United Community Bancorp
Form 10-Q
February 14, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended December 31, 2010

OR

¨ 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: 0-51800

United Community Bancorp
(Exact name of registrant as specified in its charter)

United States of America (State or other jurisdiction of incorporation or organization)	36-4587081 (I.R.S.Employer Identification No.)
92 Walnut Street, Lawrenceburg, Indiana (Address of principal executive offices)	47025 (Zip Code)

(812) 537-4822
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T 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 a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one)

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

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

As of February 11, 2011, there were 7,845,554 shares of the registrant’s common stock outstanding, of which 4,655,200 shares were held by United Community MHC.

UNITED COMMUNITY BANCORP

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Item 1. Financial Statements

UNITED COMMUNITY BANCORP AND SUBSIDIARIES

Consolidated Statements of Financial Condition

(In thousands, except share amounts)	December 31, 2010	June 30, 2010
Assets		
Cash and due from banks	$ 19,343	$ 32,023
Investment securities:		
Securities available for sale - at estimated market value	66,034	62,089
Securities held to maturity - at amortized cost	611	631
Mortgage-backed securities available for sale - at estimated market value	74,660	57,238
Loans receivable, net	298,240	309,575
Loans available for sale	1,847	364
Property and equipment, net	7,584	7,513
Federal Home Loan Bank stock, at cost	2,008	2,016
Accrued interest receivable:		
Loans	1,327	1,573
Investments and mortgage-backed securities	810	717
Other real estate owned, net	152	297
Cash surrender value of life insurance policies	7,247	7,109
Deferred income taxes	4,215	3,721
Goodwill	2,522	2,522
Intangible asset	1,183	1,400
Prepaid expenses and other assets	2,990	3,316
Total assets	$ 490,773	$ 492,104
Liabilities and Stockholders' Equity		
Deposits	$ 429,808	$ 430,180
Advance from FHLB	2,333	2,833
Accrued interest on deposits	79	119
Accrued interest on FHLB advance	6	7
Advances from borrowers for payment of insurance and taxes	235	168
Accrued expenses and other liabilities	3,092	3,317
Total liabilities	435,553	436,624
Stockholders' equity		
Preferred stock, $0.01 par value; 1,000,000 shares authorized, none issued	-	-
Common stock, $0.01 par value; 19,000,000 shares authorized, 8,464,000 shares issued and 7,845,554 shares outstanding at December 31, 2010 and June 30, 2010.	36	36
Additional paid-in capital	36,913	36,995
Retained earnings	28,195	28,048
Less shares purchased for stock plans	(2,895)	(3,042)

Treasury Stock, at cost - 618,446 shares at December 31, 2010 and June 30, 2010, respectively		(7,054)		(7,054)
Accumulated other comprehensive income:				
Unrealized gain on securities available for sale, net of income taxes		25		497
Total stockholders' equity		55,220		55,480
Total liabilities and stockholders' equity	$	490,773	$	492,104

See accompanying notes to the consolidated financial statements.

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UNITED COMMUNITY BANCORP AND SUBSIDIARIES

Consolidated Statements of Income
(In thousands, except share amounts)

	For the three months ended December 31, 2010	For the three months ended December 31, 2009	For the six months ended December 31 2010	For the six months ended December 31 2009
Interest income:				
Loans	$ 4,354	$ 3,997	$ 8,681	$ 8,158
Investments and mortgage - backed securities	679	714	1,382	1,374
Total interest income	5,033	4,711	10,063	9,532
Interest expense:				
Deposits	1,413	1,560	3,026	3,235
Borrowed funds	20	28	42	58
Total interest expense	1,433	1,588	3,068	3,293
Net interest income	3,600	3,123	6,995	6,239
Provision for loan losses	737	324	1,456	946
Net interest income after provision for loan losses	2,863	2,799	5,539	5,293
Other income:				
Service charges	606	514	1,207	996
Gain on sale of loans	215	110	442	196
Gain on sale of investments	-	51	44	39
Gain (loss) on sale of other real estate owned	(27)	-	(25)	20
Income from Bank Owned Life Insurance	70	82	139	139
Other	109	185	161	238
Total other income	973	942	1,968	1,628
Other expense:				
Compensation and employee benefits	1,687	1,441	3,358	2,912
Premises and occupancy expense	336	278	645	554
Deposit insurance premium	180	193	408	413
Advertising expense	117	85	218	176
Data processing expense	96	64	180	120
ATM service fees	125	110	263	217
Provision for loss on sale of real estate owned	-	200	-	300
Acquisition expense	-	-	38	-
Other operating expenses	663	698	1,345	1,252
Total other expense	3,204	3,069	6,455	5,944
Income before income tax provision	632	672	1,052	977
Income tax provision	53	196	202	279

Net income	$	579	$	476	$	850	$	698
Basic and diluted earnings per share	$	0.08	$	0.06	$	0.11	$	0.09

See accompanying notes to the consolidated financial statements.

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UNITED COMMUNITY BANCORP AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Loss)
(In thousands)

	For the three months ended December 31, 2010	For the three months ended December 31, 2009	For the six months December 31, 2010	For the six months December 31, 2009
Net income	$ 579	$ 476	$ 850	$ 698
Other comprehensive loss, net of tax				
Unrealized loss on available for sale securities	(716)	(528)	(445)	(61)
Reclassification adjustment for gains on available for sale securities included in income	-	(31)	(27)	(23)
Total comprehensive income (loss)	$ (137)	$ (83)	$ 378	$ 614

See accompanying notes to consolidated financial statements.

UNITED COMMUNITY BANCORP AND SUBSIDIARIES

Consolidated Statements of Cash Flows
(In thousands)

	(Unaudited) Six months ended December 31,	
(In thousands)	2010	2009
Operating activities:		
Net income	$ 850	$ 698
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	266	231
Provision for loan losses	1,456	946
Provision for loss on sale of real estate acquired through foreclosure	-	300
Deferred loan origination costs	(40)	(5)
Amortization of premium on investments	509	(24)
Proceeds from sale of loans	13,835	17,376
Loans disbursed for sale in the secondary market	(14,876)	(15,427)
Gain on sale of loans	(442)	(196)
Amortization of intangible asset	217	-
Amortization of acquisition-related loan yield discount	(124)	-
Amortization of acquisition-related credit risk discount	(102)	-
Amortization of acquisition-related CD yield adjustment	(72)	-
(Gain) loss on the sale of available for sale securities	(44)	(39)
ESOP shares committed to be released	(44)	72
Stock-based compensation expense	109	189
Deferred income taxes	(252)	36
(Gain) loss on sale of other real estate owned	25	(20)
Effects of change in operating assets and liabilities:		
Accrued interest receivable	153	24
Prepaid expenses and other assets	326	(1,669)
Accrued interest on deposits	(40)	(3)
Accrued expenses and other	(226)	(250)
Net cash provided by operating activities	1,484	2,239
Investing activities:		
Proceeds from maturity of available for sale investment securities	5,302	4,890
Proceeds from the sale of available for sale investment securities	4,044	3,498
Proceeds from maturity of held to maturity investment securities	20	-
Proceeds from the sale of mortgage-backed securities	-	5,350
Proceeds from repayment of mortgage-backed securities available for sale	8,729	4,554
Proceeds from sale of other real estate owned	180	1,759
Proceeds from sale of Federal Home Loan Bank stock	8	-
Purchases of available for sale investment securities	(15,143)	(8,713)

Purchases of mortgage-backed securities	(25,479)	(17,670)
Increase in cash surrender value of life insurance	(139)	(140)
Net increase (decrease) in loans	10,085	(71)
Capital expenditures	(337)	(258)
Net cash used in investing activities	(12,730)	(6,801)
Financing activities:		
Net decrease in deposits	(300)	(2,699)
Repayments of Federal Home Loan Bank advances	(500)	(500)
Dividends paid to stockholders	(701)	(545)
Repurchases of common stock	-	(73)
Net increase (decrease) in advances from borrowers for payment of insurance and taxes	67	(9)
Net cash used in financing activities	(1,434)	(3,826)
Net decrease in cash and cash equivalents	(12,680)	(8,388)
Cash and cash equivalents at beginning of period	32,023	27,004
Cash and cash equivalents at end of period	$ 19,343	$ 18,616

See accompanying notes to consolidated financial statements.

UNITED COMMUNITY BANCORP AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION- United Community Bancorp (the "Company"), a Federally-chartered corporation, is the mid-tier holding company for United Community Bank (the "Bank"), which is a Federally-chartered, FDIC-insured savings bank. The Company was organized in conjunction with the Bank's reorganization from a mutual savings bank to the mutual holding company structure on March 30, 2006. United Community MHC, a Federally-chartered corporation, is the mutual holding company parent of the Company. United Community MHC owns approximately 59% of the Company's outstanding common stock and because the Company is in the mutual holding company structure, must always own at least a majority of the voting stock of the Company. The Company, through the Bank, operates in a single business segment providing traditional banking services through its office and branches in southeastern Indiana. UCB Real Estate Management Holding, LLC is a wholly-owned subsidiary of the Bank. The entity was formed for the purpose of holding assets that are acquired by the Bank through, or in lieu of, foreclosure.

The accompanying unaudited consolidated financial statements were prepared in accordance with the rules and regulations of the Securities and Exchange Commission, and therefore do not include all information or footnotes necessary for complete financial statements in conformity with accounting principles generally accepted in the United States of America. However, all normal recurring adjustments that, in the opinion of management, are necessary for a fair presentation of the financial statements have been included. No other adjustments have been included. The results for the three and six month periods ended December 31, 2010 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2011. These financial statements should be read in conjunction with the Company's audited consolidated financial statements and the accompanying notes thereto for the year ended June 30, 2010, which are included on the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission on September 28, 2010. The Company evaluates events and transactions occurring subsequent to the date of the financial statements for matters requiring recognition or disclosure in the financial statements.

2. EMPLOYEE STOCK OWNERSHIP PLAN (ESOP) – As of December 31, 2010 and June 30, 2010, the ESOP owned 202,061 and 230,897 shares, respectively, of the Company's common stock, which were held in a suspense account until released for allocation to participants.

3. EARNINGS PER SHARE (EPS) – In June 2008, the Financial Accounting Standards Board (FASB) issued Accounting Standards Codification (ASC) 260-10-65-2, Transition Related to FSP EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities. This guidance concludes that non-vested shares with non-forfeitable dividend rights are considered participating securities and, thus, subject to the two-class method pursuant to ASC 260, Earnings per Share, when computing basic and diluted EPS. This guidance became effective for the Company on July 1, 2009. The Company's restricted share awards contain non-forfeitable dividend rights but do not contractually obligate the holders to share in the losses of the Company. Accordingly, during periods of net income, unvested restricted shares are included in the determination of both basic and diluted EPS. During periods of net loss, these shares are excluded from both basic and diluted EPS.

Basic EPS is based on the weighted average number of common shares and unvested restricted shares outstanding, adjusted for ESOP shares not yet committed to be released. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock. For the three and six month periods ended December 31, 2010 and 2009, 346,304 outstanding stock option awards were excluded from the computation of diluted weighted average outstanding shares as their effect would have been anti-dilutive. The following is a reconciliation of the basic and diluted weighted average number of common shares outstanding:

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	Three Months Ended December 31,		Six Months Ended December 31,	
	2010	2009	2010	2009
Basic weighted average outstanding shares	7,631,858	7,608,208	7,631,858	7,610,139
Effect of dilutive stock options	-	-	-	-
Diluted weighted average outstanding shares	7,631,858	7,608,208	7,631,858	7,610,139

4. STOCK-BASED COMPENSATION – The Company applies the provisions of ASC 718-10-35-2, Compensation-Stock Compensation, to stock-based compensation, which requires the Company to measure the cost of employee services received in exchange for awards of equity instruments and to recognize this cost in the financial statements over the period during which the employee is required to provide such services. The Company has elected to recognize compensation cost associated with its outstanding stock-based compensation awards with graded vesting on an accelerated basis pursuant to ASC 718-10-35-8. The expense is calculated for stock options at the date of grant using the Black-Scholes option pricing model. The expense associated with restricted stock awards is calculated based upon the value of the common stock on the date of grant.

5. DIVIDENDS – On July 22, 2010 and October 28, 2010, the Board of Directors of the Company declared cash dividends on the Company's outstanding shares of stock of $0.11 per share. United Community MHC, which owns 4,655,200 shares of the Company's common stock, waived receipt of the dividends. The dividends were paid on August 31, 2010 and November 30, 2010, respectively. Accordingly, cash dividends, net of unvested shares held in ESOP, of $701,000 were paid to shareholders during the six month period ended December 31, 2010.

6. SUPPLEMENTAL CASH FLOW INFORMATION

	Six Months Ended December 31,	
	2010	2009
	(In thousands)	
Supplemental disclosure of cash flow information is as follows:		
Cash paid during the period for:		
Income taxes, net of refunds received	$ 682	$ -
Interest	$ 3,109	$ 3,296
Supplemental disclosure of non-cash investing and financing activities is as follows:		
Unrealized gains (losses) on securities designated as available for sale, net of tax	$ (472)	$ (84)
Transfers of loans to other real estate owned	$ 60	$ 888

7. TROUBLED DEBT RESTRUCTURINGS - From time to time, as part of our loss mitigation process, loans may be renegotiated in a troubled debt restructuring (TDR) when we determine that greater economic value will ultimately be recovered under the new terms than through foreclosure, liquidation, or bankruptcy. We may consider the borrower's payment status and history, the borrower's ability to pay upon a rate reset on an adjustable rate mortgage, size of the payment increase upon a rate reset, period of time remaining prior to the rate reset, and other relevant factors in determining whether a borrower is experiencing financial difficulty. However, TDRs are also considered to be impaired, except for those that have been performing under the new terms for at least six consecutive months. TDRs are accounted for as set forth in ASC 310 Receivables ("ASC 310"). A TDR may be on non-accrual or it may accrue interest. A TDR is typically on non-accrual until the borrower successfully performs under the new

terms for six consecutive months. However, a TDR may be placed on accrual immediately following the TDR in those instances where a borrower's payments are current prior to the modification and management determines that principal and interest under the new terms are fully collectible.

Existing performing loan customers who request loan a (non-TDR) modification and who meet the Bank's underwriting standards may, usually for a fee, modify their original loan terms to terms currently offered. The modified terms of these loans are similar to the terms offered to new customers. The fee assessed for modifying the loan is deferred and amortized over the life of the modified loan using the level-yield method and is reflected as an adjustment to interest income. Each modification is examined on a loan-by-loan basis and if the modification of terms represents more than a minor change to the loan, then the unamortized balance of the pre-modification deferred fees or costs associated with the mortgage loan are recognized in interest income at the time of the modification. If the modification of terms does not represent more than a minor change to the loan, then the unamortized balance of the pre-modification deferred fees or costs continue to be deferred.

At December 31, 2010, the Bank had nineteen loans totaling $20.1 million that qualified as TDRs, and has reserved for losses on these loans for $2.0 million. At December 31, 2010, the Bank had no other commitments to lend on its TDRs. At June 30, 2010, the Bank had thirteen loans totaling $9.0 million that qualified as TDRs, and has reserved for losses on these loans for $1.8 million. Management continues to monitor the performance of loans classified as TDRs, and does not anticipate any additional losses on TDRs at December 31, 2010.

8. DISCLOSURES ABOUT FAIR VALUE OF ASSETS AND LIABILITIES

In accordance with ASC 825-10-50-10, for financial instruments where quoted market prices are not available, fair values are estimated using present value or other valuation methods.

The following methods and assumptions are used in estimating the fair values of financial instruments:

Cash and due from banks, accrued interest receivable, and accrued interest payable

The carrying values presented in the consolidated statements of position approximate fair value.

Investments and mortgage-backed securities

For investment securities (debt instruments) and mortgage-backed securities, fair values are based on quoted market prices, where available. If a quoted market price is not available, fair value is estimated using quoted market prices of comparable instruments.

Loans receivable

The fair value of the loan portfolio is estimated by evaluating homogeneous categories of loans with similar financial characteristics. Loans are segregated by types, such as residential mortgage, commercial real estate, and consumer. Each loan category is further segmented into fixed and adjustable rate interest, terms, and by performing and non-performing categories. The fair value of performing loans, except residential mortgage loans, is calculated by discounting contractual cash flows using estimated market discount rates which reflect the credit and interest rate risk inherent in the loan. For performing residential mortgage loans, fair value is estimated by discounting contractual cash flows adjusted for prepayment estimates using discount rates based on secondary market sources. The fair value for significant non-performing loans is based on recent internal or external appraisals. Assumptions regarding credit risk, cash flow, and discount rates are judgmentally determined by using available market information.

Federal Home Loan Bank stock

The Bank is a member of the Federal Home Loan Bank system and is required to maintain an investment based upon a pre-determined formula. The carrying values presented in the consolidated statements of position approximate fair value.

Deposits

The fair values of passbook accounts, NOW accounts, and money market savings and demand deposits approximate their carrying values. The fair values of fixed maturity certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently offered for deposits of similar maturities.

Advance from Federal Home Loan Bank

The fair value is calculated using rates available to the Company on advances with similar terms and remaining maturities.

Off-balance sheet items

Carrying value is a reasonable estimate of fair value. These instruments are generally variable rate or short-term in nature, with minimal fees charged. Off-balance sheet items at December 31, 2010 are comprised solely of loan commitments.

Fair value of financial instruments

The estimated fair values of the Company's financial instruments at December 31, 2010 and June 30, 2010 are as follows:

	December 31, 2010		June 30, 2010	
	Carrying Amounts	Fair Value	Carrying Amounts	Fair Value
	(In thousands)			
Financial assets:				
Cash and due from banks	$ 19,343	$ 19,343	$ 32,023	$ 32,023
Investment securities available for sale	66,034	66,034	62,089	62,089
Investment securities held to maturity	611	611	631	631
Mortgage-backed securities	74,660	74,660	57,238	57,238
Loans receivable and loans receivable held for sale	300,087	294,234	309,939	304,943
Accrued interest receivable	2,137	2,137	2,290	2,290
Investment in FHLB stock	2,008	2,008	2,016	2,016
Financial liabilities:				
Deposits	$ 429,808	$ 431,508	$ 430,180	432,091
Accrued interest payable	85	85	126	126
FHLB advance	2,333	2,387	2,833	2,904
Off balance-sheet items	$ -	$ -	$ -	$ -

The Company measures fair value under ASC 820-10-50-2, which establishes a framework for measuring fair value and expands disclosures about fair value measurements. ASC 820-10-50-2 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.

ASC 820-10-50-2 also establishes 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.

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.

Fair value methods and assumptions are set forth below for each type of financial instrument. Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 2 securities include U.S. Government and agency mortgage-backed securities, U.S. Government agency bonds, municipal securities, and other real estate owned. If quoted market prices are not available, the Bank utilizes a third party vendor to calculate the fair value of its available for sale securities. The third party vendor uses quoted prices of securities with similar characteristics when available. If such quotes are not available, the third party vendor uses pricing models or discounted cash flow models with observable inputs to determine the fair value of these securities. For other real estate owned, the Bank utilizes appraisals obtained from independent third parties to determine fair value.

Fair value measurements for certain assets and liabilities measured at fair value on a recurring basis:

	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant other unobservable inputs (Level 3)
		(In thousands)		
December 31, 2010:				
Mortgage-backed securities	$ 74,660	$ -	$ 74,660	$ -
U.S. Government corporations and agencies	50,608	-	50,608	-
Municipal bonds	15,302	-	15,302	-
Other equity securities	124	124	-	-
June 30, 2010:				
Mortgage-backed securities	$ 57,238	$ -	$ 57,238	$ -
U.S. Government corporations and agencies	49,369	-	49,369	-
Municipal bonds	12,591	-	12,591	-
Other equity securities	129	129	-	-

Fair value measurements for certain assets and liabilities measured at fair value on a nonrecurring basis:

	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant other unobservable inputs (Level 3)
		(In thousands)		
December 31, 2010:				
Other real estate owned	$ 152	$ -	$ 152	$ -
Loans available for sale	1,847	-	1,847	-
Impaired loans	24,455	-	24,455	-
June 30, 2010:				
Other real estate owned	$ 297	-	$ 297	-
Loans available for sale	364	-	364	-
Impaired loans	13,854	-	13,854	-

The adjustments to other real estate owned and impaired loans are based primarily on appraisals of the real estate or other observable market prices. Our policy is that fair values for these assets are based on current appraisals. We generally maintain current appraisals for these items.

Investment securities available for sale at December 31, 2010 consist of the following:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
	(In thousands)			
Mortgage-backed securities	$ 74,257	$ 631	$	