

UNITED SECURITY BANCSHARES
Form 10-Q
May 16, 2011

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2011.
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM TO .

Commission file number: 000-32987

UNITED SECURITY BANCSHARES
(Exact name of registrant as specified in its charter)

CALIFORNIA (State or other jurisdiction of incorporation or organization)	91-2112732 (I.R.S. Employer Identification No.)
2126 Inyo Street, Fresno, California (Address of principal executive offices)	93721 (Zip Code)

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

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing for the past 90 days.

Yes No

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

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

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

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

Aggregate market value of the Common Stock held by non-affiliates as of the last business day of the registrant's most

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recently completed second fiscal quarter - June 30, 2010: \$32,434,746

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

Common Stock, no par value
(Title of Class)

Shares outstanding as of April 30, 2011: 13,133,871

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PART I. Financial Information

United Security Bancshares and Subsidiaries
 Consolidated Balance Sheets – (unaudited)
 March 31, 2011 and December 31, 2010

(in thousands except shares)	March 31, 2011	December 31, 2010
Assets		
Cash and due from banks	\$ 14,036	\$ 13,259
Cash and due from FRB	89,180	85,171
Cash and cash equivalents	103,216	98,430
Interest-bearing deposits in other banks	1,406	4,396
Investment securities available for sale (at fair value)	51,625	51,503
Loans and leases	432,824	441,691
Unearned fees	(560)	(645)
Allowance for credit losses	(16,745)	(16,520)
Net loans	415,519	424,526
Accrued interest receivable	2,099	2,152
Premises and equipment – net	12,738	12,909
Other real estate owned	35,151	35,580
Intangible assets	1,011	1,209
Goodwill	5,977	5,977
Cash surrender value of life insurance	15,625	15,493
Investment in limited partnership	1,745	1,851
Deferred income taxes - net	9,054	8,878
Other assets	14,971	15,306
Total assets	\$ 670,137	\$ 678,210
Liabilities & Shareholders' Equity		
Liabilities		
Deposits		
Noninterest bearing	\$ 164,969	\$ 139,690
Interest bearing	390,689	417,776
Total deposits	555,658	557,466
Other borrowings	25,000	32,000
Accrued interest payable	171	222
Accounts payable and other liabilities	4,638	4,606
Junior subordinated debentures (at fair value)	11,074	10,646
Total liabilities	596,541	604,940
Shareholders' Equity		
Common stock, no par value 20,000,000 shares authorized, 13,133,871 and 13,000,840 issued and outstanding, in 2011 and 2010, respectively	40,301	39,869
Retained earnings	33,736	33,807
Accumulated other comprehensive loss	(441)	(406)
Total shareholders' equity	73,596	73,270
Total liabilities and shareholders' equity	\$ 670,137	\$ 678,210

See notes to consolidated financial statements

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

(In thousands except shares and EPS)	Quarter Ended March 31,	
	2011	2010
Interest Income:		
Loans, including fees	\$6,420	\$7,540
Investment securities – AFS – taxable	597	853
Investment securities – AFS – nontaxable	-	15
Federal funds sold	-	8
Interest on deposits in FRB	51	2
Interest on deposits in other banks	10	10
Total interest income	7,078	8,428
Interest Expense:		
Interest on deposits	768	1,158
Interest on other borrowings	85	107
Total interest expense	853	1,265
Net Interest Income Before Provision for Credit Losses	6,225	7,163
Provision for Credit Losses	890	1,631
Net Interest Income	5,335	5,532
Noninterest Income:		
Customer service fees	867	948
Increase in cash surrender value of bank-owned life insurance	141	134
(Gain) loss on sale of other real estate owned	280	(56)
(Loss) gain on fair value of financial liability	(367)	157
Other	207	128
Total noninterest income	1,128	1,311
Noninterest Expense:		
Salaries and employee benefits	2,321	2,281
Occupancy expense	893	913
Data processing	24	19
Professional fees	439	387
FDIC/DFI insurance assessments	513	391
Director fees	58	57
Amortization of intangibles	162	203
Correspondent bank service charges	76	76
Impairment loss on core deposit intangible	36	57
Impairment loss on investment securities (cumulative total other-than-temporary loss of \$3.6 million, net of \$3.9 million recognized in other comprehensive loss, pre-tax)	0	244
Impairment loss on OREO	684	821
Loss on California tax credit partnership	106	106
OREO expense	232	282
Other	513	488
Total noninterest expense	6,057	6,325
Income Before Taxes on Income	406	518
Provision for Taxes on Income	50	76
Net Income	\$356	\$442
Other comprehensive income, net of tax:		

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Unrealized gain on available for sale securities, and past service costs of employee benefit plans – net of income tax (benefit) expense of \$(23), and \$378	(35)	567
Comprehensive Income	\$321		\$1,009
Net Income per common share			
Basic	\$0.03		\$0.03
Diluted	\$0.03		\$0.03
Shares on which net income per common shares were based			
Basic	13,133,871		13,133,871
Diluted	13,133,871		13,133,871

See notes to consolidated financial statements

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

(In thousands except shares)	Common stock Number of Shares	Common stock Amount	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance January 1, 2010	12,496,499	\$37,575	\$40,499	\$ (2,253)	\$75,821
Net changes in unrealized loss on available for sale securities (net of income tax expense of \$378)				567	567
Common stock dividends	124,953	655	(655)		0
Stock-based compensation expense		5			5
Net Income			442		442
Balance March 31, 2010	12,621,452	38,235	40,286	(1,686)	76,835
Net changes in unrealized loss on available for sale securities (net of income tax benefit of \$962)				1,443	1,443
Net changes in unrecognized past service Cost on employee benefit plans (net of income tax benefit of \$109)				(163)	(163)
Common stock dividends	382,388	1,598	(1,598)		0
Stock-based compensation expense		36			36
Net Income			(4,881)		(4,881)
Balance December 31, 2010	13,003,840	39,869	33,807	(406)	73,270
Net changes in unrealized loss on available for sale securities (net of income tax benefit of \$24)				(36)	(36)
Net changes in unrecognized past service Cost on employee benefit plans (net of income tax expense of \$1)				1	1
Common stock dividends	130,031	427	(427)		0
Stock-based compensation expense		5			5
Net Income			356		356
Balance March 31, 2011	13,133,871	\$40,301	\$33,736	\$ (441)	\$73,596

See notes to consolidated financial statements

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Consolidated Statements of Cash Flows (unaudited)

(In thousands)	Three Months Ended	
	2011	2010
Cash Flows From Operating Activities:		
Net income	\$ 356	\$ 442
Adjustments to reconcile net income: to cash provided by operating activities:		
Provision for credit losses	890	1,631
Depreciation and amortization	460	539
Accretion of investment securities	(16)	(10)
Decrease in accrued interest receivable	53	67
Decrease in accrued interest payable	(51)	(96)
(Decrease) increase in unearned fees	(86)	182
Increase in income taxes payable	25	8
Stock-based compensation expense	5	5
Decrease (increase) in accounts payable and accrued liabilities	46	(58)
(Gain) loss on sale of other real estate owned	(280)	56
Impairment loss on other real estate owned	684	821
Impairment loss on core deposit intangible	36	57
Impairment loss on investment securities	0	244
Increase in surrender value of life insurance	(132)	(126)
Loss (gain) on fair value option of financial liabilities	367	(157)
Loss on tax credit limited partnership interest	106	106
Net decrease in other assets	55	513
Net cash provided by operating activities	2,518	4,224
Cash Flows From Investing Activities:		
Net decrease (increase) in interest-bearing deposits with banks	2,990	(657)
Redemption of correspondent bank stock	147	0
Purchases of available-for-sale securities	(4,486)	(1,001)
Maturities and calls of available-for-sale securities	4,360	4,269
Net decrease (increase) in loans	7,074	(18,196)
Net proceeds from settlement of other real estate owned	1,118	2,143
Capital expenditures for premises and equipment	(126)	(141)
Net cash provided by (used in) investing activities	11,077	(13,583)
Cash Flows From Financing Activities:		
Net increase in demand deposits and savings accounts	17,319	4,781
Net (decrease) increase in certificates of deposit	(19,128)	16,041
Net decrease in federal funds purchased	0	0
Decrease in other borrowings	(7,000)	(3,000)
Proceeds from note payable	0	75
Net cash (used in) provided by financing activities	(8,809)	17,897
Net increase in cash and cash equivalents	4,786	8,538
Cash and cash equivalents at beginning of period	98,430	29,229

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Cash and cash equivalents at end of period	\$103,216	\$37,767
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See notes to consolidated financial statements

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United Security Bancshares and Subsidiaries - Notes to Consolidated Financial Statements - (Unaudited)

1. Organization and Summary of Significant Accounting and Reporting Policies

The consolidated financial statements include the accounts of United Security Bancshares, and its wholly owned subsidiary United Security Bank (the “Bank”) and two bank subsidiaries, USB Investment Trust (the “REIT”) and United Security Emerging Capital Fund, (collectively the “Company” or “USB”). Intercompany accounts and transactions have been eliminated in consolidation.

These unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information on a basis consistent with the accounting policies reflected in the audited financial statements of the Company included in its 2010 Annual Report on Form 10-K. These interim financial statements do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of a normal recurring, nature) considered necessary for a fair presentation have been included. Operating results for the interim periods presented are not necessarily indicative of the results that may be expected for any other interim period or for the year as a whole.

Certain reclassifications have been made to the 2010 financial statements to conform to the classifications used in 2011.

New Accounting Standards:

In July 2010, the FASB issued Accounting Standards Update No. 2010-20 Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses (“ASU 2010-20”). ASU 2010-20 expanded disclosures related to allowance for credit losses and the credit quality of financing receivables. The update requires the allowance and other credit quality disclosures to be provided on a disaggregated basis. The Company adopted the period-end disclosure provisions of this update as of December 31, 2010. Accordingly, the Company adopted the activity-based disclosure provisions of this amendment during the first quarter 2011.

In April 2011, the FASB issued ASU No. 2011-02, Receivables (Topic 310): A Creditor’s Determination of Whether a Restructuring Is a Troubled Debt Restructuring. ASU 2011-02 clarifies the guidance in ASC 310-40 Receivables: Troubled Debt Restructurings by Creditors. Creditors are required to identify a restructuring as a troubled debt restructuring if the restructuring constitutes a concession and the debtor is experiencing financial difficulties. ASU 2011-02 clarifies guidance on whether a creditor has granted a concession and clarifies the guidance on a creditor’s evaluation of whether a debtor is experiencing financial difficulties. In addition, ASU 2011-02 also precludes the creditor from using the effective interest rate test in the debtor’s guidance on restructuring of payables when evaluating whether a restructuring constitutes a troubled debt restructuring. The effective date of ASU 2011-2 for public entities is effective for the first interim or annual period beginning on or after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption. If, as a result of adoption, an entity identifies newly impaired receivables, an entity should apply the amendments for purposes of measuring impairment prospectively for the first interim or annual period beginning on or after June 15, 2011. The Company intends to adopt the methodologies prescribed by this ASU by the date required and is currently evaluating the impact of adopting this ASU.

2. Investment Securities Available for Sale and Other Investments

Following is a comparison of the amortized cost and fair value of securities available-for-sale, as of March 31, 2011 and December 31, 2010:

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(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value (Carrying Amount)
March 31, 2011:				
U.S. Government agencies	\$ 33,549	\$ 1,277	\$ (3)	\$ 34,823
U.S. Government agency CMO's	6,418	501	(2)	6,917
Residential mortgage obligations	11,818	0	(1,933)	9,885
	\$ 51,785	\$ 1,778	\$ (1,938)	\$ 51,625
December 31, 2010:				
U.S. Government agencies	\$ 32,486	\$ 1,303	\$ (1)	\$ 33,788
U.S. Government agency CMO's	7,203	552	0	7,755
Residential mortgage obligations	11,955			