,959	4,067	—	876	9	885	17
Loans with a specific valuation allowance:							
Commercial	173	173	11	—	—	—	—
Commercial real estate	520	520	108	1,098	6	1,102	17
Residential	—	—	—	—	—	—	—
Installment	—	—	—	—	2	—	2
	693	693	119	1,098	8	1,102	19
Total:							
Commercial	$3,148	$ 3,148	$ 11	$ 1	$ —	$ 1	$ —
Commercial real estate	$1,178	$ 1,286	$ 108	$ 1,973	$ 15	$ 1,986	$ 34
Residential	$326	$ 326	$ —	$ —	$ —	$ —	$ —
Installment	$—	$ —	$ —	$ —	$ 2	$ —	$ 2

Interest income recognized on a cash basis was not materiality different than interest income recognized.

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United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Six Months Ended June 30, 2017 and 2016

For the TDRs noted in the tables below, the Company extended the maturity dates and granted interest rate concessions as part of each of those loan restructurings. The loans included in the tables are considered impaired and specific loss calculations are performed on the individual loans. In conjunction with the restructuring there were no amounts charged-off.

	Three Months ended June 30, 2017		
	Number of Contracts	Pre- Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
	(In thousands)		
Commercial	—	$ —	$ —
Commercial real estate	2	127	103
Residential	—	—	—
Installment	—	—	—

	Three Months Ended June 30, 2017			
	Interest Only	Term	Combination	Total Modification
		(**In thousands**)		
Commercial	$ —	$ —	$ —	$ —
Commercial real estate	—	103	—	103
Residential	—	—	—	—
Consumer	—	—	—	—

	Six Months ended June 30, 2017		
	Number of Contracts	Pre- Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
	(In thousands)		
Commercial	—	$ —	$ —

Commercial real estate	2	127	103
Residential	—	—	—
Installment	—	—	—

	Six Months Ended June 30, 2017			
	Interest Only	Term	Combination	Total Modification
	(**In thousands**)			
Commercial	$ —	$ —	$ —	$ —
Commercial real estate	—	103	—	103
Residential	—	—	—	—
Consumer	—	—	—	—

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United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Six Months Ended June 30, 2017 and 2016

	Three Months ended June 30, 2016				
	Number of Contracts	Pre- Modification Outstanding Recorded Investment		Post-Modification Outstanding Recorded Investment	
	(In thousands)				
Commercial	—	$	—	$	—
Commercial real estate	—		—		—
Residential	—		—		—
Installment	—		—		—

	Three Months Ended June 30, 2016							
	Interest Only		Term		Combination		Total Modification	
			(In thousands)					
Commercial	$	—	$	—	$	—	$	—
Commercial real estate		—		—		—		—
Residential		—		—		—		—
Consumer		—		—		—		—

	Six Months ended June 30, 2016				
	Number of Contracts	Pre- Modification Outstanding Recorded Investment		Post-Modification Outstanding Recorded Investment	
	(In thousands)				
Commercial	—	$	—	$	—
Commercial real estate	2		85		85
Residential	—		—		—
Installment	—		—		—

	Six Months Ended June 30, 2016	
	Term	Combination

	Interest Only			Total Modification
	(**In thousands**)			
Commercial	$ —	$ —	$ —	$ —
Commercial real estate	—	85	—	85
Residential	—	—	—	—
Consumer	—	—	—	—

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United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Six Months Ended June 30, 2017 and 2016

During the six months ended June 30, 2017,and 2016 troubled debt restructurings described above increased the allowance for loan losses by 24,000 and $8,300, respectively. At June 30, 2017 and 2016 and for three and six month periods then ended, there were no material defaults of any troubled debt restructurings that were modified in the last 12 months. The Company generally considers TDR's that become 90 days or more past due under the modified terms as subsequently defaulted.

Note 4: Benefit Plans

Pension expense includes the following:

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
	(In thousands)			
Service cost	$68	$78	$136	$156
Interest cost	50	50	100	100
Expected return on assets	(90)	(86)	(180)	(172)
Amortization of prior service cost and net loss	(6)	(2)	(12)	(4)
Pension expense	$22	$40	$44	$80

Note 5: Off-balance-sheet Activities

Some financial instruments, such as loan commitments, credit lines, letters of credit and overdraft protection, are issued to meet customer financing needs. These are agreements to provide credit or to support the credit of others, as long as conditions established in the contracts are met, and usually have expiration dates. Commitments may expire without being used. Off-balance-sheet risk to credit loss exists up to the face amount of these instruments, although material losses are not anticipated. The same credit policies are used to make such commitments as are used for loans, including obtaining collateral at exercise of the commitment.

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United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Six Months Ended June 30, 2017 and 2016

A summary of the notional or contractual amounts of financial instruments with off-balance-sheet risk at the indicated dates is as follows:

	June 30, 2017	December 31, 2016
	(In thousands)	
Commercial loans unused lines of credit	$25,629	$ 20,942
Commitment to originate loans	12,535	12,349
Consumer open end lines of credit	37,075	35,590

Note 6: Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive loss, included in stockholders' equity, are as follows:

	June 30, 2017	December 31, 2016
	(In thousands)	
Net unrealized loss on securities available-for-sale	$(108)	$ (483)
Net unrealized loss for funded status of defined benefit plan liability	(205)	(205)
	(313)	(688)
Tax effect	107	234
Net-of-tax amount	$(206)	$ (454)

Note 7: Fair Value Measurements

The Company defines fair value as 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. The Company also utilizes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1	Quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date
Level 2	Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
Level 3	Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

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United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Six Months Ended June 30, 2017 and 2016

Following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, 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. The Company's equity securities are classified within Level 1 of the hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy.

The following table presents the fair value measurements of assets recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2017 and December 31, 2016:

		Fair Value Measurements Using		
	Fair Value	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
	(In thousands)			
June 30, 2017				

U.S. government agencies	$38,892	$ —	$ 38,892	$ —
December 31, 2016				
U.S. government agencies	$38,514	$ —	$ 38,514	$ —
State and political subdivisions	1,252	—	1,252	—

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United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Six Months Ended June 30, 2017 and 2016

Following is a description of the valuation methodologies used for assets measured at fair value on a nonrecurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

Impaired Loans (Collateral Dependent)

Collateral dependent impaired loans consisted primarily of loans secured by nonresidential real estate. Management has determined fair value measurements on impaired loans primarily through evaluations of appraisals performed. Due to the nature of the valuation inputs, impaired loans are classified within Level 3 of the hierarchy.

The Company considers the appraisal or evaluation as the starting point for determining fair value and then considers other factors and events in the environment that may affect the fair value. Appraisals of the collateral underlying collateral-dependent loans are obtained when the loan is determined to be collateral-dependent and subsequently as deemed necessary by the Company’s Chief Lender. Appraisals are reviewed for accuracy and consistency by the Company’s Chief Lender. Appraisers are selected from the list of approved appraisers maintained by management. The appraised values are reduced by discounts to consider lack of marketability and estimated cost to sell if repayment or satisfaction of the loan is dependent on the sale of the collateral. These discounts and estimates are developed by the Company’s Chief Lender by comparison to historical results.

Foreclosed Assets Held for Sale

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value (based on current appraised value) at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Management has determined fair value measurements on other real estate owned primarily through evaluations of appraisals performed, and current and past offers for the other real estate under evaluation. Due to the nature of the valuation inputs, foreclosed assets held for sale are classified within Level 3 of the hierarchy.

Appraisals of OREO are obtained when the real estate is acquired and subsequently as deemed necessary by the Company’s Chief lender. Appraisals are reviewed for accuracy and consistency by the Company’s Chief Lender and are selected from the list of approved appraisers maintained by management.

United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Six Months Ended June 30, 2017 and 2016

The following table presents the fair value measurements of assets recognized in the accompanying consolidated balance sheets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2017 and December 31, 2016.

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In thousands)			
June 30, 2017				
Collateral dependent impaired loans	$338	$ —	$ —	$ 338
December 31, 2016				
Collateral dependent impaired loans	$3,435	$ —	$ —	$ 3,435
Foreclosed assets held for sale	249	—	—	249

Unobservable (Level 3) Inputs

The following table presents quantitative information about unobservable inputs used in recurring and nonrecurring Level 3 fair value measurements.

	Fair Value at	Valuation Technique	Unobservable Inputs	Range

	6/30/17 **(In thousands)**			
Collateral-dependent impaired loans	$338	Market comparable properties	Marketability discount	Not available

	Fair Value at 12/31/16 **(In thousands)**	Valuation Technique	Unobservable Inputs	Range
Collateral-dependent impaired loans	$3,435	Market comparable properties	Marketability discount	Not available
Foreclosed assets held for sale	$249	Market comparable properties	Selling costs	10% – 35%

There were no significant changes in the valuation techniques used during 2017 and 2016.

United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Six Months Ended June 30, 2017 and 2016

The following table presents estimated fair values of the Company’s financial instruments. The fair values of certain of these instruments were calculated by discounting expected cash flows, which involves significant judgments by management and uncertainties. Because no market exists for certain of these financial instruments and because management does not intend to sell these financial instruments, the Company does not know whether the fair values shown below represent values at which the respective financial instruments could be sold individually or in the aggregate.

		Fair Value Measurements Using		
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In thousands)			
June 30, 2017				
Financial assets				
Cash and cash equivalents	$20,784	$20,784	$ —	$ —
Loans, net of allowance	355,277	—	—	357,705
Federal Home Loan Bank stock	4,164	—	4,164	—
Accrued interest receivable	761	—	761	—
Financial liabilities				
Deposits	373,915	—	345,718	—
Short term borrowings	12,989	—	12,989	—
Federal Home Loan Bank Advances	10,278	—	10,351	—
Subordinated debentures	4,124	—	3,435	—
Interest payable	81		81	

United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Six Months Ended June 30, 2017 and 2016

	Carrying Amount	Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In thousands)			
December 31, 2016				
Financial assets				
Cash and cash equivalents	$11,541	$11,541	$ —	$ —
Loans, net of allowance	354,380	—	—	355,753
Federal Home Loan Bank stock	4,164	—	4,164	—
Accrued interest receivable	840	—	840	—
Financial liabilities				
Deposits	338,803	—	312,240	—
Short term borrowings	9,393	—	9,393	—
Federal Home Loan Bank Advances	39,855	—	40,120	—
Subordinated debentures	4,124	—	3,435	—
Interest payable	111	—	111	—

The following methods and assumptions were used to estimate the fair value of each class of financial instruments.

Cash and Cash Equivalents, Accrued Interest Receivable and Federal Home Loan Bank Stock

The carrying amounts approximate fair value.

United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Six Months Ended June 30, 2017 and 2016

Loans

The fair value of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. Loans with similar characteristics were aggregated for purposes of the calculations.

Deposits

Deposits include demand deposits, savings accounts, NOW accounts and certain money market deposits. The carrying amount approximates fair value. The fair value of fixed-maturity time deposits is estimated using a discounted cash flow calculation that applies the rates currently offered for deposits of similar remaining maturities.

Interest Payable

The carrying amount approximates fair value.

Short-term Borrowings, Federal Home Loan Bank Advances and Subordinated Debentures

Rates currently available to the Company for debt with similar terms and remaining maturities are used to estimate the fair value of existing debt.

Commitments to Originate Loans, Letters of Credit and Lines of Credit

The fair value of commitments to originate loans is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair values of letters of credit and lines of credit are based on fees currently charged for similar agreements or on the estimated cost to terminate or otherwise settle the obligations with the counterparties at the reporting date. Fair values of commitments were not material at June 30, 2017 and December 31, 2016.

Note 8: Repurchase Agreements

Securities sold under agreements to repurchase (“repurchase agreements”) with customers represent funds deposited by customers, generally on an overnight basis that are collateralized by investment securities owned by the Company.

At June 30, 2017 and December 31, 2016, repurchase agreement borrowings totaled $12,989,000 and $9,393,000, respectively and are included in short-term borrowings on the consolidated condensed balance sheets. All repurchase agreements are subject to term and conditions of repurchase/security agreements between the Company and the customer and are accounted for as secured borrowings. The Company’s repurchase agreement reflected in short-term borrowings consist of customer accounts and securities which are pledged on an individual security basis.

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United Bancorp, Inc.

Notes to Condensed Consolidated Financial Statements

For the Three and Six Months Ended June 30, 2017 and 2016

The following table presents the Company’s repurchase agreements accounted for as secured borrowings:

	Remaining Contractual Maturity of the Agreement (In thousands)				
June 30, 2017	Overnight and Continuous	Up to 30 Days	30-90 Days	Greater than 90 Days	Total
Repurchase Agreements					
U.S. government agencies	$ 12,989	$ —	$ —	$ —	$ 12,989
Total	$ 12,989	$ —	$ —	$ —	$ 12,989

December 31, 2016	Overnight and Continuous	Up to 30 Days	30-90 Days	Greater than 90 Days	Total
Repurchase Agreements					
U.S. government agencies	$9,393	$ —	$ —	$ —	$9,393
Total	$9,393	$ —	$ —	$ —	$9,393

These borrowings were collateralized with U.S. government and agency securities with a carrying value of $17.5 million at June 30, 2017 and $13.0 million at December 31, 2016. Declines in the fair value would require the Company to pledge additional securities.

United Bancorp, Inc.

Management’s Discussion and Analysis of Financial

Condition and Results of Operations

The following discusses the financial condition of the Company as of June 30, 2017, as compared to December 31, 2016, and the results of operations for the three and six months ended June 30, 2017, compared to the same period in 2016. This discussion should be read in conjunction with the interim condensed consolidated financial statements and related footnotes included herein.

Introduction

The Company reported diluted earnings per share of $0.35 and net income of $1,766,000 for the six months ended June 30, 2017, as compared to $0.35 and $1,751,000 for the same period in 2016. The Company’s diluted earnings per share and net income for the three months ended June 30, 2017 was $0.18 and $916,000, as compared to $0.18 and $907,000 respectively for the prior year.

We are happy to report on the increase of the net interest income of our Company for the six months ended June 30, 2017. During this period, the Company’s net interest income increased by $285,000, or 3.9%, from the previous year. The primary driver of this increase of the Company’s net interest income was the increase in interest income on loans, which was up by $109,000, or 2.9%, year-over-year. The increase in the interest income that our Company realized is directly attributed to the focus that we had this past year on our lending platform. For the year, our Company had an increase in its average loans of $19.2 million or 5.7%. Our company was able to achieve this level of growth in its loans outstanding while maintaining its overall stability in credit quality. Year-over-year, the Company maintained very solid credit quality-related metrics by having nonaccrual loans and loans past due 30+ days decrease from a level of $2.81 million to $2.59 million, a decrease of $218,000. Further— net loans charged-off, excluding overdrafts, was $54,000 through June 30, 2017, which is a decrease of $46,000 from the previous year. At this present level, total past due and nonaccrual loans to gross loans is a very solid 0.72% versus 0.80% the prior year. Net charge offs to average loans was 0.06% for the six months ended June 30, 2017. The net interest income for our Company increased year-over-year even as we focused on growing retail core-deposits to fund our loan growth. Total deposits increased by $46.9 million, or 14.4%, to a level of $373.9 million as of June 30, 2017. The Company was able to control its overall interest expense levels by attracting lower cost funding alternatives. Overall, the Company saw its low cost retail funding (consisting of non-interest and interest bearing demand and savings deposits) comprise $35.8 million of its growth in retail deposits year-over-year. In addition, the Company’s time deposits, which consist of certificate of deposit or term funding, increased by $11.2 million for the same period. Even with the significant growth in retail core deposit funding, the Company had a decrease in its overall interest expense to average assets, which decreased on a year-over-year basis from 0.44% to 0.40%. This decrease in the overall cost of funding is attributed to the repricing of the Company’s $10.0 million in fixed rate advances with the Federal Home Loan Bank (FHLB). The Company forecasts additional reductions in the cost of its present wholesale funding, which consists of $10.0 million in fixed rate advances with the FHLB, over the remainder of the current year. By year-end, it is anticipated that these advances (which presently cost the Company 3.56%) will be paid off with the current liquidity the company has on its balance sheet. By paying off these present fixed rate advances with lower cost retail-based funding, the Company should realize additional savings or containment in its overall interest expense levels.

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United Bancorp, Inc.

Management's Discussion and Analysis of Financial

Condition and Results of Operations

The noninterest income of the Company was down by $68,000 year-over-year. This decrease in the fee-based income of the Company is directly attributed to the service charges on deposit accounts decreasing by a like amount over the same period. On the noninterest expense-side of the net noninterest margin (and, as expected), the Company saw an increase in its overall noninterest expense levels. In anticipation of building its infrastructure for future growth, the Company saw its noninterest expense increase by $306,000 or 4.8%. Most of the increase in our noninterest expense levels was related to personnel-related expenses on the production-side, which should lead to our Company realizing higher levels of revenue in the coming quarters. Considering that most of this expense is "fixed," we firmly believe that we should be able to drive higher levels of revenue without significantly adding to our overall noninterest expense levels in the short-term; therefore, enhancing our Company's earnings and returns.

We are pleased to report that we are executing upon our growth strategy, Mission 2020, which calls for our Company to grow its assets (in a profitable fashion) to a level of $1.0 billion or greater by the end of 2020. Even though we realize that we have an extremely long way to go to achieve our ambitious growth goal, it is gratifying to see the organic growth that we achieved year-over-year. Although we will need to have a compounded annual growth rate of approximately twenty-three percent from the beginning of this year in order to achieve the level of growth envisioned under Mission 2020, we firmly believe that it is achievable with the present vision that we have (which includes both organic and acquisition-related growth). From an organic perspective this past year, our Company grew its assets $28.6 million, or 6.8%, to an overall level of $448.7 million as of June 30, 2017. As previously mentioned, most of this growth occurred in our Company's higher-yielding loan portfolio, which enhanced the overall interest income that we realized. Also, as previously mentioned, the overall net interest income (or, revenue-line) of our Company increased year-over-year. Our Company was able to achieve this growth in net interest income with growth in both its loans outstanding and core deposit funding. As expected, we saw marginal growth in the net income that our Company realized year-over-year. After several years of containment, our Company saw its overall noninterest expense levels increase this past year as we continue to build for the future and support our overall mission for growth. Most of the increase in our noninterest expense levels occurred in the following areas: hiring additional loan origination personnel to drive the revenue of our Company; completing the renovation of our Main Office to support an enhanced loan origination platform; opening a new Loan Production Office in the Wheeling, West Virginia market to increase overall loan production and to introduce our Company to a new, highly desirable market; marketing expense relating to the prime retail deposit pricing that we have been successfully promoting; and, lastly, legal expenses relating to the upcoming renaming of our Company's single bank charter, The Citizens Savings Bank. We anticipate this exciting, forward-thinking change will occur prior to year-end, which should help our Company brand much more effectively and better support our growth objective. We firmly believe that with our positioning over the course of the past year, our Company has high operating leverage which should allow us to enhance our revenue, while controlling our noninterest expense levels— thus, leading to higher earnings and returns over the course of the next twelve to eighteen months. We continue to have very solid credit quality metrics, which should have a positive impact on our earnings for the foreseeable future. In addition, we continue to have very robust capital levels, as evidenced by our overall equity to asset ratio of 9.72%, which will support our vision for growth in the intermediate term. Our Company continues to pay a very solid cash dividend, which totals $0.49 on a trailing twelve month (TTM) basis (including the $0.05 special dividend paid this past December), which produces at TTM Yield of 4.02% as of quarter-end. At this level, our Company's cash dividend yield is significantly higher than that of the average bank in our country. With our recent focus of increasing the operating leverage and revenue of our Company, we firmly believe that we will continue to generate higher levels of net income and reward our shareholders by paying higher dividends and having appreciation in our market value. On a year-over-year basis, the market value of our Company's stock increased by $2.23, or 25%, to a level of $12.20. Even though our market value has diminished somewhat from its year-end level, we believe that we are presently trading at a fair valuation, which is seventeen times earnings. Our number one focus continues to be growing our shareholders' investment in our Company through profitable operations and strategic growth. In addition to driving the market value appreciation of our shareholders' ownership, we will continue striving to reward our owners by paying a solid cash dividend. Overall, we are pleased with the performance of our Company and the direction that we are going. We are extremely optimistic about our future potential and look forward to realizing this upside potential in future periods!

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United Bancorp, Inc.

Management's Discussion and Analysis of Financial

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Forward-Looking Statements

When used in this document, the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimated," "projected" or similar expressions are intended to identify "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to certain risks and uncertainties including changes in economic conditions in the Bank's market areas, changes in policies by regulatory agencies, fluctuations in interest rates, demand for loans in the Bank's market areas and competition, that could cause actual results to differ materially from historical earnings and those presently anticipated or projected. Factors listed above could affect the Company's financial performance and could cause the Company's actual results for future periods to differ materially from any statements expressed with respect to future periods.

The Company is not aware of any trends, events or uncertainties that will have or are reasonably likely to have a material effect on its financial condition, results of operations, liquidity or capital resources except as discussed herein. The Company is not aware of any current recommendation by regulatory authorities that would have such effect if implemented except as discussed herein.

The Company does not undertake, and specifically disclaims any obligation, to publicly revise any forward-looking statements to reflect events or circumstances after the date such statements were made or to reflect the occurrence of anticipated or unanticipated events.

Critical Accounting Policies

Management makes certain judgments that affect the amounts reported in the financial statements and footnotes. These estimates, assumptions and judgments are based on information available as of the date of the financial statements, and as this information changes, the financial statements could reflect different estimates, assumptions, and judgments.

The procedures for assessing the adequacy of the allowance for loan losses reflect our evaluation of credit risk after careful consideration of all information available to management. In developing this assessment, management must rely on estimates and exercise judgment regarding matters where the ultimate outcome is unknown such as economic factors, developments affecting companies in specific industries and issues with respect to single borrowers. Depending on changes in circumstances, future assessments of credit risk may yield materially different results, which may require an increase or a decrease in the allowance for loan losses.

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The allowance is regularly reviewed by management and the board to determine whether the amount is considered adequate to absorb probable losses. This evaluation includes specific loss estimates on certain individually reviewed loans, statistical loss estimates for loan pools that are based on historical loss experience, and general loss estimates that are based on the size, quality and concentration characteristics of the various loan portfolios, adverse situations that may affect a borrower's ability to repay and current economic and industry conditions. Also considered as part of that judgment is a review of the Bank's trend in delinquencies and loan losses, and economic factors.

The allowance for loan losses is maintained at a level believed adequate by management to absorb probable loan losses inherent in the loan portfolio. Management's evaluation of the adequacy of the allowance is an estimate based on management's current judgment about the credit quality of the loan portfolio. While the Company strives to reflect all known risk factors in its evaluation, judgment errors may occur.

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Analysis of Financial Condition

Earning Assets – Loans

Our focus as a community bank is to meet the credit needs of the markets we serve. At June 30, 2017, gross loans were $357.6 million, compared to $356.7 million at December 31, 2016, an increase of $849,000 after offsetting repayments for the period. The overall increase in the loan portfolio was comprised of a $3.0 million increase in commercial and commercial real estate loans a $996,000 decrease in residential loans and a $1.2 million decrease in installment loans since December 31, 2016.

Commercial and commercial real estate loans comprised 75.3% of total loans at June 30, 2017, compared to 74.6% at December 31, 2016. Commercial and commercial real estate loans have increased $3.0 million, or 1.1% since December 31, 2016. This segment of the loan portfolio includes originated loans in our market areas and purchased participations in loans from other banks for out-of-area commercial and commercial real estate loans to benefit from consistent economic growth outside the Company's primary market area, but mainly within the states of Ohio and West Virginia.

Installment loans represented 3.7% of total loans at June 30, 2017 and 4.0% at December 31, 2016. Some of the installment loans carry somewhat more risk than real estate lending; however, it also provides for higher yields. Installment loans have decreased $1.7 million, or 8.1%, since December 31, 2016. The targeted lending areas encompass four separate metropolitan areas, minimizing the risk to changes in economic conditions in the communities housing the Company's banking locations.

Residential real estate loans were 21.0% of total loans at June 30, 2017 and 21.4% at December 31, 2016, representing a decrease of $995,000, or 1.3% since December 31, 2016. As of June 30, 2017, the Bank has approximately $5.8 million in fixed-rate loans that have been sold in the secondary market but still serviced by the Company as compared to $6.3 million at December 31, 2016. The level of fixed rate mortgages serviced by the Company will continue to decline as the Company will not retain servicing rights on new sales going forward for these types of products. The Company will continue to service these loans for a fee that is typically 25 basis points. At June 30, 2017, the

Company did not hold any loans for sale.

The allowance for loan losses totaled $2.3 million at June 30, 2017, which represented 0.64% of total loans, and $2.3 million at December 31, 2016, or 0.71% of total loans. The allowance represents the amount which management and the Board of Directors estimates is adequate to provide for probable losses inherent in the loan portfolio. The allowance balance and the provision charged to expense are reviewed by management and the Board of Directors monthly using a risk evaluation model that considers borrowers' past due experience, economic conditions and various other circumstances that are subject to change over time. Management believes the current balance of the allowance for loan losses is adequate to absorb probable incurred credit losses associated with the loan portfolio. The Company had net charge-offs of $99,000 for the six months ended June 30, 2017 $148,000 for the six months ended June 30, 2016.

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Earning Assets – Securities

The securities portfolio is comprised of U.S. Government agency-backed securities, tax-exempt obligations of state and political subdivisions and certain other investments. Securities available for sale at June 30, 2017 decreased approximately $874,000 from December 31, 2016 totals. The opportunities to reinvest these liquid funds have been limited due to the historical low interest rates available on replacement investments. The Company has been cautious not to extend out maturities in this low rate environment.

Sources of Funds – Deposits

The Company’s primary source of funds is core deposits from retail and business customers. These core deposits include all categories of interest-bearing and noninterest-bearing deposits, excluding certificates of deposit greater than $250,000. For the period ended June 30, 2017, total core deposits increased approximately $31.6 million, or 9.4%. The Company’s savings accounts decreased $404,000 or 0.5% from December 31, 2016 totals. The Company’s interest-bearing and non-interest bearing demand deposits increased $24.2 million or 11.9% while certificates of deposit under $250,000 increased by $7.8 million, or 15.1%. The Company considers core deposit to be stable; therefore, the amount of funds anticipated to flow out in the next three to six months is not considered material to the overall liquidity position of the Company.

The Company has a strong deposit base from public agencies, including local school districts, city and township municipalities, public works facilities and others that may tend to be more seasonal in nature resulting from the receipt and disbursement of state and federal grants. These entities have maintained fairly static balances with the Company due to various funding and disbursement timeframes.

Certificates of deposit greater than $250,000 are not considered part of core deposits and as such are used to balance rate sensitivity as a tool of funds management. At June 30, 2017, certificates of deposit greater than $250,000 decreased $3.5 million or 10.4%, from December 31, 2016 totals.

Sources of Funds – Securities Sold under Agreements to Repurchase and Other Borrowings

Other interest-bearing liabilities include securities sold under agreements to repurchase and Federal Home Loan Bank ("FHLB") advances. The majority of the Company's repurchase agreements are with local school districts and city and county governments. The Company's short-term borrowings increased approximately $894,000 million from December 31, 2016 totals.

Results of Operations for the Six Months Ended June 30, 2017 and 2016

Net Income

For the six months ended June 30, 2017 the Company reported net earnings of $1,766,000, compared to $1,751,000 for the six months ended June 30, 2016. On a per share basis, the Company's diluted earnings were $0.35 for the six months ended June 30, 2017, as compared to $0.35 for the six months ended June 30, 2016.

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Net Interest Income

Net interest income, by definition, is the difference between interest income generated on interest-earning assets and the interest expense incurred on interest-bearing liabilities. Various factors contribute to changes in net interest income, including volumes, interest rates and the composition or mix of interest-earning assets in relation to interest-bearing liabilities. Net interest income after provision for loan losses increased 5.8%, or $411,000 for the six months ended June 30, 2017 compared to the same period in 2016. As previously mentioned, the strong growth of loans was the driver for the increase in net interest income.

Provision for Loan Losses

Year-over-year, the Company maintained very solid credit quality-related metrics by having nonaccrual loans and loans past due 30+ days decrease from a level of $2.81 million to $2.59 million, a decrease of $218,000. Net loans charged-off, excluding overdrafts, was $54,000 through June 30, 2017, which is a decrease of $46,000 from the previous year. At this present level, total past due and nonaccrual loans to gross loans is a very solid 0.72% versus 0.80% the prior year. Net charge offs to average loans was 0.06% for the six months ended June 30, 2017. Overall, with the improvement in credit quality, the Company decreased the provision for loan losses which was $50,000 for the six months ended June 30, 2017 compared to $176,000 for the six months ended June 30, 2016, a decrease of $126,000 or 71.6%.

Noninterest Income

Total noninterest income is made up of bank related fees and service charges, as well as other income producing services provided, sales of loans in the secondary market, ATM income, early redemption penalties for certificates of deposit, safe deposit rental income, internet bank service fees, earnings on bank-owned life insurance and other miscellaneous items.

The Company's service charges on deposit accounts decreased by $72,000 for the six months ended June 30, 2017 as compared to the same period in 2016.

Noninterest Expense

Noninterest expense increased on a year-over-year basis by $306,000 or 4.8%. Our Company is embarking upon a new period, whereby our exclusive focus is to grow our assets in a profitable fashion that will produce consistent and increasing earnings. This vision, which is called Mission 2020, sets the course for our Company to grow its assets to a level of $1.0 billion, or greater, by the end of 2020. In order to achieve this ambitious growth plan, we will need to continue focusing on being operationally efficient, while taking on higher levels of non-interest expense to support an origination platform that will drive the organic growth of our Company. Most of the increase in our noninterest expense levels was related to personnel-related expenses on the production-side, which should lead to our Company realizing higher levels of revenue in the coming quarters.

Federal Income Taxes

The provision for federal income taxes was $784,000 for the six months ended June 30, 2017, an increase of $22,000 compared to the same period in 2016. The effective tax rate was 30.7% and 30.3% for the six months ended June 30, 2017 and 2016, respectively.

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Results of Operations for the Three Months Ended June 30, 2017 and 2016

Net Income

For the three months ended June 30, 2017 the Company reported net earnings of $916,000, compared to $907,000 for the three months ended June 30, 2016. On a per share basis, the Company’s diluted earnings were $0.18 for the three months ended June 30, 2017, as compared to $0.18 for the three months ended June 30, 2016.

Net Interest Income

Net interest income increased less that 2.5%, or $102,000 for the three months ended June 30, 2017 compared to the same period in 2016. This increase was mainly driven by an increase in loan interest income of $109,000 or 2.9% for the three months ended June 30, 2017 over the same period in 2016.

Provision for Loan Losses

The provision for loan losses was $25,000 for the three months ended June 30, 2017, compared to $105,000 for the same period in 2016. As previously discussed, the decrease in the provision for loan losses was primarily due to the overall improvement in the Company’s credit quality.

Noninterest Income

Total noninterest income is made up of bank related fees and service charges, as well as other income producing services provided, sales of loans in the secondary market, ATM income, early redemption penalties for certificates of deposit, safe deposit rental income, internet bank service fees, earnings on bank-owned life insurance and other miscellaneous items.

The Company’s service charges on deposit accounts decreased by $36,000 for the three months ended June 30, 2017 as compared to the same period in 2016. While the number of transaction accounts has not changed much year over year, the volume of service charges decreased related to overdraft fees.

Noninterest Expense

Noninterest expense was $3.4 million for the three months ended June 30, 2017, an increase of $114,000, compared to the three months ended June 30, 2016. Salaries and employee benefit expense increased $124,000, or 7.3%, for the three month period ended June 30, 2017, compared to the same period in 2016. As previously mentioned our Company is embarking upon a new period, whereby our exclusive focus is to grow our assets in a profitable fashion that will produce consistent and increasing earnings.

Federal Income Taxes

The provision for federal income taxes was $415,000 for the three months ended June 30, 2017, an increase of $26,000 compared to the same period in 2016. The effective tax rate was 31.2% and 30.01% for the three months ended June 30, 2017 and 2016, respectively.

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Capital Resources

Internal capital growth, through the retention of earnings, is the primary means of maintaining capital adequacy for the Company. Stockholders' equity totaled $43.7 million at June 30, 2017 compared to $42.6 million at December 31, 2016, a $1,012,000 increase. Total stockholders' equity in relation to total assets was 9.73% at June 30, 2017 and 9.73% at December 31, 2016. Our shareholders approved an amendment to the Company's Articles of Incorporation to create a class of preferred shares with 2,000,000 authorized shares. This enables the Company, at the option of the Board of Directors, to issue series of preferred shares in a manner calculated to take advantage of financing techniques which may provide a lower effective cost of capital to the Company. The amendment also provides greater flexibility to the Board of Directors in structuring the terms of equity securities that may be issued by the Company. Although this preferred stock is a financial tool, it has not been utilized to date.

The Company has offered for many years a Dividend Reinvestment Plan ("The Plan") for shareholders under which the Company's common stock will be purchased by the Plan for participants with automatically reinvested dividends. The Plan does not represent a change in the Company's dividend policy or a guarantee of future dividends.

The Company is subject to the regulatory requirements of The Federal Reserve System as a bank holding company. The Bank is subject to regulations of the FDIC and the State of Ohio, Division of Financial Institutions. The most important of these various regulations address capital adequacy.

On January 1, 2015, the final rules of the Federal Reserve Board went into effect implementing in the United States the Basel III regulatory capital reforms from the Basel Committee on Banking Supervision and certain changes required by the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Under the final rule, minimum requirements increased for both the quality and quantity of capital held by banking organizations. The rule requires a new minimum ratio of common equity tier 1 capital to risk-weighted assets of 4.5 percent and a common equity tier 1 capital conservation buffer of 2.5 percent of risk-weighted assets that will apply to all supervised financial institutions. The rule also raises the minimum ratio of tier 1 capital to risk-weighted assets from 4 percent to 6 percent and includes a minimum leverage ratio of 4 percent for all banking organizations.

As of June 30, 2017, the Company continues to be well-capitalized in accordance with Federal regulatory capital requirements as the capital ratios below show:

Common equity tier 1 capital ratio	11.99%
Tier 1 capital ratio	13.11%
Total capital ratio	13.75%
Leverage ratio	10.63%

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Liquidity

Management's objective in managing liquidity is maintaining the ability to continue meeting the cash flow needs of its customers, such as borrowings or deposit withdrawals, as well as its own financial commitments. The principal sources of liquidity are net income, loan payments, maturing securities and sales of securities available for sale, federal funds sold and cash and deposits with banks. Along with its liquid assets, the Company has additional sources of liquidity available to ensure that adequate funds are available as needed. These include, but are not limited to, the purchase of federal funds, the ability to borrow funds under line of credit agreements with correspondent banks, a borrowing agreement with the Federal Home Loan Bank of Cincinnati and the adjustment of interest rates to obtain depositors. Management feels that it has the capital adequacy and profitability to meet the current and projected liquidity needs of its customers.

Inflation

Substantially all of the Company's assets and liabilities relate to banking activities and are monetary in nature. The consolidated financial statements and related financial data are presented in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). U.S. GAAP currently requires the Company to measure the financial position and results of operations in terms of historical dollars, with the exception of securities available for sale, certain impaired loans and certain other real estate and loans that may be measured at fair value. Changes in the value of money due to rising inflation can cause purchasing power loss.

Management's opinion is that movements in interest rates affect the financial condition and results of operations to a greater degree than changes in the rate of inflation. It should be noted that interest rates and inflation do affect each other, but do not always move in correlation with each other. The Company's ability to match the interest sensitivity of its financial assets to the interest sensitivity of its liabilities in its asset/liability management may tend to minimize the effect of changes in interest rates on the Company's performance.

ITEM 3 Quantitative and Qualitative Disclosures About Market Risk

There has been no significant change from disclosures included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

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ITEM 4. Controls and Procedures

The Company, under the supervision, and with the participation, of its management, including the Company's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to the requirements of Exchange Act Rule 13a-15. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of June 30, 2017, in timely alerting them to material information relating to the Company (including its consolidated subsidiary) required to be included in the Company's periodic SEC filings.

There was no change in the Company's internal control over financial reporting that occurred during the Company's fiscal quarter ended June 30, 2017 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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United Bancorp, Inc.

Part II – Other Information

ITEM 1. Legal Proceedings

None, other than ordinary routine litigation incidental to the Company's business.

ITEM 1A. Risk Factors

There have been no material changes from risk factors as previously disclosed in Part 1 Item 1A of the Company's Form 10-K for the year ended December 31, 2016, filed on March 20, 2017.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

ISSUER PURCHASES OF EQUITY SECURITIES

Period	**(a) Total Number of Shares (or Units) Purchased**	**(b) Average Price Paid Per Share (or Unit)**	**(c) Total Number of Shares (or Units) Purchased as Part Of Publicly Announced Plans Or Programs**	**(d) Maximum Number or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs**
Month #1 4/1/2016 to 4/30/2016	—	—	—	—
Month #2 5/1/2016 to 5/31/2016	3,626	12.10	—	—
Month #3 6/1/2016 to 6/30/2016	—	—	—	—

The Company adopted the United Bancorp, Inc. Affiliate Banks Directors and Officers Deferred Compensation Plan (the “Plan”), which is an unfunded deferred compensation plan. Amounts deferred pursuant to the Plan remain unrestricted assets of the Company, and the right to participate in the Plan is limited to members of the Board of Directors and Company officers. Under the Plan, directors or other eligible participants may defer fees and up to 50% of their annual incentive award payable to them by the Company, which are used to acquire common shares which are credited to a participant’s respective account. Except in the event of certain emergencies, no distributions are to be made from any account as long as the participant continues to be an employee or member of the Board of Directors. Upon termination of service, the aggregate number of shares credited to the participant’s account are distributed to him or her along with any cash proceeds credited to the account which have not yet been invested in the Company’s stock. On May 11, 2017, the Plan purchased a total of 3,626 common shares for participant accounts. All purchases under this deferred compensation plan are funded with either earned director fees or officer incentive award payments. No underwriting fees, discounts, or commissions are paid in connection with the Plan. The shares allocated to participant accounts have not been registered under the Securities Act of 1933 in reliance upon the exemption provided by Section 4(2) thereof.

ITEM 3. Defaults Upon Senior Securities

Not applicable.

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Part II – Other Information

ITEM 4. Mine Safety Disclosures

Not applicable.

ITEM 5. Exhibits

EX-3.1	Amended Articles of Incorporation of United Bancorp, Inc. [1]
EX-3.2	Amended Code of Regulations of United Bancorp, Inc. [2]
EX-4.0	Instruments Defining the Rights of Security Holders (See Exhibits 3.1 and 3.2)
EX 31.1	Rule 13a-14(a) Certification – CEO
EX 31.2	Rule 13a-14(a) Certification – CFO
EX 32.1	Section 1350 Certification – CEO
EX 32.2	Section 1350 Certification – CFO
EX 101.INS	XBRL Instance Document
EX 101.SCH	XBRL Taxonomy Extension Schema Document
EX 101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
EX 101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
EX 101.LAB	XBRL Taxonomy Extension Label Linkbase Document
EX 101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

(1) Incorporated by reference to Appendix B to the registrant’s Definitive Proxy Statement filed with the Securities and Exchange Commission on March 14, 2001.

(2) Incorporated by reference to Exhibit 3.2 to the registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 22, 2014.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

/s/United Bancorp, Inc.

Date: August 11, 2017	By:	/s/Scott A. Everson Scott A. Everson President and Chief Executive Officer
Date: August 11, 2017	By:	/s/Randall M. Greenwood Randall M. Greenwood Senior Vice President, Chief Financial Officer and Treasurer

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Exhibit Index

Exhibit No.	Description
31.1	Rule 13a-14(a) Certification – Principal Executive Officer
31.2	Rule 13a-14(a) Certification – Principal Financial Officer
32.1	Certification pursuant to 18 U.S.C. Section 1350, as enacted pursuant to Section 906 of The Sarbanes-Oxley act of 2002.
32.2	Certification pursuant to 18 U.S.C. Section 1350, as enacted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.

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