

UNITY BANCORP INC /NJ/  
Form 10-Q  
August 12, 2011

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, 2011

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.  
(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, or a nonaccelerated filer (as defined in Exchange Act Rule 12b-2):  
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

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The number of shares outstanding of each of the registrant's classes of common equity stock, as of August 1, 2011  
common stock, no par value: 7,412,397 shares outstanding

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## Table of Contents

	Page #
PART I	<u>CONSOLIDATED FINANCIAL INFORMATION</u>
ITEM 1	<u>Consolidated Financial Statements (Unaudited)</u>
	<u>Consolidated Balance Sheets at June 30, 2011, December 31, 2010, and June 30, 2010</u> 1
	Consolidated Statements of Income for the three and six months ended June 30, 2011 and 2010 2
	<u>Consolidated Statements of Changes in Shareholders' Equity for the six months ended June 30, 2011 and 2010</u> 3
	<u>Consolidated Statements of Cash Flows for the six months ended June 30, 2011 and 2010</u> 4
	<u>Notes to the Consolidated Financial Statements</u> 5
ITEM 2	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> 22
ITEM 3	<u>Quantitative and Qualitative Disclosures about Market Risk</u> 36
ITEM 4	<u>Controls and Procedures</u> 36
PART II	<u>OTHER INFORMATION</u> 37
ITEM 1	<u>Legal Proceedings</u> 37
ITEM 1A	<u>Risk Factors</u> 37
ITEM 2	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u> 37
ITEM 3	<u>Defaults upon Senior Securities</u> 37
ITEM 4	<u>Reserved</u> 37
ITEM 5	<u>Other Information</u> 37
ITEM 6	<u>Exhibits</u> 37
<u>SIGNATURES</u>	37

EXHIBIT INDEX

	38
Exhibit 31.1	40
Exhibit 31.2	41
Exhibit 32.1	42

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## PART I - CONSOLIDATED FINANCIAL INFORMATION

## Item 1. Consolidated Financial Statements (Unaudited)

Unity Bancorp, Inc.  
Consolidated Balance Sheets  
(Unaudited)

Amounts in thousands, except percentages	June 30, 2011	December 31, 2010	June 30, 2010
<b>ASSETS</b>			
Cash and due from banks	\$ 12,915	\$ 17,637	\$ 18,016
Federal funds sold and interest-bearing deposits	33,367	26,289	37,478
Cash and cash equivalents	46,282	43,926	55,494
Securities:			
Securities available for sale, at fair value	101,872	107,131	121,628
Securities held to maturity (fair value of \$13,855, \$21,351, and \$22,563, respectively)	13,316	21,111	22,034
Total securities	115,188	128,242	143,662
Loans:			
SBA loans held for sale	13,753	10,397	22,093
SBA loans held to maturity	71,429	75,741	73,298
SBA 504 loans	55,810	64,276	65,343
Commercial loans	287,785	281,205	285,173
Residential mortgage loans	134,782	128,400	132,993
Consumer loans	51,546	55,917	58,280
Total loans	615,105	615,936	637,180
Allowance for loan losses	(16,018 )	(14,364 )	(13,946 )
Net loans	599,087	601,572	623,234
Premises and equipment, net	10,650	10,967	11,348
Bank owned life insurance (BOLI)	8,959	8,812	8,653
Deferred tax assets	6,756	7,550	7,485
Federal Home Loan Bank stock, at cost	4,088	4,206	4,656
Accrued interest receivable	3,692	3,791	3,972
Prepaid FDIC insurance	2,720	3,266	3,836
Other real estate owned (OREO)	2,722	2,346	3,728
Goodwill and other intangibles	1,537	1,544	1,552
Other assets	4,482	2,188	2,115
<b>Total Assets</b>	<b>\$ 806,163</b>	<b>\$ 818,410</b>	<b>\$ 869,735</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Liabilities:</b>			
<b>Deposits:</b>			
Noninterest-bearing demand deposits	\$ 94,547	\$ 91,272	\$ 87,908

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Interest-bearing demand deposits	93,730	105,530	98,316
Savings deposits	285,651	277,394	291,355
Time deposits, under \$100,000	106,880	119,478	143,617
Time deposits, \$100,000 and over	60,359	61,114	72,036
Total deposits	641,167	654,788	693,232
Borrowed funds	75,000	75,000	87,672
Subordinated debentures	15,465	15,465	15,465
Accrued interest payable	570	556	661
Accrued expenses and other liabilities	1,754	2,516	3,072
Total liabilities	733,956	748,325	800,102
Commitments and contingencies	-	-	-
Shareholders' equity:			
Cumulative perpetual preferred stock	19,278	19,019	18,770
Common stock	53,590	55,884	55,592
Accumulated deficit	(1,757 )	(772 )	(815 )
Treasury stock at cost	-	(4,169 )	(4,169 )
Accumulated other comprehensive income	1,096	123	255
Total Shareholders' Equity	72,207	70,085	69,633
Total Liabilities and Shareholders' Equity	\$ 806,163	\$ 818,410	\$ 869,735
Preferred shares	21	21	21
Issued common shares	7,412	7,636	7,579
Outstanding common shares	7,412	7,211	7,154

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

Unity Bancorp  
Consolidated Statements of Income  
(Unaudited)

(In thousands, except per share amounts)	For the three months ended		For the six months	
	June 30,		ended June 30,	
	2011	2010	2011	2010
<b>INTEREST INCOME</b>				
Federal funds sold and interest-bearing deposits	\$ 9	\$ 29	\$ 20	\$ 55
Federal Home Loan Bank stock	35	49	101	83
Securities:				
Available for sale	891	1,054	1,754	2,334
Held to maturity	180	250	468	588
Total securities	1,071	1,304	2,222	2,922
Loans:				
SBA loans	1,191	1,300	2,427	2,752
SBA 504 loans	834	1,091	1,789	2,177
Commercial loans	4,581	4,488	8,887	9,092
Residential mortgage loans	1,846	1,959	3,677	3,921
Consumer loans	629	724	1,315	1,455
Total loans	9,081	9,562	18,095	19,397
Total interest income	10,196	10,944	20,438	22,457
<b>INTEREST EXPENSE</b>				
Interest-bearing demand deposits	143	188	283	446
Savings deposits	584	728	1,165	1,629
Time deposits	1,045	1,687	2,140	3,500
Borrowed funds and subordinated debentures	953	1,078	1,904	2,155
Total interest expense	2,725	3,681	5,492	7,730
Net interest income	7,471	7,263	14,946	14,727
Provision for loan losses	1,750	1,500	4,250	3,000
Net interest income after provision for loan losses	5,721	5,763	10,696	11,727
<b>NONINTEREST INCOME</b>				
Branch fee income	337	331	680	692
Service and loan fee income	384	245	627	454
Gain on sale of SBA loans held for sale, net	399	147	510	147
Gain on sale of mortgage loans	87	112	256	258
Bank owned life insurance (BOLI)	74	78	147	151
Net security gains (losses)	(39)	4	87	8
Other income	205	253	395	370
Total noninterest income	1,447	1,170	2,702	2,080
<b>NONINTEREST EXPENSE</b>				
Compensation and benefits	2,880	2,822	5,937	5,821
Occupancy	827	608	1,546	1,285
Processing and communications	537	555	1,044	1,080
Furniture and equipment	410	447	794	870
Professional services	192	199	394	428

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Loan collection costs	201	243	425	427
OREO expense	223	157	445	187
Deposit insurance	282	320	601	650
Advertising	205	241	323	348
Other expenses	490	448	897	885
Total noninterest expense	6,247	6,040	12,406	11,981
Income before provision for income taxes	921	893	992	1,826
Provision for income taxes	277	212	129	397
Net income	644	681	863	1,429
Preferred stock dividends & discount accretion	395	379	778	752
Income available to common shareholders	\$ 249	\$ 302	\$ 85	\$ 677
Net income per common share - Basic	\$ 0.03	\$ 0.04	\$ 0.01	\$ 0.09
- Diluted	\$ 0.03	\$ 0.04	\$ 0.01	\$ 0.09
Weighted average common shares outstanding - Basic	7,271	7,156	7,245	7,153
Diluted	7,710	7,475	7,688	7,392

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, 2011 and 2010

(In thousands)	Preferred Stock	Common Stock Shares	Common Stock Amount	Retained Earnings (Deficit)	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance, December 31, 2009	\$ 18,533	7,144	\$ 55,454	\$ (1,492)	\$ (4,169)	\$ (461)	\$ 67,865
Comprehensive income:							
Net income				1,429			1,429
Net unrealized gains on securities						666	666
Net unrealized gains on cash flow hedge derivatives						50	50
Total comprehensive income							2,145
Accretion of discount on preferred stock	237			(237)			-
Dividends on preferred stock (5% annually)				(515)			(515)
Common stock issued and related tax effects (a)		10	138				138
Balance, June 30, 2010	\$ 18,770	7,154	\$ 55,592	\$ (815)	\$ (4,169)	\$ 255	\$ 69,633

(In thousands)	Preferred Stock	Common Stock Shares	Common Stock Amount	Retained Earnings (Deficit)	Treasury Stock	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance, December 31, 2010	\$ 19,019	7,211	\$ 55,884	\$ (772)	\$ (4,169)	\$ 123	\$ 70,085
Comprehensive income:							
Net income				863			863
Net unrealized gains on securities						814	814
Net unrealized gains on cash flow hedge derivatives						159	159
Total comprehensive income							1,836
Accretion of discount on preferred stock	259			(259)			-
Dividends on preferred stock (5% annually)				(521)			(521)
Retire Treasury stock			(3,101)	(1,068)	4,169		-

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Common stock issued and related tax effects (a)		201		807				807
Balance, June 30, 2011	\$ 19,278	7,412	\$ 53,590	\$ (1,757)	\$ -	\$ 1,096	\$ 72,207	

(a) 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.

Unity Bancorp, Inc.  
Consolidated Statements of Cash Flows  
(Unaudited)

(In thousands)	For the six months ended June 30,	
	2011	2010
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 863	\$ 1,429
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	4,250	3,000
Net amortization of purchase premiums and discounts on securities	265	514
Depreciation and amortization	495	609
Deferred income tax expense (benefit)	147	(664)
Net security gains	(87 )	(8)
Stock compensation expense	77	140
(Gain) Loss on sale of other real estate owned	(51 )	