

UNITY BANCORP INC /NJ/
Form 10-Q
August 09, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2013

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 1-12431

Unity Bancorp, Inc.

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(Exact name of registrant as specified in its charter)

New Jersey 22-3282551
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

64 Old Highway 22, Clinton, NJ 08809
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code (908) 730-7630

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, as amended, 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 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 (as defined in Rule 12b-2 of the Exchange Act):

Large accelerated filer Accelerated filer Nonaccelerated filer Smaller reporting company

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

Yes No

The number of shares outstanding of each of the registrant's classes of common equity stock, as of August 1, 2013
common stock, no par value: 7,543,936 shares outstanding

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PART I CONSOLIDATED FINANCIAL INFORMATION

ITEM 1 Consolidated Financial Statements (Unaudited)

Unity Bancorp, Inc.

Consolidated Balance Sheets

(Unaudited)

(In thousands)	June 30, 2013	December 31, 2012
ASSETS		
Cash and due from banks	\$ 21,860	\$ 23,705
Federal funds sold and interest-bearing deposits	34,450	70,487
Cash and cash equivalents	56,310	94,192
Securities:		
Securities available for sale	84,212	89,538
Securities held to maturity (fair value of \$26,980 and \$22,741, respectively)	27,057	21,515
Total securities	111,269	111,053
Loans:		
SBA loans held for sale	7,772	6,937
SBA loans held to maturity	52,279	58,593
SBA 504 loans	39,070	41,438
Commercial loans	323,476	301,564
Residential mortgage loans	154,716	132,094
Consumer loans	45,003	46,410
Total loans	622,316	587,036
Allowance for loan losses	(14,309)	(14,758)
Net loans	608,007	572,278
Premises and equipment, net	15,823	12,062
Bank owned life insurance ("BOLI")	12,548	9,402
Deferred tax assets	6,658	5,954
Federal Home Loan Bank stock	5,527	3,989
Accrued interest receivable	3,353	3,298
Other real estate owned ("OREO")	752	1,826
Prepaid FDIC insurance	-	1,929
Goodwill and other intangibles	1,516	1,516
Other assets	2,812	2,231
Total assets	\$ 824,575	\$ 819,730
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Noninterest-bearing demand deposits	\$ 128,045	\$ 114,424

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Interest-bearing demand deposits	108,176	114,838
Savings deposits	266,168	294,533
Time deposits, under \$100,000	74,950	76,994
Time deposits, \$100,000 and over	51,030	47,971
Total deposits	628,369	648,760
Borrowed funds	110,000	75,000
Subordinated debentures	15,465	15,465
Accrued interest payable	443	434
Accrued expenses and other liabilities	2,011	2,561
Total liabilities	756,288	742,220
Commitments and contingencies	-	-
Shareholders' equity:		
Cumulative perpetual preferred stock	10,209	20,115
Common stock	54,461	54,274
Retained earnings	3,390	1,788
Accumulated other comprehensive income	227	1,333
Total shareholders' equity	68,287	77,510
Total liabilities and shareholders' equity	\$ 824,575	\$ 819,730
Preferred shares	10	21
Issued and outstanding common shares	7,544	7,534

The accompanying notes to the Consolidated Financial Statements are an integral part of these statements.

Unity Bancorp, Inc.

Consolidated Statements of Income

(Unaudited)

(In thousands, except per share amounts)	For the three months ended		For the six months ended June 30,	
	June 30, 2013	2012	2013	2012
INTEREST INCOME				
Federal funds sold and interest-bearing deposits	\$ 7	\$ 11	\$ 22	\$ 43
Federal Home Loan Bank stock	35	44	78	95
Securities:				
Taxable	620	733	1,267	1,483
Tax-exempt	125	120	245	263
Total securities	745	853	1,512	1,746
Loans:				
SBA loans	778	846	1,555	1,770
SBA 504 loans	441	691	1,092	1,451
Commercial loans	4,250	4,216	8,251	8,397
Residential mortgage loans	1,649	1,582	3,199	3,237
Consumer loans	496	529	1,005	1,089
Total loans	7,614	7,864	15,102	15,944
Total interest income	8,401	8,772	16,714	17,828
INTEREST EXPENSE				
Interest-bearing demand deposits	90	123	191	259
Savings deposits	164	287	340	641
Time deposits	537	689	1,083	1,603
Borrowed funds and subordinated debentures	808	816	1,609	1,662
Total interest expense	1,599	1,915	3,223	4,165
Net interest income	6,802	6,857	13,491	13,663
Provision for loan losses	300	1,000	950	2,200
Net interest income after provision for loan losses	6,502	5,857	12,541	11,463
NONINTEREST INCOME				
Branch fee income	348	362	695	748
Service and loan fee income	319	287	623	588
Gain on sale of SBA loans held for sale, net	86	223	327	381
Gain on sale of mortgage loans, net	547	453	1,025	864
BOLI income	75	73	146	146
Net security gains	108	283	334	507
Other income	175	160	332	322
Total noninterest income	1,658	1,841	3,482	3,556
NONINTEREST EXPENSE				
Compensation and benefits	3,166	3,133	6,341	6,315
Occupancy	627	740	1,321	1,348
Processing and communications	562	553	1,123	1,087
Furniture and equipment	371	355	736	717

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Professional services	234	211	424	402
Loan collection costs	228	91	406	271
OREO expenses	63	237	190	362
Deposit insurance	179	168	328	339
Advertising	181	302	301	448
Other expenses	463	414	1,029	872
Total noninterest expense	6,074	6,204	12,199	12,161
Income before provision for income taxes	2,086	1,494	3,824	2,858
Provision for income taxes	739	518	1,278	977
Net income	1,347	976	2,546	1,881
Preferred stock dividends and discount accretion	465	401	869	797
Income available to common shareholders	\$ 882	\$ 575	\$ 1,677	\$ 1,084
Net income per common share - Basic	\$ 0.12	\$ 0.08	\$ 0.22	\$ 0.15
Net income per common share - Diluted	\$ 0.11	\$ 0.07	\$ 0.21	\$ 0.14
Weighted average common shares outstanding - Basic	7,544	7,462	7,541	7,461
Weighted average common shares outstanding - Diluted	7,911	7,784	7,881	7,788

The accompanying notes to the Consolidated Financial Statements are an integral part of these statements.

Unity Bancorp, Inc.

Consolidated Statements of Comprehensive Income

(Unaudited)

(In thousands)	For the three months ended June 30,		For the six months ended June 30,	
	2013	2012	2013	2012
Net income	\$ 1,347	\$ 976	\$ 2,546	\$ 1,881
Other comprehensive income (loss), net of tax:				
Unrealized holding gains (losses) on securities arising during period	(654)	299	(884)	145
Less: Reclassification adjustment for gains on securities included in net income	72	188	222	337
Total other comprehensive income (loss)	(726)	111	(1,106)	(192)
Total comprehensive income	\$ 621	\$ 1,087	\$ 1,440	\$ 1,689

The accompanying notes to the Consolidated Financial Statements are an integral part of these statements.

Unity Bancorp, Inc.

Consolidated Statements of Changes in Shareholders' Equity

For the six months ended June 30, 2013 and 2012

(Unaudited)

(In thousands)	Preferred stock	Common stock		Retained earnings	Accumulated	Total
		Shares	Amount		other comprehensive income	
Balance, December 31, 2012	\$ 20,115	7,534	\$ 54,274	\$ 1,788	\$ 1,333	\$ 77,510
Net income				2,546		2,546
Other comprehensive loss, net of tax					(1,106)	(1,106)
Redemption of perpetual preferred stock from U.S. Treasury	(10,324)					(10,324)
Accretion of discount on preferred stock	418			(418)		-
Dividends on common stock (\$0.01 per share)				(75)		(75)
Dividends on preferred stock (5% annually)				(451)		(451)
Common stock issued and related tax effects (1)		10	187			187
Balance, June 30, 2013	\$ 10,209	7,544	\$ 54,461	\$ 3,390	\$ 227	\$ 68,287

(In thousands)	Preferred stock	Common stock		Accumulated deficit	Accumulated	Total
		Shares	Amount		other comprehensive income	
Balance, December 31, 2011	\$ 19,545	7,459	\$ 53,746	\$ (854)	\$ 1,121	\$ 73,558
Net income				1,881		1,881
Other comprehensive loss, net of tax					(192)	(192)
Accretion of discount on preferred stock	279			(279)		-
Dividends on preferred stock (5% annually)				(517)		(517)
Common stock issued and related tax effects (1)		2	171			171
Balance, June 30, 2012	\$ 19,824	7,461	\$ 53,917	\$ 231	\$ 929	\$ 74,901

(1) Includes the issuance of common stock under employee benefit plans, which includes nonqualified stock options and restricted stock expense related entries, employee option exercises and the tax benefit of options exercised.

The accompanying notes to the Consolidated Financial Statements are an integral part of these statements.

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Unity Bancorp, Inc.

Consolidated Statements of Cash Flows

(Unaudited)

(In thousands)	For the six months ended June 30,	
	2013	2012
OPERATING ACTIVITIES:		
Net income	\$ 2,546	\$ 1,881
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	950	2,200
Net amortization of purchase premiums and discounts on securities	399	458
Depreciation and amortization	659	622
Deferred income tax expense	23	28
Net security gains	(334)	(507)
Stock compensation expense	169	157
Loss on sale of OREO	37	168
Valuation writedowns on OREO	70	-
Gain on sale of mortgage loans held for sale, net	(1,025)	(864)
Gain on sale of SBA loans held for sale, net	(327)	(381)
Origination of mortgage loans held for sale	(48,525)	(41,509)
Origination of SBA loans held for sale	(4,060)	(2,637)
Proceeds from sale of mortgage loans held for sale, net	49,550	42,373
Proceeds from sale of SBA loans held for sale, net	3,519	4,599
Loss on sale or disposal of premises and equipment	-	20
Net change in other assets and liabilities	672	1,766
Net cash provided by operating activities	4,323	8,374
INVESTING ACTIVITIES		

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Purchases of securities held to maturity	(8,252)	-
Purchases of securities available for sale	(19,274)	(32,802)
Purchases of Federal Home Loan Bank stock, at cost	(1,575)	-
Maturities and principal payments on securities held to maturity	2,610	1,818
Maturities and principal payments on securities available for sale	13,320	16,723
Proceeds from sales of securities available for sale	9,482	6,638
Proceeds from redemption of Federal Home Loan Bank stock	37	99
Proceeds from sale of OREO	967	2,046
Net increase in loans	(35,883)	(18,285)
Purchase of BOLI	(3,000)	-
Proceeds from sale or disposal of premises and equipment	-	11
Purchases of premises and equipment	(4,347)	(1,338)
Net cash used in investing activities	(45,915)	(25,090)
FINANCING ACTIVITIES		
Net decrease in deposits	(20,391)	(27,528)
Proceeds from new borrowings	35,000	-
Redemption of perpetual preferred stock from U.S. Treasury	(10,324)	-
Proceeds from exercise of stock options	-	21
Dividends on preferred stock	(516)	(516)
Dividends on common stock	(59)	-
Net cash provided by (used in) financing activities	3,710	(28,023)
Decrease in cash and cash equivalents	(37,882)	(44,739)
Cash and cash equivalents, beginning of period	94,192	82,574
Cash and cash equivalents, end of period	\$ 56,310	\$ 37,835

SUPPLEMENTAL
DISCLOSURES
Cash:

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Interest paid	\$	3,214	\$	4,218
Income taxes paid		1,612		739
Noncash investing activities:				
Transfer of SBA loans held for sale to held to maturity		33		-
Transfer of loans to OREO		-		2,027

The accompanying notes to the Consolidated Financial Statements are an integral part of these statements

Unity Bancorp, Inc.

Notes to the Consolidated Financial Statements (Unaudited)

June 30, 2013

NOTE 1. Significant Accounting Policies

The accompanying Consolidated Financial Statements include the accounts of Unity Bancorp, Inc. (the "Parent Company") and its wholly-owned subsidiary, Unity Bank (the "Bank" or when consolidated with the Parent Company, the "Company"), and reflect all adjustments and disclosures which are generally routine and recurring in nature, and in the opinion of management, necessary for a fair presentation of interim results. The Bank has multiple subsidiaries used to hold part of its investment and loan portfolios and other real estate owned ("OREO") properties. All significant intercompany balances and transactions have been eliminated in consolidation. Certain reclassifications have been made to prior period amounts to conform to the current year presentation, with no impact on current earnings. The financial information has been prepared in accordance with U.S. generally accepted accounting principles and has not been audited. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and revenues and expenses during the reporting periods. Actual results could differ from those estimates. Amounts requiring the use of significant estimates include the allowance for loan losses, valuation of deferred tax and servicing assets, the carrying value of loans held for sale and other real estate owned, the valuation of securities and the determination of other-than-temporary impairment for securities and fair value disclosures. Management believes that the allowance for loan losses is adequate. While management uses available information to recognize losses on loans, future additions to the allowance for loan losses may be necessary based on changes in economic conditions. The Company has evaluated subsequent events for potential recognition and/or disclosure through the date the Consolidated Financial Statements included in this Quarterly Report on Form 10-Q were available to be issued.

The interim unaudited Consolidated Financial Statements included herein have been prepared in accordance with instructions for Form 10-Q and the rules and regulations of the Securities and Exchange Commission ("SEC") and consist of normal recurring adjustments necessary for the fair presentation of interim results. The results of operations for the six months ended June 30, 2013 are not necessarily indicative of the results which may be expected for the entire year. As used in this Form 10-Q, "we" and "us" and "our" refer to Unity Bancorp, Inc., and its consolidated subsidiary, Unity Bank, depending on the context. Certain information and financial disclosures required by generally accepted accounting principles have been condensed or omitted from interim reporting pursuant to SEC rules. Interim financial statements should be read in conjunction with the Company's Consolidated Financial Statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

Stock Transactions

Stock Option Plans

The Company has incentive and nonqualified option plans, which allow for the grant of options to officers, employees and members of the Board of Directors. Transactions under the Company's stock option plans for the six months ended June 30, 2013 are summarized in the following table:

	Shares	Weighted average exercise price	Weighted average remaining contractual life (in years)	Aggregate intrinsic value
Outstanding at December 31, 2012	516,332	\$ 7.06	5.4	\$ 327,725
Options granted	25,000	6.02		
Options exercised	-	-		
Options forfeited	(8,333)	6.56		
Options expired	(2,617)	8.86		
Outstanding at June 30, 2013	530,382	\$ 7.01	4.8	\$ 560,237
Exercisable at June 30, 2013	433,884	\$ 7.18	3.9	\$ 478,262

Grants under the Company's incentive and nonqualified option plans generally vest over 3 years and must be exercised within 10 years of the date of grant. The exercise price of each option is the market price on the date of grant. As of June 30, 2013, 1,720,529 shares have been reserved for issuance upon the exercise of options, 530,382 option grants are outstanding, and 1,100,138 option grants have been exercised, forfeited or expired, leaving 90,009 shares available for grant.

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The fair values of the options granted during the three and six months ended June 30, 2013 and 2012 were estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	For the three months ended		For the six months ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Number of options granted	-	-	25,000	-
Weighted average exercise price	\$ -	\$ -	\$ 6.02	\$ -
Weighted average fair value of options	\$ -	\$ -	\$ 2.91	\$ -
Expected life in years (1)	-	-	5.11	-
Expected volatility (2)	- %	- %	52.81 %	- %
Risk-free interest rate (3)	- %	- %	0.77 %	- %
Dividend yield (4)	- %	- %	- %	- %

- (1) The expected life of the options was estimated based on historical employee behavior and represents the period of time that options granted are expected to be outstanding.
- (2) The expected volatility of the Company's stock price was based on the historical volatility over the period commensurate with the expected life of the options.
- (3) The risk-free interest rate is the U.S. Treasury rate commensurate with the expected life of the options on the date of grant.
- (4) The expected dividend yield is the projected annual yield based on the grant date stock price.

Upon exercise, the Company issues shares from its authorized but unissued common stock to satisfy the options. The following table presents information about options exercised during three and six months ended June 30, 2013 and 2012:

	For the three months ended June		For the six months ended June 30,	
	30,		ended June 30,	
	2013	2012	2013	2012
Number of options exercised	-	-	-	3,841
Total intrinsic value of options exercised	\$ -	\$ -	\$ -	\$ 6,055
Cash received from options exercised	-	-	-	17,046
Tax deduction realized from options exercised	-	-	-	513

The following table summarizes information about stock options outstanding and exercisable at June 30, 2013:

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Range of exercise prices	Options outstanding		Options exercisable		
	Options outstanding	Weighted average remaining contractual life (in years)	Weighted average exercise price	Options exercisable	Weighted average exercise price
\$ 0.00 - 4.00	119,750	5.5	\$ 3.87	119,750	\$ 3.87
4.01 - 8.00	248,342	6.7	6.46	151,844	6.60
8.01 - 12.00	117,639	0.7	9.23	117,639	9.23
12.01 - 16.00					