

Edgar Filing: UNITED BANCORP INC /OH/ - Form 10-Q

UNITED BANCORP INC /OH/  
Form 10-Q  
August 14, 2006

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 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 JUNE 30, 2006

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

For the transition period from N/A to N/A

Commission File Number: 0-16540

UNITED BANCORP, INC.  
(Exact name of registrant as specified in its charter.)

OHIO  
(State or other jurisdiction of  
incorporation or organization)

34-1405357  
(IRS Employer  
Identification No.)

201 SOUTH 4TH STREET, MARTINS FERRY, OHIO 43935-0010  
(Address of principal executive offices) (Zip Code)

(740) 633-0445  
(Registrant's telephone number, including area code)

NOT APPLICABLE  
(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 IS A LARGE ACCELERATED FILER, AN  
ACCELERATED FILER, OR A NON-ACCELERATED FILER. SEE DEFINITION OF "ACCELERATED  
FILER AND LARGE ACCELERATED FILER" IN RULE 12B-2 OF THE EXCHANGE ACT. (CHECK  
ONE.)

LARGE ACCELERATED FILER  ACCELERATED FILER  NON-ACCELERATED FILER

INDICATE BY CHECK MARK WHETHER THE REGISTRANT IS A SHELL COMPANY (AS DEFINED IN  
EXCHANGE ACT RULE 12B-2). YES NO X  
--- ---

INDICATE THE NUMBER OF SHARES OUTSTANDING OF THE ISSUER'S CLASSES OF COMMON

# Edgar Filing: UNITED BANCORP INC /OH/ - Form 10-Q

STOCK AS OF THE LATEST PRACTICABLE DATE.

COMMON STOCK, \$1.00 PAR VALUE 4,567,317 SHARES AS OF AUGUST 1, 2006

UNITED BANCORP, INC.

## CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION In thousands, except per share data

PART I  
FINANCIAL INFORMATION

	JUNE 30, 2006	DECEMBER 31, 2005
	-----	-----
	(Unaudited)	
<b>ASSETS</b>		
Cash and due from financial institutions	\$ 9,684	\$ 10,009
Interest-bearing deposits in other financial institutions	3,321	3,868
	-----	-----
Total cash and cash equivalents	13,005	13,877
Securities available for sale - at market	125,292	121,946
Securities held to maturity - estimated fair value of		
\$19,586 at June 30, 2006 and \$20,483 at December 31, 2005	19,659	20,262
Total loans	236,279	232,011
Allowance for loan losses	(2,839)	(2,904)
	-----	-----
Loans - net	233,440	229,107
Federal Home Loan Bank stock - at cost	4,429	4,306
Premises and equipment	7,398	7,605
Accrued interest receivable	2,376	2,363
Other real estate and repossessions	1,183	1,244
Core deposit and other intangible assets	12	18
Bank owned life insurance	8,324	8,186
Other assets	4,200	3,019
	-----	-----
Total assets	\$419,318	\$411,933
	=====	=====
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Demand deposits		
Noninterest-bearing	\$ 27,015	\$ 26,614
Interest-bearing	96,441	82,295
Savings deposits	34,180	37,634
Time deposits - under \$100,000	123,993	121,249
Time deposits - \$100,000 and over	39,896	39,123
	-----	-----
Total deposits	321,525	306,915
Federal funds purchased	2,358	12,545
Advances from the Federal Home Loan Bank	50,389	47,334
Securities sold under agreements to repurchase	8,181	7,142
Trade date security purchases	1,000	--
Subordinated debentures	4,000	4,000
Accrued expenses and other liabilities	1,445	1,517
	-----	-----

Edgar Filing: UNITED BANCORP INC /OH/ - Form 10-Q

Total liabilities	388,898	379,453
Commitments	--	--
Shareholders' equity		
Preferred stock - 2,000,000 shares without par value authorized; no shares issued	--	--
Common stock - \$1 par value; 10,000,000 shares authorized; 4,638,531 and 4,615,111 shares issued at June 30, 2006 and December 31, 2005, respectively	4,638	4,615
Additional paid-in capital	27,205	26,919
Retained earnings	7,582	7,776
Stock held by deferred compensation plan; 86,752 shares at June 30, 2006 and 83,024 shares at December 31, 2005 - at cost	(947)	(892)
Treasury stock -71,214 at June 30, 2006 and 27,500 shares at December 31, 2005 - at cost	(807)	(329)
Less required contributions for shares acquired by Employee Stock Ownership Plan (ESOP)	(3,417)	(3,417)
Accumulated comprehensive loss, unrealized losses on securities designated as available for sale, net of tax benefits	(3,834)	(2,192)
	-----	-----
Total shareholders' equity	30,420	32,480
	-----	-----
Total liabilities and shareholders' equity	\$419,318	\$411,933
	=====	=====

The accompanying notes are an integral part of these statements.

2

UNITED BANCORP, INC.

CONSOLIDATED STATEMENTS OF EARNINGS  
In thousands, except per share data

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2006	2005	2006	2005
	-----			
	(Unaudited)			
Interest and dividend income				
Loans, including fees	\$4,452	\$3,810	\$ 8,624	\$ 7,347
Taxable securities	1,420	1,258	2,810	2,588
Non-taxable securities	343	323	643	633
Federal funds sold	38	4	88	
Dividends on Federal Home Loan Bank stock and other	66	51	139	9
	-----	-----	-----	-----
Total interest and dividend income	6,319	5,446	12,304	10,667
Interest expense				
Deposits				
Demand	629	231	1,114	37
Savings	30	38	61	7
Time	1,679	1,464	3,247	2,84
Borrowings	813	427	1,564	83

Edgar Filing: UNITED BANCORP INC /OH/ - Form 10-Q

Total interest expense	3,151	2,160	5,986	4,133
Net interest income	3,168	3,286	6,318	6,533
Provision for loan losses	302	116	404	263
Net interest income after provision for loan losses	2,866	3,170	5,914	6,270
Noninterest income (expense)				
Service charges on deposit accounts	324	315	674	623
Realized losses on sales of securities	(320)	(9)	(350)	(320)
Realized gains on sales of loans	5	6	10	10
Other income	271	277	558	523
Total noninterest income	280	589	892	1,156
Noninterest expense				
Salaries and employee benefits	1,432	1,313	2,895	2,673
Occupancy and equipment	387	325	717	653
Professional services	218	147	332	243
Insurance	89	82	171	153
Franchise and other taxes	107	102	205	203
Advertising	89	82	194	163
Stationery and office supplies	61	54	121	123
Amortization of intangibles	5	5	9	9
Other expenses	553	530	1,086	1,023
Total noninterest expense	2,941	2,640	5,730	5,263
Earnings before income taxes (benefit)	205	1,119	1,076	2,166
Income tax expense (benefit)	(82)	238	87	463
Net earnings	\$ 287	\$ 881	\$ 989	\$ 1,702
EARNINGS PER COMMON SHARE				
Basic	\$ 0.07	\$ 0.21	\$ 0.24	\$ 0.44
Diluted	\$ 0.07	\$ 0.21	\$ 0.24	\$ 0.44
DIVIDENDS PER COMMON SHARE	\$ 0.13	\$ 0.12	\$ 0.26	\$ 0.26

The accompanying notes are an integral part of these statements.

3

UNITED BANCORP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
In thousands

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2006	2005	2006	2005
	(Unaudited)			
Net earnings	\$ 287	\$ 881	\$ 989	\$ 1,702
Other comprehensive income (loss), net of tax:				

Edgar Filing: UNITED BANCORP INC /OH/ - Form 10-Q

Unrealized holding gains (losses) on securities during the period, net of (taxes) benefits of \$596 \$(650), \$846 and \$(47) for each respective period	(1,156)	1,262	(1,643)	91
Reclassification adjustment for realized gains included in earnings, net of taxes of \$(109), \$(3), \$(119) and \$(2) for each respective period	211	6	231	4
Comprehensive income (loss)	\$ (658)	\$2,149	\$ (423)	\$1,797
Accumulated comprehensive loss	\$ (3,835)	\$ (540)	\$ (3,835)	\$ (540)

The accompanying notes are an integral part of these statements.

4

UNITED BANCORP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the six months ended June 30,  
In thousands

	2006	2005
	-----	-----
	(Unaudited)	
Cash flows from operating activities:		
Net earnings	\$ 989	\$ 1,702
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depreciation and amortization	339	348
Provision for loan losses	404	260
Deferred taxes	3	(145)
Increase in value of bank owned life insurance	(138)	(135)
Federal Home Loan Bank stock dividend	(123)	(89)
Realized losses on sales of securities	350	6
Amortization of premiums and discounts on securities, net	108	214
Realized gain on sale of loans	(10)	(12)
Realized loss on sale of real estate owned	(1)	--
Amortization of mortgage servicing rights	45	40
Net change in accrued interest receivable and other assets	(412)	(668)
Net change in accrued expenses and other liabilities	1,101	52
	-----	-----
Net cash provided by operating activities	2,655	1,573
Cash flows used in investing activities:		
Securities available for sale:		
Sales, maturities, prepayments and calls	11,225	25,350
Purchases	(17,536)	(12,022)
Securities held to maturity:		
Maturities, prepayments and calls	620	215
Purchases	--	(4,943)
Net change in loans receivable	(4,727)	(11,551)
Purchases of premises and equipment	(122)	(118)
Sales of premises and equipment	--	24

Edgar Filing: UNITED BANCORP INC /OH/ - Form 10-Q

Purchase of bank owned life insurance	--	(382)
Proceeds from sale of real estate owned	160	247
	-----	-----
Net cash used in investing activities	(10,380)	(3,180)
Cash flows provided by financing activities:		
Net change in deposits	14,610	13,748
Net change in short-term borrowings	(5,943)	(9,239)
Principal payments on long-term debt	(408)	(442)
Treasury stock purchases	(478)	(285)
Proceeds from issuance of common stock	224	178
Exercise of stock options	32	182
Tax benefits related to exercise of stock options	7	114
Cash dividends paid on common stock	(1,183)	(1,009)
	-----	-----
Net cash provided by financing activities	6,861	3,247
	-----	-----
Net increase (decrease) in cash and cash equivalents	(864)	1,640
Cash and cash equivalents at beginning of period	13,877	7,581
	-----	-----
Cash and cash equivalents at end of period	\$ 13,013	\$ 9,221
	=====	=====
Supplemental disclosure of cash flow information:		
Interest paid	\$ 5,901	\$ 4,156
	=====	=====
Federal income taxes paid	\$ 573	\$ 475
	=====	=====
Supplemental disclosure of noncash investing activities:		
Noncash transfer from loans to other real estate and repossessions	\$ 98	\$ 65
	=====	=====
Unrealized gains (losses) on securities designated as available for sale, net of related tax effects	\$ (1,642)	\$ 95
	=====	=====

The accompanying notes are an integral part of these statements.

5

UNITED BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the six and three months ended June 30, 2006 and 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These interim financial statements are prepared without audit and reflect all adjustments which, in the opinion of management, are necessary to present fairly the financial position of United Bancorp, Inc. ("Company") at June 30, 2006, and its results of operations and cash flows for the six and three month periods presented herein. All such adjustments are normal and recurring in nature. The accompanying condensed consolidated financial statements have been prepared in accordance with the instructions for Form 10-Q and, therefore, do not purport to contain all the necessary financial disclosures required by accounting principles generally accepted in the United States of America that might otherwise be necessary in the circumstances and should be read in conjunction with the consolidated financial statements, and related notes thereto, of the Company for the year ended December 31, 2005 included in its Annual Report on Form 10-K. Reference is made to the accounting policies of the Company described

## Edgar Filing: UNITED BANCORP INC /OH/ - Form 10-Q

in the Notes to the Consolidated Financial Statements contained in its Annual Report on Form 10-K. The Company has consistently followed these policies in preparing this Form 10-Q.

### 1. Principles of Condensed Consolidation

The consolidated financial statements include the accounts of United Bancorp, Inc. ("UNITED" or "the Company") and its wholly-owned subsidiaries, The Citizens Savings Bank of Martins Ferry, Ohio ("CITIZENS") and The Community Bank, Lancaster, Ohio ("COMMUNITY"), (collectively hereinafter "the Banks"). All intercompany transactions and balances have been eliminated in consolidation.

### 2. Nature of Operations

The Company's revenues, operating income, and assets are almost exclusively derived from banking. Accordingly, all of the Company's banking operations are considered by management to be aggregated in one reportable operating segment. Customers are mainly located in Athens, Belmont, Carroll, Fairfield, Harrison, Hocking, and Tuscarawas Counties and the surrounding localities in northeastern, eastern and southeastern Ohio, and include a wide range of individuals, business and other organizations. CITIZENS conducts its business through its main office in Martins Ferry, Ohio and nine branches in Bridgeport, Colerain, Dellroy, Dover, Jewett, New Philadelphia, St. Clairsville, Sherrodsville, and Strasburg Ohio. COMMUNITY conducts its business through its main office in Lancaster, Ohio and six offices in Amesville, Glouster, Lancaster, and Nelsonville, Ohio. The Company's primary deposit products are checking, savings, and term certificate accounts, and its primary lending products are residential mortgage, commercial, and installment loans. Substantially all loans are secured by specific items of collateral including business assets, consumer assets and real estate. Commercial loans are expected to be repaid from cash flow from operations of businesses. Real estate loans are secured by both residential and commercial real estate. Net interest income is affected by the relative amount of interest-earning assets and interest-bearing liabilities and the interest received or paid on these balances. The level of interest rates paid or received by the Company can be significantly influenced by a number of environmental factors, such as governmental monetary policy, that are outside of management's control.

### 3. Use of Estimates

To prepare financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided and future results could differ. The allowance for loan losses and fair values of financial instruments are particularly subject to change.

6

UNITED BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six and three months ended June 30, 2006 and 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 4. Earnings Per Share

Edgar Filing: UNITED BANCORP INC /OH/ - Form 10-Q

Basic earnings per common share is computed based upon the weighted-average number of common shares outstanding during the year, less shares in the ESOP which are unallocated and not committed to be released. At June 30, 2006, the ESOP held 322,319 unallocated shares which were not included in weighted-average common shares outstanding. Diluted earnings per common share include the dilutive effect of additional potential common shares issuable under the Company's stock option plans. Earnings and dividends per share for the six and three months ended June 30, 2006 have been restated for the stock split in the form of a dividend declared and distributed in the fourth quarter of 2005.

The components used in the earnings per share computations were as follows:

	DOLLARS IN THOUSANDS			
	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2006	2005	2006	2005
<b>BASIC</b>				
Net earnings	\$ 287	\$ 881	\$ 989	\$ 1,7
Weighted average common shares outstanding	4,174,484	4,188,237	4,201,512	4,177,6
Basic earnings per common share	\$ 0.07	\$ 0.21	\$ 0.24	\$ 0.
<b>DILUTED</b>				
Net earnings	\$ 287	\$ 881	\$ 989	\$ 1,7
Weighted average common shares outstanding for basic earnings per common share	4,174,484	4,188,237	4,201,512	4,177,6
Add: Dilutive effects of assumed exercise of stock options	573	714	1,036	1,4
Average shares and dilutive potential common shares	4,175,057	4,188,951	4,202,548	4,179,0
Diluted earnings per common share	\$ 0.07	\$ 0.21	\$ 0.24	\$ 0.
Number of stock options not considered in computing diluted earnings per share due to antidilutive nature	39,092	22,042	22,042	22,0
Weighted average exercise price of dilutive stock options	\$ 10.70	\$ 13.41	\$ 10.94	\$ 13.

## Edgar Filing: UNITED BANCORP INC /OH/ - Form 10-Q

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 5. Stock Options

The Company maintains a nonqualified stock option plan for directors and officers. The exercise price for options granted under this plan is no less than 100% of the fair market value of the shares on the date of grant adjusted for stock splits in the form of a dividend.

Effective January 1, 2006, the Company accounts for its stock option plan in accordance with Statement of Financial Accounting Standards, ("SFAS") No. 123(R), "Share-Based Payment." This standard requires the Company to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. The Company elected to use the modified prospective transition method as permitted by SFAS No. 123(R) and therefore has not restated financial results for prior periods. The Company will recognize compensation cost for the portion of awards for which the requisite service period has not been rendered (unvested awards) that are outstanding as of January 1, 2006, as the remaining service is rendered. The after-tax compensation costs under SFAS No. 123(R) totaling \$4,000 and \$2,000 (\$6,000 and \$4,000 pretax) for the six and three months ended June 30, 2006 have been based upon the grant date fair value.

Prior to the adoption of SFAS No. 123(R), the Company presented tax benefits resulting from the exercise of stock options as operating cash flows in the Consolidated Statement of Cash Flows. SFAS No. 123 (R) requires that cash flows from the exercise of stock options resulting from tax benefits in excess of recognized cumulative compensation cost ("excess tax benefits") be classified as financing cash flows. Tax benefits related to the exercise of stock options totaling \$7,000 and \$114,000 for the six months ended June 30, 2006 and 2005 have been classified as financing activities.

Prior to January 1, 2006, the Company accounted for its stock option plan in accordance with SFAS No. 123, "Accounting for Stock-Based Compensation," contains a fair value-based method for valuing stock-based compensation that entities may use, which measures compensation cost at the grant date based on the fair value of the award. Compensation is then recognized over the service period, which is usually the vesting period. Alternatively, SFAS No. 123 permits companies to continue to account for stock options and similar equity investments under Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees." Entities that continued to account for stock options using APB No. 25 were required to make pro forma disclosures of net earnings and earnings per share as if the fair value-based method of accounting defined in SFAS No. 123 had been applied.

Prior to January 1, 2006, the Company applied APB Opinion No. 25 and related Interpretations in accounting for its stock option plan. Accordingly, no compensation cost has been recognized in 2005 for the plan. Had compensation cost for the Company's stock option plan been determined based on the fair value at the grant dates for awards under the plan consistent with the accounting method utilized in SFAS No. 123, the Company's net earnings and earnings per share would have been reported at the pro-forma amounts indicated in the table below.

## Edgar Filing: UNITED BANCORP INC /OH/ - Form 10-Q

For the six and three months ended June 30, 2006 and 2005

### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 5. Stock Options (continued)

		THREE MONTHS ENDED JUNE 30, 2005	SIX MONTHS ENDED JUNE 30, 2005
		-----	-----
		(Dollars in thousands)	
NET EARNINGS	As reported	\$ 881	\$1,702
	Stock-based compensation, net of tax	(8)	(10)
		-----	-----
	Pro-forma	\$ 873	\$1,692
		=====	=====
EARNINGS PER SHARE			
BASIC	As reported	0.21	\$ 0.41
	Stock-based compensation, net of tax	--	--
		-----	-----
	Pro-forma	\$0.21	\$ 0.41
		=====	=====
DILUTED	As reported	\$0.21	\$ 0.41
	Stock-based compensation, net of tax	--	--
		-----	-----
	Pro-forma	\$0.21	\$ 0.41
		=====	=====

All share and per share prices have been restated to reflect the stock split in the form of a dividend distributed in 2005. The fair value of each option granted in 2005 was estimated using the Black-Scholes options pricing model with the following assumptions; risk-free interest rate of 4.54%, dividend yield of 4.21% and expected volatility of 30.53%. No stock options were granted in 2006. Any option not exercised within the designated timeframe will be forfeited. All options become immediately exercisable upon retirement, death, or 9 1/2 years after issuance, or in the event of a change in control of the Company.

The expected term of the options is based on evaluations of historical and expected future employee exercise behavior. The risk free interest rate is based upon the U.S. Treasury rates at the date of grant with maturity dates approximately equal to the expected life at the grant date. Volatility is based upon historical volatility of the Company's stock.

There are no remaining options available for grant under the Company's plan as of June 30, 2006.

UNITED BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six and three months ended June 30, 2006 and 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Edgar Filing: UNITED BANCORP INC /OH/ - Form 10-Q

5. Stock Options (continued)

A summary of the status of the Company's stock option plan for the six months ended June 30, 2006 and 2005 is presented below:

	2006		2005	
	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE
Outstanding at January 1,	94,609	\$11.51	112,250	\$ 8.47
Granted	--	14.85	11,000	13.50
Exercised	(2,410)	7.56	(77,408)	7.21
Forfeited	(29,027)	11.22	(4,405)	7.21
Outstanding at June 30,	63,172	\$11.33	41,437	\$12.32
Options exercisable at period-end	2,737	\$13.11	6,335	\$10.71
Weighted-average fair value of options granted during the period		\$ --		\$ 3.11

The following table summarizes information about stock options outstanding at June 30, 2006:

EXERCISE PRICE	OPTIONS OUTSTANDING AT 6/30/06	DATE OF EXPIRATION	OPTIONS EXERCISABLE AT 6/30/06	REMAINING CONTRACTUAL LIFE
\$10.70	24,081	05/15/15	--	8.8 years
11.27	17,050	01/16/15	--	8.6 years
12.82	8,494	12/01/06	2,379	.5 years
13.50	11,000	8/23/14	--	8.0 years
15.02	2,547	07/07/07	358	1.0 years

6. Income Taxes

The Company accounts for federal income taxes pursuant to SFAS 109, "Accounting for Income Taxes." In accordance with SFAS No. 109, a deferred tax liability or deferred tax asset is computed by applying the current statutory tax rates to net taxable or deductible temporary differences between the tax basis of an asset or liability and its reported amount in the consolidated financial statements that will result in net taxable or deductible amounts in future periods. Deferred tax assets are recorded only to the extent that the amount of net deductible temporary differences or carryforward attributes may be utilized against current period earnings, carried back against prior years' earnings, offset against taxable temporary differences reversing in future periods, or utilized to the extent of management's estimate of future taxable income. A valuation allowance is provided for deferred tax assets to the extent that the value of net deductible temporary differences and carryforward attributes

## Edgar Filing: UNITED BANCORP INC /OH/ - Form 10-Q

exceeds management's estimates of taxes payable on future taxable income. Deferred tax liabilities are provided on the total amount of net temporary differences taxable in the future.

10

### UNITED BANCORP, INC.

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six and three months ended June 30, 2006 and 2005

#### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### 6. Income Taxes (continued)

Deferred income taxes result from different methods of accounting for deferred loan origination fees and costs, Federal Home Loan Bank stock dividends, mortgage servicing rights, the loan loss allowance, amortization of intangibles, deferred compensation and pension expense. Additionally, a temporary difference is recognized for depreciation computed using accelerated methods for federal income tax purposes.

##### 7. Recent Accounting Pronouncements

In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Instruments - an amendment of FASB Statements No. 133 and 140," to simplify and make more consistent the accounting for certain financial instruments. Specifically, SFAS No. 155 amends SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," to permit fair value remeasurement for any hybrid financial instrument with an embedded derivative that otherwise would require bifurcation, provided that the whole instrument is accounted for on a fair value basis. SFAS No. 155 amends SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities," to allow a qualifying special purpose entity to hold a derivative instrument that pertains to a beneficial interest other than another derivative financial instrument.

SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006, or January 1, 2007 as to the Corporation, with earlier application allowed. The Corporation is currently evaluating SFAS No. 155, but does not expect it to have a material effect on the Corporation's financial position or results of operations.

In March 2006, the FASB issued SFAS No. 156, "Accounting for Servicing of Financial Assets - an amendment of SFAS No. 140," to simplify the accounting for separately recognized servicing assets and servicing liabilities. Specifically, SFAS No. 156 amends SFAS No. 140 to require an entity to take the following steps:

- Separately recognize financial assets as servicing assets or servicing liabilities, each time it undertakes an obligation to service a financial asset by entering into certain kinds of servicing contracts;
- Initially measure all separately recognized servicing assets and liabilities at fair value, if practicable, and;
- Separately present servicing assets and liabilities subsequently measured at fair value in the statement of financial position and additional disclosures for all separately recognized servicing assets

and servicing liabilities.

UNITED BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six and three months ended June 30, 2006 and 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

7. Recent Accounting Pronouncements (continued)

Additionally, SFAS No. 156 permits, but does not require, an entity to choose either the amortization method or the fair value measurement method for measuring each class of separately recognized servicing assets and servicing liabilities. SFAS No. 156 also permits a servicer that uses derivative financial instruments to offset risks on servicing to use fair value measurement when reporting both the derivative financial instrument and related servicing asset or liability.

SFAS No. 156 applies to all separately recognized servicing assets and liabilities acquired or issued after the beginning of an entity's fiscal year that begins after September 15, 2006, or January 1, 2007 as to the Corporation, with earlier application permitted. The Corporation is currently evaluating SFAS No. 156, but does not expect it to have a material effect on the Corporation's financial position or results of operations.

NOTE B - ALLOWANCE FOR LOAN LOSSES

The activity in the allowance for loan losses was as follows:

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2006	2005	2006	2005
	-----			
	-----			
	(In thousands)			
Beginning balance	\$2,925	\$2,994	\$2,904	\$2,995
Provision for loan losses	302	116	404	260
Loans charged-off	(420)	(90)	(545)	(287)
Recoveries of previous charge-offs	32	91	76	143
	-----	-----	-----	-----
Ending balance	\$2,839	\$3,111	\$2,839	\$3,111
	=====	=====	=====	=====

Nonperforming loans were as follows:

	JUNE 30, 2006	DECEMBER 31, 2005
	-----	-----
	(In thousands)	

Edgar Filing: UNITED BANCORP INC /OH/ - Form 10-Q

Loans past due over 90 days still on accrual	\$ 574	\$ 417
Nonaccrual loans	\$1,533	\$1,144

As of June 30, 2006 and 2005, individually impaired loans were not material to the consolidated financial statements.

12

UNITED BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six and three months ended June 30, 2006 and 2005

NOTE C - BENEFIT PLANS

Pension expense consists of the following:

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2006	2005	2006	2005
	-----	-----	-----	-----
	(In thousands)			
Service cost	\$ 56	\$ 63	\$112	\$126
Interest cost	40	39	80	78
Expected return on assets	(43)	(38)	(86)	(76)
Amortization of prior service cost, transition liability, net gain, and plan amendment	7	14	14	28
	-----	-----	-----	-----
Pension expense	\$ 60	\$ 78	\$120	\$156
	=====	=====	=====	=====

NOTE D - 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.

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,	DECEMBER 31,
2006	2005
-----	-----

# Edgar Filing: UNITED BANCORP INC /OH/ - Form 10-Q

(Unaudited)  
(In thousands)

Commitments to extend credit	\$33,682	\$29,617
Credit card and ready reserve lines	1,934	2,028
Standby letters of credit	807	855

13

## UNITED BANCORP, INC.

### ITEM 2. 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, 2006, as compared to December 31, 2005 and the results of operations for the six and three months ended June 30, 2006 compared to the same periods in 2005. This discussion should be read in conjunction with the interim condensed consolidated financial statements and related footnotes included herein.

#### 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 Banks' market areas, changes in policies by regulatory agencies, fluctuations in interest rates, demand for loans in the Banks' 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 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.

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.

Management makes certain judgments that affect the amounts reported in the financial statements and footnotes. These estimates, assumptions and judgements 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 judgement.

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 judgement regarding matters where the ultimate outcome is unknown such as economic factors, development affecting companies in specific industries and issues with respect to single borrowers.

## Edgar Filing: UNITED BANCORP INC /OH/ - Form 10-Q

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.

The allowance is regularly reviewed by management 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 judgement is a review of each 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 judgement about the credit quality of the loan portfolio. While the Company strives to reflect all known risk factors in its evaluation, judgement errors may occur.

14

UNITED BANCORP, INC.

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

#### Analysis of Financial Condition

##### Earning Assets - Loans

At June 30, 2006, gross loans were \$236.3 million, compared to \$232.0 million at year-end 2005, an increase of \$4.3 million or 1.8%. The increase in total outstanding loans was the result of an increase in the commercial real estate and installment portfolios. Management attributes the relatively strong increase in commercial loans to the gradual strengthening of the economic environment in the lending markets served.

Installment loans represented 17.8% of total loans at June 30, 2006 compared to 18.9% at December 31, 2005. This indirect lending type of financing carries somewhat more risk than real estate lending, however, it also provides for higher yields. The targeted lending areas encompass four metropolitan areas, minimizing the risk to changes in economic conditions in the communities housing the Company's 17 branch locations. Management has employed the strategy of focusing on adjustable rate products for the past two years to position the Company for a continuing increase in interest rates.

Commercial and commercial real estate loans comprised 57.9% of total loans at June 30, 2006 compared to 56.2% at December 31, 2005. Commercial and commercial real estate loans have increased \$6.5 million or 4.9% since December 31, 2005. The Company has originated and purchased commercial loan participations from out-of-area banks to benefit from favorable economic growth outside the Company's primary market area. The majority of these loans are secured by real estate holdings comprised of hotels, motels and churches located in the Columbus and the Akron-Canton, Ohio metropolitan areas.

Real estate loans were 24.1% of total loans at June 30, 2006 and 24.9% at year-end 2005. Real estate loans decreased by 1.3% or \$765,000 since December

## Edgar Filing: UNITED BANCORP INC /OH/ - Form 10-Q

31, 2005. Real estate lending for the first quarter of 2006 has been extremely slow with respect to the Company's adjustable rate mortgage products

The allowance for loan losses 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. Net charge-offs for the six months ended June 30, 2006 were approximately \$469,000, or 16.5%, of the beginning balance in the allowance for loan losses.

15

UNITED BANCORP, INC.

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

Analysis of Financial Condition (continued)

Earning Assets - Securities and Federal Funds Sold

The securities portfolio is comprised of U.S. Government agency-backed securities, tax-exempt obligations of states and political subdivisions and certain other investments. The Company does not hold any collateralized mortgage-backed securities other than those issued by U.S. government agencies, or derivative securities. The quality rating of obligations of state and political subdivisions within Ohio is no less than Aaa, Aa or A, with all out-of-state bonds rated at AAA. Board policy permits the purchase of certain non-rated bonds of local schools, townships and municipalities, based on their estimated levels of credit risk. Securities available for sale at June 30, 2006 increased approximately \$3.3 million, or 2.7% from year-end 2005 totals. During the six months ended June 30, 2006, the Company sold approximately \$11.2 million of the securities portfolio at a loss of \$350,000. The sale proceeds were deployed to higher yielding securities whereby the loss will be recovered over a two year period. Securities held to maturity at June 30, 2006 decreased approximately \$603,000, or 3.0% compared to year-end 2005 totals.

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 \$100,000. For the period ended June 30, 2006, total core deposits increased approximately \$13.8 million, or 5.2%. The Company's interest-bearing demand deposits increased \$14.1 million or 17.2%, noninterest-bearing demand deposits increased \$401,000, or 1.5%, while certificates of deposits under \$100,000 increased by \$2.7 million, or 2.3%. As part of a strategic focus to grow deposits, the Company introduced a new premium rate money market index account with a guaranteed interest rate for 180 days. In addition to paying a premium interest rate, a debit/ATM named the "Freedom Card" is issued with the account. The benefit of the Freedom Card is to allow our customers to use any ATM in the continental United States without a service fee.

The Company has a strong deposit base from public agencies, including local school districts, city and township municipalities, public works facilities and

## Edgar Filing: UNITED BANCORP INC /OH/ - Form 10-Q

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 \$100,000 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, 2006, certificates of deposit greater than \$100,000 increased \$773,000, or 2.0%, from year-end 2005 totals.

COMMUNITY has developed several large depository customers. As of June 30, 2006, the nine largest depository customers accounted for approximately 27.8% of COMMUNITY'S certificate of deposits and approximately 75.7% of total certificates of deposits greater than \$100,000. These customers also represent 16.4% of COMMUNITY'S demand deposits at June 30, 2006. Total concentration of retail funding is approximately 39.6% of COMMUNITY'S total deposits at June 30, 2006. On a consolidated level, this represents approximately 7.1% of total retail deposits at June 30, 2006, unchanged from December 31, 2005. This deposit concentration does pose possible liquidity and earnings risk for COMMUNITY. The earnings risks would be triggered if COMMUNITY would be placed in a position to sell assets below book value to meet current liquidity needs. This risk is mitigated with COMMUNITY'S capability to borrow via wholesale funding from correspondent banks. Management has an active asset/liability committee that monitors, among other items, monthly liquidity needs on a 90 day time horizon.

16

UNITED BANCORP, INC.

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

#### Analysis of Financial Condition (continued)

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

Other interest-bearing liabilities include securities sold under agreements to repurchase, sweep accounts, federal funds purchased, Treasury, Tax and Loan notes payable and Federal Home Loan Bank ("FHLB") advances. In the first six months of 2006, the Company continued to utilize the FHLB programs to manage interest rate risk and liquidity positions. The majority of the Company's repurchase agreements are with local school districts and city and county governments. Total borrowings, including federal funds purchased, decreased approximately \$6.7 million, or 9.1% from year-end 2005 totals.

##### Results of Operations for the Six Months Ended June 30, 2006 and 2005

##### Net Income

Basic and diluted earnings per share for the six months ended June 30, 2006 totaled \$0.24, compared with \$0.41 for the six months ended June 30, 2005. In dollars, net income decreased by \$713,000, or 41.9%, for the six months ended June 30, 2006, compared to the same period in 2005.

On March 2, 2006, James W. Everson was appointed President and Chief Executive Officer of The Community Bank after the bank did not meet its 2006 business plan by posting losses in January and February. Management developed three strategic initiatives in June aimed at enhancing future profitability of The Community

## Edgar Filing: UNITED BANCORP INC /OH/ - Form 10-Q

Bank and UBCP. First, The Community Bank took a charge against earnings of approximately \$330,000 relative to the bond portfolio. With our current reinvestment strategy, management anticipates this loss to be recouped in just slightly over two years, while the average life of the bonds sold was approximately four years. Second, a \$90,000 charge against earnings was taken to improve the profitability and customer service related to Community's ATM and credit card platforms. Finally, an additional \$210,000 was charged in loan loss provision expense against earnings to replenish the loan loss reserve account at The Community Bank for loans charged off during the quarter. These actions, which are being taken to improve UBCP's future financial performance, will have a minimal impact on the Company's capital and are currently projected to have no effect on its dividend policy.

### 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 decreased 3.3% or \$216,000 for the six months ended June 30, 2006, compared to the same period in 2005, due primarily to a rising interest rate environment that adversely impacted the Company's costs of funds.

Total interest income for the six months ended June 30, 2006 was \$12.3 million, compared to \$10.7 million for the same period in 2005. Total interest income increased \$1.6 million, or 15.3%. The increase can be attributed to favorable repricing on adjustable rate loans, and to a lesser extent, growth of the loan portfolio.

Total interest expense for the six months ended June 30, 2006 when compared to the same six-month period ended June 30, 2005, increased 44.8%, or \$1.9 million. The Company has experienced a significant increase in interest expense during 2006, due primarily to the negative effects of a rising interest rate environment

17

UNITED BANCORP, INC.

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

Results of Operations for the Six Months Ended June 30, 2006 and 2005  
(continued)

#### Provision for Loan Losses

The provision for loan losses was \$404,000 for the six months ended June 30, 2006, compared to \$260,000 for the same period in 2005. At June 30, 2006 the allowance for loan losses to total gross loans was 1.20% as compared to 1.25% at December 31, 2005. The allowance for loan losses to nonperforming loans was 134.74% at June 30, 2006, compared to 186.03% at December 31, 2005. The increase in provision for the six month period ended June 30, 2006 is due to increased charge-offs at the Company's COMMUNITY affiliate.

#### Noninterest Income

Total noninterest income is made up of bank related fees and service charges, as

## Edgar Filing: UNITED BANCORP INC /OH/ - Form 10-Q

well as other income producing services provided, sale of secondary market loans, 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.

Noninterest income for the six months ended June 30, 2006 was \$892,000, compared to \$1.2 million for the same six-month period ended June 30, 2005, a decrease of approximately 22.8% or \$263,000. The decline is mainly attributable to a \$350,000 realized loss on sale of securities for the six months ended June 30, 2006, compared to a \$6,000 realized loss for the same period in 2005. Management's sale strategy in June 2006 was largely predicated on a payback period of 2 years based on reinvesting those funds in 4 year bonds at increased interest rates.

### Noninterest Expense

Noninterest expense for the six months ended June 30, 2006 increased \$470,000 or 8.9% over the six months ended June 30, 2005. Salaries and employee benefits costs increased \$217,000 or 8.1% mainly due to annual merit increases and higher costs related to the Company's benefit and insurance plans. Occupancy expense increased \$62,000 or 9.5% due to \$90,000 charges related to the enhancement of the COMMUNITY affiliates ATM and credit card platforms.

### Results of Operations for the Three Months Ended June 30, 2006 and 2005

#### Net Income

Basic and diluted earnings per share for the three months ended June 30, 2006 totaled \$0.07, compared with \$0.21 for the three months ended June 30, 2005. In dollars, net earnings decreased by \$594,000, or 67.4%, for the three months ended June 30, 2006, compared to the same quarter in 2005.

#### 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 decreased 3.6%, or \$118,000, for the three months ended June 30, 2006, compared to the same period in 2005, due primarily to continuing increases in interest rates adversely impacting the Company's costs of funds.

18

UNITED BANCORP, INC.

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

#### Results of Operations for the Three Months Ended June 30, 2006 and 2005 (continued)

#### Net Interest Income (continued)

Total interest income for the three months ended June 30, 2006 was \$6.3 million compared to \$5.4 million for the same period in 2006, an increase of \$873,000, or 16.0%. The increase can be attributed to favorable upward interest rate adjustments, as well as overall growth of the loan portfolio from June 30, 2005

## Edgar Filing: UNITED BANCORP INC /OH/ - Form 10-Q

to June 30, 2006.

Total interest expense for the three months ended June 30, 2006, as compared to the same three-month period ended June 30, 2005, increased by 45.9%, or \$991,000. The Company has experienced an increase in interest expense due to growth in interest-bearing liabilities, as well as the effect of a higher interest rate environment for the 2006 period, as compared to 2005.

### Provision for Loan Losses

The provision for loan losses was \$302,000 for the three months ended June 30, 2006 compared to \$116,000 for the same period in 2005. The increase in provision for three month period ended June 30, 2006 is primarily attributable due to increased charge-offs during 2006 at the COMMUNITY affiliate.

### Noninterest Income

Total noninterest income is made up of bank related fees and service charges, as well as other income producing services provided, sale of secondary market loans, 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.

Noninterest income for the three months ended June 30, 2006 was \$280,000 compared to \$589,000 for the same three-month period ended June 30, 2005, a decrease of approximately 52.5%, or \$309,000. The Company's security portfolio incurred a \$320,000 realized loss for the three months ended June 30, 2006, compared to a \$9,000 realized loss for the same period in 2005, resulting in a decrease in noninterest income of \$311,000 from 2005 to 2006. As stated previously, management's strategy took into consideration a payback period of just over 2 years by reinvesting sale proceeds in higher market interest rates.

### Noninterest Expense

Noninterest expense for the three months ended June 30, 2006 increased \$301,000, or 11.4%, over the three months ended June 30, 2005. Salaries and employee benefits expense increased \$119,000 or 9.1% mainly due to annual merit increases and higher costs related to the Company's benefit and insurance plans. Occupancy expense increased \$62,000 or 19.1% due to the aforementioned \$90,000 charge to improve the profitability and customer service related to COMMUNITY'S ATM and credit card platforms.

19

UNITED BANCORP, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

Results of Operations for the Three Months Ended June 30, 2006 (continued)

### Capital Resources

Internal capital growth, through the retention of earnings, is the primary means of maintaining capital adequacy for the Company. Shareholders' equity at June 30, 2006, totaled \$30.4 million compared to \$32.5 million at December 31, 2005, a 6.3% decrease. Total shareholders' equity in relation to total assets was 7.25% at June 30, 2006 and 7.88% at December 31, 2005. In May 2001, our shareholders approved an amendment to the Company's Articles of Incorporation to

## Edgar Filing: UNITED BANCORP INC /OH/ - Form 10-Q

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 exercised to date.

The Company has 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 multi-bank holding company. The affiliate banks are subject to regulations of the Federal Deposit Insurance Corporation (FDIC) and the State of Ohio, Division of Financial Institutions. The most important of these various regulations address capital adequacy.

The minimums related to such capital requirements are:

	TOTAL CAPITAL TO RISK-WEIGHTED ASSETS -----	TIER 1 CAPITAL TO RISK-WEIGHTED ASSETS -----	TIER 1 CAPITAL TO AVERAGE ASSETS -----
Well capitalized	10.00%	6.00%	5.00%
Adequately capitalized	8.00%	4.00%	4.00%
Undercapitalized	6.00%	3.00%	3.00%

The following table illustrates the Company's well-capitalized classification at June 30, 2006:

JUNE 30, 2006 ----- (Unaudited) (Dollars in thousands)	
Tier 1 capital	\$ 38,206
Total risk-based capital	\$ 41,045
Risk-weighted assets	\$265,104
Average total assets	\$414,632
Tier 1 capital to average assets	9.21%
Tier 1 risk-based capital ratio	14.41%
Total risk-based capital ratio	15.48%

## Edgar Filing: UNITED BANCORP INC /OH/ - Form 10-Q

Results of Operations for the Three Months Ended June 30, 2006 (continued)

### 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 earnings, 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 GAAP in the United States of America (GAAP). 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, impaired loans and other real estate loans that are 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, 2005

### 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-15e. 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, 2006 in timely alerting them to material information relating to the Company (including its consolidated subsidiaries) 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, 2006 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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 for 10K for the year ended December 31, 2005, filed on March 30, 2006.

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 APPROXIMATE DOLLA OF SHARES (OR UNI MAY YET BE PURCHAS THE PLANS OR PR
Month #1 4/1/2006 to 4/30/2006	953	\$10.70	953	1,550,705
Month #2 5/1/2006 to 5/31/2006	3042	\$11.30	3042	1,516,340
Month #3 6/1/2006 to 6/30/2006	29,719	\$10.98	29,719	1,190,025

United Bancorp purchased these shares under a stock purchase program publicly announced by a press release issued on November 16, 2005, under which its Board of Directors authorized management to cause the Company to purchase up to \$2 million of its common shares over a two-year period. Such authorization will expire on November 15, 2007.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

# Edgar Filing: UNITED BANCORP INC /OH/ - Form 10-Q

## PART II - OTHER INFORMATION (CONTINUED)

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The annual meeting of the shareholders of United Bancorp, Inc. was held on April 19, 2006 for the purpose of electing three Directors to hold office until the annual meeting of shareholders to be held in 2008. Proxies for the meeting were solicited pursuant to Section 14(a) of the Securities Exchange Act of 1934 and there was no solicitation in opposition to management's nominees. All of management's nominees for Director as listed in the proxy statement were elected by the votes set forth below:

Nominee -----	For -----	Withheld -----
Michael J. Arciello	3,714,568	66,312
Terry A. McGhee	3,731,318	49,562
L. E. Richardson, Jr.	3,748,113	32,767

Other directors whose terms continue after the Annual Meeting of Shareholders are James W. Everson, John M. Hoopingarner, Richard L. Riesbeck and Matthew C. Thomas.

### ITEM 5. OTHER INFORMATION

None

### ITEM 6. EXHIBITS

#### Exhibit No. -----

- 3.1 Amended Articles of Incorporation of United Bancorp, Inc.(1)
- 3.2 Amended Code of Regulations of United Bancorp, Inc.(2)
- 4.0 Instruments Defining the Rights of Security Holders (See Exhibits 3.1 and 3.2)
- 10.1 Form of Special Severance Agreement executed by and between the Company and each of James W. Everson, Chairman, President & CEO; Randall M. Greenwood, Senior Vice President, CFO and Treasurer; Scott A. Everson, Senior Vice President & Chief Operating Officer; James A. Lodes, Vice President & Chief Lending Officer; Michael A. Lloyd, Vice President-Information Systems; and Norman F. Assenza, Jr., Vice President-Operations and Secretary(3)
- 10.2 United Bancorp, Inc. and United Bancorp, Inc. Affiliate Banks Directors and Officers Deferred Compensation Plan, as amended(3)
- 31.1 Rule 13a-14(a) Certification - CEO
- 31.2 Rule 13a-14(a) Certification - CFO
- 32.1 Section 1350 Certification - CEO

Edgar Filing: UNITED BANCORP INC /OH/ - Form 10-Q

32.2 Section 1350 Certification - CFO

- (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 Appendix C to the registrant's Definitive Proxy Statement filed with the Securities and Exchange Commission on March 14, 2001.
- (3) Incorporated by reference to the Company's current report on Form 8-K filed on April 26, 2006

23

UNITED BANCORP, INC.

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 14, 2006

By: /s/ James W. Everson

-----  
James W. Everson  
Chairman, President and Chief  
Executive Officer

Date: August 14, 2006

By: /s/ Randall M. Greenwood

-----  
Randall M. Greenwood  
Senior Vice President, Chief  
Financial Officer and Treasurer

24

EXHIBIT INDEX

Exhibit No.	Description
-----	-----
3.1	Amended Articles of Incorporation of United Bancorp, Inc. (incorporated by reference to Appendix B to the registrant's Definitive Proxy Statement filed with the Securities and Exchange Commission on March 14, 2001)
3.2	Amended Code of Regulations of United Bancorp, Inc. (incorporated

## Edgar Filing: UNITED BANCORP INC /OH/ - Form 10-Q

by reference to Appendix C to the registrant's Definitive Proxy Statement filed with the Securities and Exchange Commission on March 14, 2001)

- 4.0 Instruments Defining the Rights of Security Holders (See Exhibits 3.1 and 3.2)
  
- 10.1 Form of Special Severance Agreement executed by and between the Company and each of James W. Everson, Chairman, President & CEO; Randall M. Greenwood, Senior Vice President, CFO and Treasurer; Scott A. Everson, Senior Vice President & Chief Operating Officer; James A. Lodes, Vice President & Chief Lending Officer; Michael A. Lloyd, Vice President-Information Systems; and Norman F. Assenza, Jr., Vice President-Operations and Secretary (incorporated by reference to the Company's current report on Form 8-K filed on April 26, 2006)
  
- 10.2 United Bancorp, Inc. and United Bancorp, Inc. Affiliate Banks Directors and Officers Deferred Compensation Plan, as amended (incorporated by reference to the Company's current report on Form 8-K filed on April 26, 2006)
  
- 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