

UNITED SECURITY BANCSHARES

Form 10-Q

August 03, 2017

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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF  
X 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2017

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF  
O 1934 FOR THE TRANSITION PERIOD FROM TO .

Commission file number: 000-32897

UNITED SECURITY BANCSHARES

(Exact name of registrant as specified in its charter)

CALIFORNIA

(State or other jurisdiction of incorporation or organization)

91-2112732

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

2126 Inyo Street, Fresno, California

(Address of principal executive offices)

93721

(Zip Code)

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

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

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 x No o

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

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

Large accelerated filer o Accelerated filer o Non-accelerated filer o

Small reporting company x

Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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

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

Common Stock, no par value  
(Title of Class)

Shares outstanding as of July 31, 2017: 16,875,190

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## PART I. Financial Information

## United Security Bancshares and Subsidiaries

## Consolidated Balance Sheets – (unaudited)

June 30, 2017 and December 31, 2016

(in thousands except shares)	June 30, 2017	December 31, 2016
<b>Assets</b>		
Cash and non-interest bearing deposits in other banks	\$21,016	\$ 25,781
Cash and due from Federal Reserve Bank	88,492	87,251
Cash and cash equivalents	109,508	113,032
Interest-bearing deposits in other banks	652	650
Investment securities available for sale (at fair value)	53,461	57,491
Loans	567,240	569,759
Unearned fees and unamortized loan origination costs, net	923	1,075
Allowance for credit losses	(9,007 )	(8,902 )
Net loans	559,156	561,932
Accrued interest receivable	5,086	3,895
Premises and equipment – net	10,710	10,445
Other real estate owned	5,745	6,471
Goodwill	4,488	4,488
Cash surrender value of life insurance	19,313	19,047
Investment in limited partnerships	1,666	757
Deferred tax assets - net	3,392	3,298
Other assets	8,389	6,466
<b>Total assets</b>	<b>\$781,566</b>	<b>\$ 787,972</b>
<b>Liabilities &amp; Shareholders' Equity</b>		
<b>Liabilities</b>		
<b>Deposits</b>		
Noninterest bearing	\$287,003	\$ 262,697
Interest bearing	379,308	413,932
<b>Total deposits</b>	<b>666,311</b>	<b>676,629</b>
Accrued interest payable	33	76
Accounts payable and other liabilities	6,260	5,781
Junior subordinated debentures (at fair value)	9,441	8,832
<b>Total liabilities</b>	<b>682,045</b>	<b>691,318</b>
<b>Shareholders' Equity</b>		
Common stock, no par value 20,000,000 shares authorized, 16,875,190 issued and outstanding at June 30, 2017, and 16,705,594 at December 31, 2016	57,844	56,557
Retained earnings	42,053	40,701
Accumulated other comprehensive loss	(376 )	(604 )
<b>Total shareholders' equity</b>	<b>99,521</b>	<b>96,654</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$781,566</b>	<b>\$ 787,972</b>



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

(In thousands except shares and EPS)	Quarter Ended June		Six Months Ended	
	30, 2017	2016	June 30, 2017	2016
Interest Income:				
Loans, including fees	\$7,579	\$ 6,658	\$14,804	\$13,288
Investment securities – AFS – taxable	229	185	453	374
Interest on deposits in FRB	301	151	484	276
Interest on deposits in other banks	1	2	2	4
Total interest income	8,110	6,996	15,743	13,942
Interest Expense:				
Interest on deposits	364	272	700	549
Interest on other borrowings	74	58	143	116
Total interest expense	438	330	843	665
Net Interest Income	7,672	6,666	14,900	13,277
(Recovery of Provision) Provision for Credit Losses	(52 )	12	(31 )	(10 )
Net Interest Income after (Recovery of Provision) Provision for Credit Losses	7,724	6,654	14,931	13,287
Noninterest Income:				
Customer service fees	997	1,017	1,938	1,943
Increase in cash surrender value of bank-owned life insurance	134	132	266	264
(Loss) gain on fair value of financial liability	(264 )	113	(601 )	471
Other	199	165	372	310
Total noninterest income	1,066	1,427	1,975	2,988
Noninterest Expense:				
Salaries and employee benefits	2,586	2,469	5,571	5,058
Occupancy expense	1,043	1,018	2,058	2,115
Data processing	25	26	52	85
Professional fees	345	301	600	790
Regulatory assessments	133	246	269	501
Director fees	75	73	143	143
Correspondent bank service charges	19	19	37	39
Loss on California tax credit partnership	10	37	119	73
Net (gain) cost on operation and sale of OREO	(309 )	60	(277 )	177
Other	680	575	1,226	1,143
Total noninterest expense	4,607	4,824	9,798	10,124
Income Before Provision for Taxes	4,183	3,257	7,108	6,151
Provision for Taxes on Income	1,691	1,236	2,845	2,361
Net Income	\$2,492	\$ 2,021	\$4,263	\$ 3,790
Net Income per common share				
Basic	\$0.15	\$ 0.12	\$0.25	\$ 0.22
Diluted	\$0.15	\$ 0.12	\$0.25	\$ 0.22
Shares on which net income per common shares were based				
Basic	16,875,190	16,870,113	16,875,134	16,870,113
Diluted	16,894,227	16,875,339	16,891,784	16,874,260



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

(In thousands)	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Net Income	\$2,492	\$2,021	\$4,263	\$3,790
Unrealized holdings gain on securities	267	249	355	308
Unrealized gains on unrecognized post-retirement costs	13	12	26	24
Other comprehensive income, before tax	280	261	381	332
Tax expense related to securities	(107 )	(99 )	(142 )	(123 )
Tax expense related to unrecognized post-retirement costs	(6 )	(5 )	(11 )	(10 )
Total other comprehensive income	167	157	228	199
Comprehensive income	\$2,659	\$2,178	\$4,491	\$3,989



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

(In thousands except shares)	Common stock		Retained Earnings	Accumulated	Total
	Number of Shares	Amount		Other Comprehensive Loss	
Balance December 31, 2015*	16,051,406	\$52,572	\$37,265	\$ (202 )	\$89,635
*Excludes 15,019 unvested restricted shares					
Other comprehensive income				199	199
Common stock dividends	322,590	1,673	(1,673 )		—
Stock-based compensation expense		14			14
Net income			3,790		3,790
Balance June 30, 2016*	16,373,996	\$54,259	\$39,382	\$ (3 )	\$93,638
*Excludes 12,015 unvested restricted shares					
Other comprehensive loss				(601 )	(601 )
Common stock dividends	329,135	2,276	(2,276 )		—
Common stock issuance	2,463	6			6
Stock-based compensation expense		16			16
Net income			3,595		3,595
Balance December 31, 2016*	16,705,594	\$56,557	\$40,701	\$ (604 )	\$96,654
*Excludes 12,015 unvested restricted shares					
Other comprehensive income				228	228
Cash dividends on common stock (\$0.10 per share)			(1,690 )		(1,690 )
Common stock dividends	167,082	1,221	(1,221 )		—
Stock options exercised	2,514	6			6
Stock-based compensation expense		60			60
Net income			4,263		4,263
Balance June 30, 2017*	16,875,190	\$57,844	\$42,053	\$ (376 )	\$99,521
*Excludes 9,011 unvested restricted shares					

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## United Security Bancshares and Subsidiaries

## Consolidated Statements of Cash Flows (unaudited)

	Six months ended June 30,	
(In thousands)	2017	2016
<b>Cash Flows From Operating Activities:</b>		
Net Income	\$4,263	\$3,790
Adjustments to reconcile net income:to cash provided by operating activities:		
Recovery of provision for credit losses	(31 )	(10 )
Depreciation and amortization	654	731
Amortization of investment securities	278	194
Accretion of investment securities	(4 )	(19 )
Increase in accrued interest receivable	(1,191 )	(918 )
Decrease in accrued interest payable	(43 )	(1 )
Decrease in accounts payable and accrued liabilities	(398 )	(729 )
Decrease (increase) in unearned fees and unamortized loan origination costs, net	152	(1,401 )
(Increase) decrease in income taxes receivable	(1,319 )	1,956
Stock-based compensation expense	60	14
(Benefit) provision for deferred income taxes	(247 )	194
Gain on sale of other real estate owned	(336 )	(53 )
Increase in cash surrender value of bank-owned life insurance	(266 )	(264 )
Loss (gain) on fair value option of financial liabilities	601	(471 )
Loss on tax credit limited partnership interest	119	73
Net increase in other assets	(42 )	(77 )
Net cash provided by operating activities	2,250	3,009
<b>Cash Flows From Investing Activities:</b>		
Net increase in interest-bearing deposits with banks	(2 )	(4 )
Purchase of correspondent bank stock	(495 )	(101 )
Purchases of available-for-sale securities	—	(14,940)
Principal payments of available-for-sale securities	4,112	3,330
Net decrease (increase) in loans	2,654	(38,919)
Cash proceeds from sales of other real estate owned	1,062	2,410
Payoff of senior liens on other real estate owned	—	(705 )
Investment in limited partnership	(1,028 )	(66 )
Capital expenditures of premises and equipment	(919 )	(345 )
Net cash provided by (used in) investing activities	5,384	(49,340)
<b>Cash Flows From Financing Activities:</b>		
Net increase in demand deposits and savings accounts	24,885	16,964
Net decrease in time deposits	(35,203)	(1,820 )
Proceeds from exercise of stock options	6	—
Dividends on common stock (\$0.05 per share)		