

UNION BANKSHARES INC  
Form 10-Q  
August 14, 2009

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

OR

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

For the quarterly period ended: June 30, 2009

Commission file number: 001-15985

UNION BANKSHARES, INC.

VERMONT

03-0283552

P.O. BOX 667

MAIN STREET

MORRISVILLE, VT 05661

Registrant's telephone number: 802-888-6600

Former name, former address and former fiscal year, if changed since last report: Not applicable

**Securities registered pursuant to section 12(b) of the Act:**

Common Stock, \$2.00 par value  
(Title of class)

Nasdaq Stock Market  
(Exchanges registered on)

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  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of August 6, 2009:

Common Stock, \$2 par value

4,463,688 shares



UNION BANKSHARES, INC.

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**Part I Financial Information****Item 1. Financial Statements****UNION BANKSHARES, INC. AND SUBSIDIARY****CONSOLIDATED BALANCE SHEETS**

(Unaudited)

	<b>June 30, 2009</b>	<b>December 31, 2008</b>
<i>Assets</i>		
(Dollars in thousands)		
Cash and due from banks	\$ 5,453	\$ 4,793
Federal funds sold and overnight deposits	5,457	21,537
Cash and cash equivalents	10,910	26,330
Interest bearing deposits in banks	9,779	14,789
Investment securities available-for-sale	22,810	27,834
Loans held for sale	16,722	3,178
Loans	346,780	350,238
Allowance for loan losses	(3,565)	(3,556)
Unearned net loan fees	(42)	(107)
Net loans	343,173	346,575
Accrued interest receivable	1,949	1,939
Premises and equipment, net	7,602	7,461
Other assets	11,935	11,998
<b>Total assets</b>	<b>\$ 424,880</b>	<b>\$ 440,104</b>
<b><i>Liabilities and Stockholders Equity</i></b>		
<b><i>Liabilities</i></b>		
Deposits		
Noninterest bearing	\$ 54,019	\$ 61,315

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Interest bearing	293,869	303,055
Total deposits	347,888	364,370
Borrowed funds	28,514	27,416
Liability on defined benefit pension plan	4,483	5,232
Accrued interest and other liabilities	4,459	3,936
<b><i>Total liabilities</i></b>	<b>385,344</b>	<b>400,954</b>

***Commitments and Contingencies***

***Stockholders Equity***

Common stock, \$2.00 par value; 7,500,000 shares authorized; 4,921,786 shares issued at June 30, 2009 and December 31, 2008	9,844	9,844
Paid-in capital	213	207
Retained earnings	36,001	35,869
Treasury stock at cost; 453,243 shares at June 30, 2009 and 447,188 shares at December 31, 2008	(3,607)	(3,500)
Accumulated other comprehensive loss	(2,915)	(3,270)
<b><i>Total stockholders equity</i></b>	<b>39,536</b>	<b>39,150</b>
 <b><i>Total liabilities and stockholders equity</i></b>	 <b>\$ 424,880</b>	 <b>\$ 440,104</b>

See accompanying notes to unaudited interim consolidated financial statements.

## UNION BANKSHARES, INC. AND SUBSIDIARY

## CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	(Dollars in thousands except Per Share Data)			
<b><i>Interest income</i></b>				
Interest and fees on loans	\$5,405	\$5,594	\$10,816	\$11,279
Interest on debt securities				
Taxable	222	270	457	586
Tax exempt	76	81	155	165
Dividends	1	17	1	39
Interest on federal funds sold and overnight deposits	3	28	5	59
Interest on interest bearing deposits in banks	106	105	229	231
Total interest income	5,813	6,095	11,663	12,359
<b><i>Interest expense</i></b>				
Interest on deposits	1,064	1,481	2,251	3,137
Interest on borrowed funds	294	296	595	564
Total interest expense	1,358	1,777	2,846	3,701
<b><i>Net interest income</i></b>	<b>4,455</b>	<b>4,318</b>	<b>8,817</b>	<b>8,658</b>
<b><i>Provision for loan losses</i></b>	<b>75</b>	<b>90</b>	<b>170</b>	<b>140</b>
<b><i>Net interest income after provision for loan losses</i></b>	<b>4,380</b>	<b>4,228</b>	<b>8,647</b>	<b>8,518</b>
<b><i>Noninterest income</i></b>				
Trust income	91	100	182	193
Service fees	915	897	1,766	1,752
Net gains on sales of investment securities available-for-sale	23	16	44	16
Net gains on sales of loans held for sale	186	30	486	201
Other income	57	139	145	153
Total noninterest income	1,272	1,182	2,623	2,315
<b><i>Noninterest expenses</i></b>				
Salaries and wages	1,482	1,604	2,979	3,189
Pension and employee benefits	715	706	1,415	1,374

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Occupancy expense, net	224	223	517	491
Equipment expense	281	317	580	609
FDIC insurance assessment	333	14	465	23
Other expenses	1,121	1,078	2,190	2,097
Total noninterest expenses	4,156	3,942	8,146	7,783
<i>Income before provision for income taxes</i>	1,496	1,468	3,124	3,050
<i>Provision for income taxes</i>	261	278	622	454
<i>Net income</i>	\$1,235	\$1,190	\$ 2,502	\$ 2,596
<i>Earnings per common share</i>	\$0.28	\$0.27	\$0.56	\$0.58
<i>Weighted average number of common shares outstanding</i>	4,469,585	4,490,635	4,470,808	4,494,118
<b>Dividends per common share</b>	\$0.25	\$0.28	\$0.53	\$0.56

See accompanying notes to unaudited interim consolidated financial statements.



## UNION BANKSHARES, INC. AND SUBSIDIARY

## CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY

(Unaudited)

	Common stock					Accumulated	Total
	Shares, net of treasury	Amount	Paid-in capital	Retained earnings	Treasury stock	other comprehensive loss	stockholders equity
	(Dollars in thousands)						
Balances, December 31, 2008	4,474,598	\$9,844	\$207	\$35,869	\$(3,500)	\$(3,270)	\$39,150
Comprehensive income:							
Net income	-	-	-	2,502	-	-	2,502
Other comprehensive income (loss), net of tax:							
Change in net unrealized gain (loss) on investment securities available-for-sale, net of reclassification adjustment and tax effects	-	-	-	-	-	244	244
Change in net unrealized gain (loss) on unfunded defined benefit plan liability, net of reclassification adjustment and tax effects	-	-	-	-	-	111	111

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Total other comprehensive income							355	
Total comprehensive income								2,857
Cash dividends declared (\$0.53 per share)	-	-	-	(2,370)	-	-	-	(2,370)
Stock based compensation expense	-	-	6	-	-	-	-	6
Purchase of treasury stock	(6,055)	-	-	-	(107)	-	-	(107)
Balances, June 30, 2009	4,468,543	\$9,844	\$213	\$36,001	\$(3,607)	\$(2,915)		\$39,536

See accompanying notes to unaudited interim consolidated financial statements.

## UNION BANKSHARES, INC. AND SUBSIDIARY

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	<b>Six Months Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>
	(Dollars in thousands)	
<b><i>Cash Flows From Operating Activities</i></b>		
Net income	\$ 2,502	\$ 2,596
Adjustments to reconcile net income to net cash (used in) provided by operating activities		
Depreciation	383	388
Provision for loan losses	170	140
Deferred income tax benefit	(213)	(80)
Net amortization of investment securities available-for-sale	7	2
Net gains on sales of investment securities available-for-sale	(44)	(16)
Equity in losses of limited partnerships	213	194
Stock based compensation expense	6	3
Net decrease in unearned loan fees	(65)	(8)
Proceeds from sales of loans held for sale	29,218	13,052
Origination of loans held for sale	(42,276)	(7,626)
Net gains on sales of loans held for sale	(486)	(201)
Net losses on disposals of premises and equipment	17	50
Net (gains) losses on sales of repossessed property	(2)	2
Write-downs of impaired assets	-	6
Net losses (gains) on sales of other real estate owned	9	(1)
Write-downs of other real estate owned	28	11
(Increase) decrease in accrued interest receivable	(10)	316
(Increase) decrease in other assets	(159)	324
Decrease in other liabilities	(57)	(463)
Net cash (used in) provided by operating activities	(10,759)	8,689
<b><i>Cash Flows From Investing Activities</i></b>		
Interest bearing deposits in banks		
Proceeds from maturities and redemptions	10,156	5,654
Purchases	(5,146)	(1,772)
Investment securities available-for-sale		
Proceeds from sales	2,448	1,803

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Proceeds from maturities, calls and paydowns	3,231	5,406
Purchases	(249)	(1,025)
Net purchase of Federal Home Loan Bank stock	-	(526)
Net decrease (increase) in loans	3,069	(7,435)
Recoveries of loans charged off	25	30
Purchases of premises and equipment	(541)	(1,044)
Investments in limited partnerships	-	(1,129)
Proceeds from sales of other real estate owned	181	265
Proceeds from sales of repossessed property	26	46
Net cash provided by investing activities	13,200	273

	<b>Six Months Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>
	(Dollars in thousands)	
<b><i>Cash Flows From Financing Activities</i></b>		
Advances of long-term debt	-	12,000
Repayment of long-term debt	(1,252)	(473)
Net increase (decrease) in short-term borrowings outstanding	2,350	(4,000)
Net decrease in noninterest bearing deposits	(7,296)	(952)
Net decrease in interest bearing deposits	(9,186)	(2,243)
Purchase of treasury stock	(107)	(281)
Dividends paid	(2,370)	(2,517)
Net cash (used in) provided by financing activities	(17,861)	1,534
Net (decrease) increase in cash and cash equivalents	(15,420)	10,496
<b><i>Cash and cash equivalents</i></b>		
<i>Beginning of period</i>	26,330	13,429
<i>End of period</i>	\$ 10,910	\$23,925
<b>Supplemental Disclosures of Cash Flow Information</b>		
Interest paid	\$ 3,191	\$ 4,201
Income taxes paid	\$ 705	\$ 900
<b>Supplemental Schedule of Noncash Investing and Financing Activities</b>		
Change in unrealized loss (gain) on investment securities available-for-sale	\$ 369	\$ (189)
Change in unrealized loss on defined benefit pension plan liability	\$ 169	\$ 17
Other real estate acquired in settlement of loans	\$ 682	\$ 1,047
Other assets acquired in settlement of loans	\$ 21	\$ 79
Loans originated to finance the sale of other real estate owned	\$ 500	\$ 214

See accompanying notes to unaudited interim consolidated financial statements.

**UNION BANKSHARES, INC. AND SUBSIDIARY**

**NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1. Basis of Presentation**

The accompanying unaudited interim consolidated financial statements of Union Bankshares, Inc. (the Company) as of June 30, 2009 and 2008, and for the three and six months then ended have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) for interim financial information, general practices within the banking industry, and the accounting policies described in the Company's Annual Report to Shareholders and Annual Report on Form 10-K for the year ended December 31, 2008. In the opinion of Company's management, all adjustments, consisting only of normal recurring adjustments and disclosures necessary for a fair presentation of the information contained herein have been made. This information should be read in conjunction with the Company's 2008 Annual Report to Shareholders and 2008 Annual Report on Form 10-K. The results of operations for the interim periods are not necessarily indicative of the results of operations to be expected for the full fiscal year ending December 31, 2009, or any other interim period.

Certain amounts in the 2008 unaudited interim consolidated financial statements have been reclassified to conform to the 2009 presentation.

**Note 2. Commitments and Contingencies**

In the normal course of business, the Company is involved in various legal proceedings. In the opinion of management, any liability resulting from such proceedings would not have a material adverse effect on the Company's financial condition or results of operations.

**Note 3. Per Share Information**

Earnings per common share amounts are computed based on the weighted average number of shares of common stock outstanding during the period and reduced for shares held in treasury. The assumed conversion of available outstanding stock options does not result in material dilution.

**Note 4. Recent Accounting Pronouncements**

In June 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 168, *The FASB Accounting Standards Codification<sup>TM</sup> and the Hierarchy of Generally Accepted Accounting Principles* a replacement of FASB Statement No. 162. Under the Statement, The FASB Accounting Standards Codification (Codification) will become the source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission (SEC), under authority of federal securities laws, are also sources of authoritative GAAP for SEC registrants. On the effective date of this Statement, the Codification will supersede all then-existing non-SEC accounting and reporting

standards. All other nongrandfathered non-SEC accounting literature not included in the Codification will become nonauthoritative. This Statement is effective for financial statements issued for interim and annual periods ending after September 15, 2009. In the FASB's view, the issuance of this Statement and the Codification will not change GAAP, except for those nonpublic nongovernmental entities that must now apply the American Institute of Certified Public Accountants Technical Inquiry Service Section 5100, Revenue Recognition, paragraphs 38-76. The Company does not expect that the adoption of this Statement will have a material impact on the Company's consolidated financial statements.

In June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)*, to amend certain requirements of FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities* to improve financial reporting by enterprises involved with variable interest entities and to provide more relevant and reliable information to users of financial statements. The Statement is effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. Earlier application is prohibited. The Company will review the requirements of SFAS No. 167 and comply with its requirements. The Company does not expect that the adoption of this Statement will have a material impact on the Company's consolidated financial statements.

In June 2009, the FASB issued SFAS No. 166, *Accounting for Transfers of Financial Assets* — an amendment of SFAS No. 140, to improve the reporting for the transfer of financial assets resulting from



(1) practices that have developed since the issuance of SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, that are not consistent with the original intent and key requirements of that Statement; and (2) concerns of financial statement users that many of the financial assets (and related obligations) that have been derecognized should continue to be reported in the financial statements of transferors. This Statement must be applied as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first