

UNITED BANCSHARES INC/OH  
Form 10-Q  
April 29, 2008

**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 March 31, 2008**

Commission file number 000-29283

**UNITED BANCSHARES, INC.**

(Exact name of Registrant as specified in its charter)

**Ohio**

(State or other jurisdiction of incorporation or organization)

**100 S. High Street, Columbus Grove, Ohio**

(Address of principal executive offices)

**34-1516518**

(I.R.S. Employer Identification Number)

**45830**

(Zip Code)

**(419) 659-2141**

(Registrant's telephone number, including area code)

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 the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of April 16, 2008:  
3,443,128

This document contains 28 pages. The Exhibit Index is on page 22 immediately preceding the filed exhibits.



**UNITED BANCSHARES, INC.**

Table of Contents

	<b><u>Page</u></b>
<b>Part I Financial Information</b>	
<i>Item 1</i> Financial Statements	3
<i>Item 2</i> Management's Discussion and Analysis of Financial Condition and Results of Operations	12
<i>Item 3</i> Quantitative and Qualitative Disclosures about Market Risk	19
<i>Item 4T</i> Controls and Procedures	19
<b>Part II Other Information</b>	
<b>Item 1</b> Legal Proceedings	20
<b>Item 1A</b> Risk Factors	20
<b>Item 2</b> Unregistered Sales of Equity Securities and Use of Proceeds	20
<b>Item 3</b> Defaults upon Senior Securities	20
<b>Item 4</b> Submission of Matters to a Vote of Security Holders	20
<b>Item 5</b> Other Information	20
<b>Item 6</b> Exhibits	21



**PART 1 - FINANCIAL INFORMATION****ITEM 1 - FINANCIAL STATEMENTS****United Bancshares, Inc. and Subsidiary**

## Consolidated Balance Sheets (Unaudited)

	<b>March 31, 2008</b>	<b>December 31, 2007</b>
<b>ASSETS</b>		
<b>CASH AND CASH EQUIVALENTS</b>		
Cash and due from banks	\$ 9,540,306	\$ 11,627,842
Interest-bearing deposits in other banks	9,820,664	3,290,372
Federal funds sold	5,144,000	161,000
Total cash and cash equivalents	24,504,970	15,079,214
<b>SECURITIES</b> , available-for-sale	124,946,067	137,904,385
<b>FEDERAL HOME LOAN BANK STOCK</b> , at cost	4,764,400	4,703,100
<b>LOANS HELD FOR SALE</b>	347,235	350,353
<b>LOANS</b>	388,286,104	359,209,925
Less allowance for loan losses	(2,393,277)	(2,232,708)
Net loans	385,892,827	356,977,217
<b>PREMISES AND EQUIPMENT</b> , net	7,822,609	7,902,911
<b>GOODWILL</b>	7,282,013	7,282,013
<b>CASH SURRENDER VALUE OF LIFE INSURANCE</b>	11,504,679	11,396,781
<b>OTHER ASSETS</b> , including accrued interest receivable and other intangible assets	6,782,204	6,378,816
	\$ 573,847,004	\$ 547,974,790
<b>TOTAL ASSETS</b>	=====	=====

**LIABILITIES AND SHAREHOLDERS' EQUITY****LIABILITIES**

## Deposits

Non-interest bearing	\$	38,018,477	\$	41,333,497
Interest bearing		377,328,947		351,869,746

Total deposits		415,347,424		393,203,243
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Other borrowings		93,880,445		91,887,907
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Junior subordinated deferrable interest debentures		10,300,000		10,300,000
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Accrued expenses and other liabilities		4,429,369		3,765,056
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Total liabilities		523,957,238		499,156,206
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**SHAREHOLDERS' EQUITY**

Common stock, \$1 stated value, authorized 10,000,000 shares; issued 3,760,557 shares	3,760,557	3,760,557
Surplus	14,659,661	14,659,661
Retained earnings	35,607,558	35,187,304
Accumulated other comprehensive income (loss)	724,519	(576,065)
Treasury stock, 317,429 shares at March 31, 2008 and 271,152 shares at December 31, 2007, at cost	(4,862,529)	(4,212,873)
Total shareholders' equity	49,889,766	48,818,584
 <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	 <b>\$ 573,847,004</b>	 <b>\$ 547,974,790</b>

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See notes to consolidated financial statements



**United Bancshares, Inc. and Subsidiary**  
Condensed Consolidated Statements of Income (Unaudited)

	Three months ended March 31,	
	<u>2008</u>	<u>2007</u>
<b>INTEREST INCOME</b>		
Loans, including fees	7,068,129	6,474,145
Securities:		
Taxable	1,095,019	1,494,313
Tax-exempt	454,533	466,919
Other	<u>47,603</u>	<u>30,014</u>
Total interest income	<u>8,665,284</u>	<u>8,465,391</u>
<b>INTEREST EXPENSE</b>		
Deposits	2,927,518	2,813,998
Other borrowings	<u>1,238,424</u>	<u>1,523,826</u>
Total interest expense	<u>4,165,942</u>	<u>4,337,824</u>
<b>NET INTEREST INCOME</b>	4,499,342	4,127,567
<b>PROVISION FOR LOAN LOSSES</b>	<u>275,000</u>	<u>150,000</u>
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>	4,224,342	3,977,567
<b>NON-INTEREST INCOME</b>		
Gain on sales of loans	93,480	77,547
Gain from sale of credit card portfolio	-	355,366
Gain (loss) on sales of securities	21,486	(239,964)
Change in fair value of mortgage servicing rights	(251,262)	(67,146)
Other	<u>693,574</u>	<u>648,911</u>
Total non-interest income	<u>557,278</u>	<u>774,714</u>
<b>NON-INTEREST EXPENSES</b>	<u>3,633,308</u>	<u>3,560,980</u>
Income before income taxes	1,148,312	1,191,301

<b>PROVISION FOR INCOME TAXES</b>	<u>203,000</u>	<u>214,000</u>
<b>NET INCOME</b>	\$ 945,312	\$ 977,301
	=====	=====
 <b>NET INCOME PER SHARE</b>		
Basic	\$ 0.27	\$ 0.27
Weighted average common shares outstanding	3,467,222	3,554,944
 Diluted	\$ 0.27	\$ 0.27
Weighted average common shares outstanding	3,468,759	3,557,331

See notes to consolidated financial statements

**United Bancshares, Inc. and Subsidiary**  
 Consolidated Statements of Shareholders' Equity (Unaudited)  
 Three months ended March 31, 2008 and 2007

	<b>Common</b>		<b>Retained</b>	<b>Accumulated</b>
	<b>Stock</b>	<b>Surplus</b>	<b>Earnings</b>	<b>Comprehensive</b>
				<b>(Loss)</b>
<b>BALANCE AT DECEMBER 31, 2007</b>	\$ 3,760,557	14,659,661	35,187,304	
Net income			945,312	
Change in unrealized gain (loss) on securities, net of tax				
Total comprehensive income				
Dividends declared (\$0.15 per share)			(516,469)	
3,723 shares issued from treasury in connection with the Corporation's Employee Stock Purchase Plan			(8,589)	
Purchase of 50,000 common shares				
	\$ 3,760,557	14,659,661	35,607,558	
<b>BALANCE AT MARCH 31, 2008</b>	=====	=====	=====	=====
<b>BALANCE AT DECEMBER 31, 2006</b>	\$ 3,760,557	14,659,661	32,072,536	
Cumulative effect of change in accounting principle			519,152	
Net income			977,301	
Change in unrealized loss on securities, net of tax				
Total comprehensive income				

Dividends declared (\$0.14 per share)				(494,611)
3,891 shares issued from treasury in connection with the				
Corporation's Employee Stock Purchase Plan				(5,769)

Purchase of 39,000 common shares

	\$	3,760,557	14,659,661	33,068,609
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**BALANCE AT MARCH 31, 2007**

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See notes to consolidated financial statements

**United Bancshares, Inc. and Subsidiary**  
Condensed Consolidated Statement of Cash Flows (Unaudited)

	Three months ended March 31,	
	2008	2007
<b>Cash flows from operating activities</b>	\$ 874,765	\$ 484,606
<b>Cash flows from investing activities:</b>		
Purchases of available-for-sale securities, net of proceeds		
from calls or maturities	14,949,045	4,089,466
Net increase in loans	(29,322,552)	(5,415,252)
Expenditures for premises and equipment	(37,507)	(485,736)
Net cash from investing activities	(14,411,014)	(1,811,522)
<b>Cash flows from financing activities:</b>		
Net change in deposits	22,144,181	7,618,982
Long-term borrowings, net of repayments	1,992,538	(5,567,316)
Purchase of treasury shares	(707,500)	(632,450)
Proceeds from issuance of common stock	49,255	54,629
Cash dividends paid	(516,469)	(494,611)
Net cash from financing activities	22,962,005	979,234
<b>Net change in cash and cash equivalents</b>	9,425,756	(347,682)
Cash and cash equivalents:		
At beginning of period	15,079,214	12,310,619
	\$ 24,504,970	\$ 11,962,937
At end of period	=====	=====
Cash paid for:		
Interest	\$ 4,399,280	\$ 4,439,810

	=====	=====
	\$ 200,000	\$ -
Income taxes	=====	=====

See notes to consolidated financial statements

**United Bancshares, Inc. and Subsidiary**

**Notes to Consolidated Financial Statements (Unaudited)**

**March, 31, 2008**

**Note 1 Consolidated Financial Statements**

The consolidated financial statements of United Bancshares, Inc. and subsidiary (the Corporation ) have been prepared without audit and in the opinion of management reflect all adjustments (which include normal recurring adjustments) necessary to present fairly such information for the periods and dates indicated. Since the unaudited financial statements have been prepared in accordance with the instructions to Form 10-Q, they do not contain all information and footnotes typically included in financial statements prepared in conformity with generally accepted accounting principles. Operating results for the three months ended March 31, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008. Complete audited consolidated financial statements with footnotes thereto are included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2007.

The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiary, The Union Bank Company ( Union ). Effective February 1, 2007, Union formed a wholly-owned subsidiary, UBC Investments, Inc. ( UBC ) to hold and manage its securities portfolio. The operations of UBC are located in Wilmington, Delaware. Significant intercompany accounts and transactions have been eliminated in consolidation. The accounting and reporting policies of the Corporation conform to generally accepted practices within the banking industry. The Corporation considers all of its principal activities to be banking related.

**Note 2 - New Accounting Pronouncements**

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115* (Statement 159) which permits an entity to choose to measure certain financial instruments and certain other items at fair value, on an instrument-by-instrument basis. Once an entity has elected to record eligible items at fair value, the decision is irrevocable and the entity should report unrealized gains and losses on items for which the fair value option has been elected in earnings. Statement 159 is effective for fiscal years beginning after November 15, 2007. At the effective date, an entity may elect the fair value option for eligible items that exist at that date with the effect of the first measurement to fair value reported as a cumulative-effect adjustment to the opening balance of retained earnings. There was no impact on the consolidated financial statements of the Corporation as a result of the adoption of Statement 159 during the first quarter of 2008 since the Corporation has not elected the fair value option for any eligible items, as defined in Statement 159.

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements* (Statement 157) which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Statement 157 also establishes a fair value hierarchy about the assumptions used to measure fair value and clarifies the assumptions about risk and the effect of a restriction on the sale or use of an asset. On February 12, 2008, the FASB issued Staff Position 157-2 which defers the effective date of Statement 157 for certain nonfinancial assets and liabilities to fiscal years beginning after November 15, 2008. All other provisions of Statement 157 are effective for fiscal years beginning after November 15, 2007 and interim periods within the those fiscal years.

The Corporation adopted the provisions of Statement 157 for the quarter ended March 31, 2008 except for those nonfinancial assets and liabilities subject to deferral as a result of Staff Position 157-2. There was no impact on the March 31, 2008 consolidated financial statements of the Corporation as a result of the adoption of Statement 157.



During 2007, the FASB issued EITF 06-4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsed Split-Dollar Life Insurance Arrangements (EITF 06-4), which concludes an employer should recognize a liability for postemployment benefits promised an employee based on the substantive arrangement between the employer and the employee. Effective January 1, 2008, the Corporation adopted EITF 06-4. Adoption of EITF 06-4 did not have a significant effect on the Corporation's consolidated financial statements.

During 2007, the FASB issued EITF 06-10, Accounting for Collateral Assignment Split-Dollar Life Insurance (EITF 06-10), which stipulates an employer should recognize a liability for the postretirement benefit related to a collateral assignment split-dollar life insurance arrangement if, based on the substantive arrangement with the employee, the employer has agreed to maintain life insurance during the employee's retirement or provide the employee with a death benefit. Under EITF 06-10, the employer should also recognize an asset based on the substance of the arrangement it has with the employee. Effective January 1, 2008, the Corporation adopted EITF 06-10. Adoption of EITF 06-10 did not have a significant effect on the Corporation's consolidated financial statements.

In March 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 156, Accounting for Servicing of Financial Assets, an Amendment of FASB Statement 140 (Statement 156). Statement 156 amends Statement 140 with respect to separately recognized servicing assets and liabilities. Statement 156 requires an entity to recognize a servicing asset or liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract and requires all servicing assets and liabilities to be initially measured at fair value, if practicable. Statement 156 also permits entities to subsequently measure servicing assets and liabilities using an amortization method or fair value measurement method. Under the amortization method, servicing assets and liabilities are amortized in proportion to and over the estimated period of servicing. Under the fair value measurement method, servicing assets are measured at fair value at each reporting date and changes in fair value are reported in net income for the period the change occurs.

Effective January 1, 2007, the Bank adopted Statement 156 and elected to record its mortgage servicing rights using the fair value measurement method. As a result, the Corporation recorded effective January 1, 2007, a cumulative effect adjustment (increase) to retained earnings of \$519,152, representing the difference between fair value and carrying value of the mortgage servicing rights at January 1, 2007 (\$786,594), net of deferred income taxes (\$267,442).

**Note 3 Sale of Credit Card Portfolio**

Effective March 31, 2007, Union entered into an agreement to sell its credit card portfolio. Under the terms of the agreement, the buyer will service the credit card portfolio and provide Union's former credit card customers with credit cards branded with the Union name. Based on the purchase price, as defined in the agreement, Union recognized a gain on sale of the credit card portfolio for the quarter ended March 31, 2007 of \$355,366 (approximately \$235,000 net of tax, or \$.07 basic earnings per share). Proceeds from the sale, approximating \$1.7 million, were included in other assets in the March 31, 2007 consolidated balance sheet and were received on April 12, 2007.

**Note 4 - Securities**

The amortized cost and fair value of available-for-sale securities as of March 31, 2008 and December 31, 2007 are as follows (dollars in thousands):

	<b>March 31, 2008</b>		<b>December 31, 2007</b>	
	<b>Amortized</b>	<b>Fair</b>	<b>Amortized</b>	<b>Fair</b>
	<b><u>cost</u></b>	<b><u>value</u></b>	<b><u>cost</u></b>	<b><u>value</u></b>
U.S. Treasury and				
Agencies	\$ 2,000	\$ 2,031	\$ 13,211	\$ 13,235
Obligations of states and political subdivisions	44,012	44,823	44,286	44,362
Mortgage-backed	77,834	78,090	81,278	80,305
Other	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>
Total	\$ 123,848	\$ 124,946	\$ 138,777	\$ 137,904
	=====	=====	=====	=====

A summary of gross unrealized gains and losses on available-for-sale securities at March 31, 2008 and December 31, 2007 follows (dollars in thousands):

	March 31, 2008		December 31, 2007	
	Gross	Gross	Gross	Gross
	unrealized	unrealized	unrealized	unrealized
	<u>gains</u>	<u>losses</u>	<u>gains</u>	<u>losses</u>
U.S. Treasury and				
Agencies	\$ 31	\$ -	\$ 28	\$ 4
Obligations of states and				
political subdivisions	915	104	322	246
Mortgage-backed	<u>847</u>	<u>591</u>	<u>102</u>	<u>1,075</u>
Total	\$ 1,793	\$ 695	\$ 452	\$ 1,325
	=====	=====	=====	=====

On April 17, 2007, Union's Board of Directors approved management's plan to restructure its balance sheet including selling approximately \$15.5 million of available-for-sale securities, comprising approximately 9.0% of Union's total securities portfolio. The anticipated sale was expected to result in a loss of approximately \$240,000. Consequently, management determined such securities to be other than temporarily impaired at March 31, 2007 and recognized an impairment loss for the quarter ended March 31, 2007 of \$240,000 (\$160,000 net of tax, or \$.05 basic earnings per share).

**Note 5 - Other Comprehensive Income**

The components of other comprehensive income and related tax effects are as follows for the three-month periods ended March 31, 2008 and 2007 (dollars in thousands):

	<u>2008</u>	<u>2007</u>
Unrealized holding gains on		
available-for-sale securities	\$ 1,992	\$ 710
Reclassification adjustments for securities		
losses (gains) realized in income	<u>(21)</u>	<u>240</u>
Net unrealized gains	1,971	950
Tax effect	<u>670</u>	<u>323</u>
Net-of-tax amount	\$ 1,301	\$ 627
	=====	=====

**Note 6 Junior Subordinated Deferrable Interest Debentures**

The Corporation has formed and invested \$300,000 in a business trust, United (OH) Statutory Trust (United Trust) which is not consolidated by the Corporation. United Trust issued \$10,000,000 of trust preferred securities, which are guaranteed by the Corporation, and are subject to mandatory redemption upon payment of the debentures. United Trust used the proceeds from the issuance of the trust preferred securities, as well as the Corporation's capital investment, to purchase \$10,300,000 of junior subordinated deferrable interest debentures issued by the Corporation. The debentures have a stated maturity date of March 26, 2033. As of March 26, 2008, and quarterly thereafter, the debentures may be shortened at the Corporation's option. The interest rate of the debentures was fixed at 6.40% for a five-year period through March 26, 2008. Effective March 27, 2008, interest is at a floating rate adjustable quarterly and equal to 315 basis points over the 3-month LIBOR amounting to 5.76% at March 31, 2008. Interest is payable quarterly. The Corporation has the right, subject to events in default, to defer payments of interest on the debentures by extending the interest payment period for a period not exceeding 20 consecutive quarterly periods. Interest expense on the debentures amounted to \$160,000 for the three-month periods ended March 31, 2008 and 2007 and is included in interest expense-borrowings in the accompanying consolidated statements of income.

Each issue of the trust preferred securities carries an interest rate identical to that of the related debenture. The securities have been structured to qualify as Tier I capital for regulatory purposes and the dividends paid on such are tax deductible. However, under Federal Reserve Board guidelines, the securities cannot be used to constitute more than 25% of the Corporation's core tax Tier I capital inclusive of these securities.

**ITEM 2****MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS****SELECTED FINANCIAL DATA**

The following data should be read in conjunction with the unaudited consolidated financial statements and management's discussion and analysis that follow:

	As of or for the Three	
	Months Ended	
	March 31,	
	<u>2008</u>	<u>2007</u>
<b>SIGNIFICANT RATIOS (Unaudited)</b>		
Net income to:		
Average assets (a)	0.68%	0.70%
Average shareholders' equity (a)	7.66%	8.37%
Net interest margin (a)	3.62%	3.41%
Efficiency ratio (b)	68.67%	69.24%
Average shareholders' equity to average assets	8.81%	8.36%
Loans to deposits (end of period) (c)	93.57%	88.08%
Allowance for loan losses to loans (end of period) (d)	0.62%	0.65%
Cash dividends to net income	54.63%	50.61%
Book value per share	\$ 14.49	\$ 13.36

(a) Net income to average assets, net income to average shareholders' equity and net interest margin are presented on an annualized basis. Net interest margin is calculated using fully-tax equivalent net interest income as a percentage of average interest earning assets.

(b) Efficiency ratio is a ratio of non-interest expense as a percentage of fully tax equivalent net interest income plus non-interest income.

(c) Includes loans held for sale.

(d) Excludes loans held for sale.

## Introduction

United Bancshares, Inc. (the Corporation), an Ohio corporation, is a bank holding company registered under the Bank Holding Company Act of 1956, as amended, and is subject to regulation by the Board of Governors of the Federal Reserve System (the Federal Reserve Board). The Corporation was incorporated and organized in 1985. The executive offices of the Corporation are located at 100 S. High Street, Columbus Grove, Ohio 45830. The Corporation is a one-bank holding company, as that term is defined by the Federal Reserve Board.

The Union Bank Company ( Union), a wholly-owned subsidiary of the Corporation, is engaged in the business of commercial banking. Union is an Ohio state-chartered bank, which serves Allen, Putnam, Sandusky, Van Wert and Wood counties, with office locations in Bowling Green, Columbus Grove, Delphos, Gibsonburg, Kalida, Leipsic, Lima, Ottawa, and Pemberville.

Union offers a full range of commercial banking services, including checking accounts, savings and money market accounts, time certificates of deposit, automatic teller machines, commercial, consumer, agricultural, residential mortgage loans and home equity loans, credit card services, safe deposit box rentals, and other personalized banking services. Effective February 1, 2007, Union formed UBC Investments, Inc. ( UBC) to hold and manage its securities portfolio. The operations of UBC are located in Wilmington, Delaware.

When or if used in the Corporation's Securities and Exchange Commission filings or other public or shareholder communications, or in oral statements made with the approval of an authorized executive officer, the words or phrases: anticipate, would be, will allow, intends to, will likely result, are expected to, will continue, is estimated, is projected, or similar expressions are intended to identify forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Any such statements are subject to the risks and uncertainties that include but are not limited to: changes in economic conditions in the Corporation's market area, changes in policies by regulatory agencies, fluctuations in interest rates, demand for loans in the Corporation's market area, and competition. All or some of these factors could cause actual results to differ materially from historical earnings and those presently anticipated or projected.

The Corporation cautions readers not to place undue reliance on any such forward looking statements, which speak only as of the date made, and advises readers that various factors, including regional and national economic conditions, substantial changes in the levels of market interest rates, credit and other risks associated with lending and investing activities, and competitive and regulatory factors could affect the Corporation's financial performance and could cause the Corporation's actual results for future periods to differ materially from those anticipated or projected. The Corporation does not undertake, and specifically disclaims any obligation, to update any forward looking statements to reflect occurrences or unanticipated events or circumstances after the date of such statements.



The Corporation is registered as a Securities Exchange Act of 1934 reporting company.

The following discussion and analysis of the consolidated financial statements of the Corporation is presented to provide insight into management's assessment of the financial results.

## **RESULTS OF OPERATIONS**

### **Overview of the Income Statement**

For the quarter ended March 31, 2008 the Corporation reported net income of \$945,000, or \$0.27 basic earnings per share. This compares to first quarter 2007 net income of \$977,000, or \$0.27 basic earnings per share. Compared with the same period in 2007, first quarter 2008 net income decreased \$32,000 or 3.3%. The \$32,000 decrease for the quarter was primarily the result of a \$218,000 decrease in non-interest income, an increase of \$125,000 in the provision for loan losses and an increase in non-interest expenses of \$72,000, offset by an increase of \$372,000 in net interest income, and a decrease in the provision for income taxes of \$11,000.

### **Interest Income and Expense**

Net interest income is the amount by which interest income from interest-earning assets exceeds interest incurred on interest-bearing liabilities. Interest-earning assets consist principally of loans and investment securities while interest-bearing liabilities include interest-bearing deposit accounts and borrowed funds. Net interest income remains the primary source of revenue for the Corporation. Changes in market interest rates, as well as changes in the mix and volume of interest-bearing assets and interest-bearing liabilities, impact net interest income. Net interest income was \$4,499,000 for the first quarter of 2008, compared to \$4,128,000 for the same period of 2007.

Net interest margin is calculated by dividing net interest income (adjusted to reflect tax-exempt interest income on a taxable equivalent basis) by average interest-earning assets. The resulting percentage serves as a measurement for the Corporation in comparing its results with those of past periods as well as those of peer institutions. For the three months ended March 31, 2008 the net interest margin (on a taxable equivalent basis) was 3.62% compared with 3.41% for the same period of 2007. The increase in the net interest margin for the first quarter of 2008 as compared to the first quarter of 2007 primarily resulted from a change in the composition of interest-earning assets. Union has continued to experience loan demand, including a \$29.1 million net increase in loans during the quarter ended March 31, 2008. Proceeds from the sale or maturity of lower-yielding securities have been used to partially fund this loan growth.

### **Provision for Loan Losses**

The provision for loan losses is determined based upon management's periodic calculation of the allowance for loan losses and is reflective of the quality of management's assessment of the portfolio and overall management of the inherent credit risk of the loan portfolio. Changes in the provision for loan losses are dependent, among other things, on loan delinquencies, collateral position, portfolio risks and general economic conditions in the Corporation's markets. A \$275,000 provision for loan losses was made for the first quarter of 2008 compared to a \$150,000 provision for the same period in 2007. See "Allowance for Loan Losses" under Financial Condition for further discussion of the provision for loan losses.

### **Non-Interest Income**

The Corporation's non-interest income is largely generated from activities related to the origination, servicing and gain on sales of fixed rate mortgage loans, customer deposit account fees, earnings on life insurance policies, income arising from sales of investment products to customers, and occasional security sale transactions. Income related to customer deposit accounts and Bank Owned Life Insurance provides a relatively steady flow of income while the other sources are more volume or transaction related and consequently can vary from quarter to quarter.

Gain on sales of loans amounted to \$93,000 for the quarter ended March 31, 2008, compared to \$78,000 for the first quarter of 2007. The quarterly gain included capitalized servicing rights of \$21,000 and \$46,000 on \$2.5 million and \$4.8 million of originated loan sales during the quarters ended March 31, 2008 and 2007, respectively. The balance of the gain on sales of loans represented cash gains. For the three month period ended March 31, 2008, there was a decrease in fair market of mortgage servicing rights of \$251,000 in addition to amortization of mortgage servicing rights of \$80,000, compared to a decrease in fair value of mortgage servicing rights of \$67,000 and amortization of mortgage servicing rights of \$82,000 for the first quarter of 2007. The value of mortgage servicing rights decreased during the quarter due to the market's perception of mortgage investment products, and a sluggish national housing market. During the quarter ended March 31, 2008, the Corporation realized \$21,000 of gains on called securities compared to securities losses of \$240,000 for the quarter ended March 31, 2007. The securities losses in 2007 resulted from Union's Board approving a plan to restructure Union's securities portfolio, including selling \$15.5 million of available-for-sale securities. The amortized cost of such securities exceeded their value at March 31, 2007 by \$240,000.

Effective March 31, 2007, Union entered into an agreement to sell its credit card portfolio, resulting in a gain on sale for the quarter ended March 31, 2007 of \$355,000.

Other non-interest income increased \$45,000 (6.9%) to \$694,000 for the quarter ended March 31, 2008.

### **Non-Interest Expenses**

For the quarter ended March 31, 2008 non-interest expenses were \$3,633,000, compared to \$3,561,000 for the first quarter of 2007, a \$72,000 (2.0%) increase.

The operating results for the three month period included an adjustment to the provision for stock options based on the Corporation's closing stock price as of March 31, 2008 and 2007. As a result of this adjustment, non-interest expenses were increased \$11,000 for the three month period ended March 31, 2008, and were reduced \$15,000 for the three month period ended March 31, 2007. Non-interest expenses for the quarter ended March 31, 2008, also included a \$104,000 write down on other real estate owned. In addition to the Corporation's ongoing commitment to the improvement of internal controls and the overall operational environment, the Corporation has and will continue to identify and implement cost saving strategies.

Maintaining acceptable levels of non-interest expenses and operating efficiency are key performance indicators for the Corporation in its strategic initiatives. The financial services industry uses the efficiency ratio (total non-interest expense as a percentage of the aggregate of fully-tax equivalent net interest income and non-interest income) as a key

indicator of performance. For the quarter ended March 31, 2008, the Corporation's efficiency ratio was 68.04% compared to 69.24% for the same period of 2007.

### **Provision for Income Taxes**

The provision for income taxes for the quarter ended March 31, 2008 was \$203,000, or 17.7% of income before income taxes, compared to \$214,000, or 18.0%, for the comparable 2007 period.

### **Return on Assets**

Return on average assets was 0.68% for the first quarter of 2008, compared to 0.70% for the comparable quarter of 2007. The decrease resulted from a slight reduction in net income and a slight increase in the Corporation's average assets.

### **Return on Equity**

Return on average equity for the first quarter of 2008 was 7.66% compared to 8.37% for the same period of 2007. This decrease was the result of the slight decrease in net income and an increase in average equity as more fully explained in the Shareholders' Equity section under Financial Condition. The Corporation and Union met all regulatory capital requirements as of March 31, 2008, and Union is considered well capitalized under regulatory and industry standards of risk-based capital.

## **FINANCIAL CONDITION**

### **Overview of Balance Sheet**

Total assets amounted to \$573.8 million at March 31, 2008 compared to \$548.0 million at December 31, 2007, an increase of \$25.8 million, or 4.7%. The increase in assets was the result of an increase of \$29.1 million in gross loans and an increase in total cash and cash equivalents of \$9.4 million offset by a decrease of \$13.0 million in available for sale securities. Deposits during this same period increased \$22.1 million (5.6%) and other borrowings (consisting of Federal Home Loan Bank borrowings, securities sold under agreements to repurchase, customer repurchase agreements, and junior subordinated deferrable debentures) increased \$2.0 million (2.0%).

Shareholders' equity increased from \$48.8 million at December 31, 2007 to \$49.9 million at March 31, 2008. This increase was the result of net income (\$945,000), the issuance of 3,723 treasury shares (\$49,000) under the Corporation's Employee Stock Purchase Plan and a \$1,301,000 increase in unrealized securities gains, net of tax, offset by the payment of dividends (\$516,000), and the repurchase of 50,000 common shares (\$708,000). The increase in unrealized securities gains from January 1, 2008 to March 31, 2008, was the result of customary and expected changes in the bond market. Unrealized gains on securities are reported as accumulated other comprehensive income in the consolidated balance sheet.

### **Cash and Cash Equivalents**

Cash and cash equivalents totaled \$24.5 million at March 31, 2008 compared to \$15.1 million at December 31, 2007. Cash and cash equivalents at March 31, 2008 includes Federal funds sold of \$5.1 million compared to \$161,000 at December 31, 2007. Management believes the current level of cash and cash equivalents is sufficient to meet the Corporation's present liquidity and performance needs. Total cash and cash equivalents fluctuate on a daily basis due to transactions in process and other liquidity needs. Management believes the Corporation's liquidity needs in the near term will be satisfied by the current balance of cash and cash equivalents, readily available access to traditional and non-traditional funding sources, and the portions of the investment and loan portfolios that will mature within one year. These sources of funds should enable the Corporation to meet cash obligations and off-balance sheet commitments as they come due. In addition, the Corporation has access to various sources of additional borrowings by virtue of long-term assets that can be used as collateral for such borrowings.

## Securities

At March 31, 2008, available-for-sale securities totaled \$124.9 million, a decrease of \$13.0 million (9.4%) from December 31, 2007. As a result of continued loan demand, proceeds from the call or maturity of securities during the quarter ended March 31, 2008 were used to fund loan growth rather than being re-invested in the securities portfolio. Management believes classifying securities as available-for-sale provides the Corporation flexibility and facilitates greater interest rate risk management opportunities. At March 31, 2008, the amortized cost of the Corporation's securities totaled \$123.8 million, resulting in net unrealized gains of approximately \$1.1 million and a corresponding after tax increase in shareholders' equity of \$725,000.

Management monitors the earnings performance and liquidity of the investment portfolio on a regular basis through Asset/Liability Committee meetings.

## Loans

The Corporation's lending is primarily centered in Northwestern and West Central Ohio. Gross loans (including loans held for sale) totaled \$388.6 million at March 31, 2008 compared to \$359.5 million at December 31, 2007, an increase of \$29.1 million (8.1%). Most of this increase has been in the commercial and commercial real estate loan categories.

**Allowance for Loan Losses**

The allowance for loan losses as a percentage of loans (excluding loans held for sale) was 0.62% at March 31, 2008 and December 31, 2007. Management believes the allowance is adequate given the composition of and risk inherent in the loan portfolio of Union. Management will continue to monitor the risk of credit loss associated with the loan portfolio, and will adjust the allowance accordingly.

The following table presents changes in the allowance for loan losses for the three months ended March 31, 2008 and 2007, respectively:

	(dollars in thousands)	
	<u>2008</u>	<u>2007</u>
Balance, beginning of period	\$2,233	\$2,275
Charge offs	(202)	(319)
Recoveries	<u>87</u>	<u>106</u>
Net charge offs	<u>(115)</u>	<u>(213)</u>
Provision for loan losses	<u>275</u>	<u>150</u>
Balance, end of period	\$2,393	\$2,212
	=====	=====

Loans on non-accrual status as a percentage of outstanding loans were 0.87% at March 31, 2008, compared to 0.78% at December 31, 2007. Non-accrual loans totaled \$3,378,000 and \$2,613,000 at March 31, 2008 and December 31, 2007, respectively. Management believes the current level of non-accrual loans is acceptable and is a reflection of the quality of Union's loan portfolio as well as the adequacy of staffing levels devoted to monitoring and pursuing the collection of these credits.

**Funding Sources**



The Corporation considers a number of alternatives, including but not limited to, deposits, as well as short-term and long-term borrowings when evaluating funding sources. Deposits, including customer deposits, brokered certificates of deposit, and public funds deposits, continue to be the most significant source of funds for the Corporation, totaling \$415.3 million, or 80.0% of the Corporation's funding sources at March 31, 2008. Total deposits increased \$22.1 million (5.6%) during the quarter ended March 31, 2008, including \$15.0 million of brokered deposits acquired to fund the aforementioned loan growth.

Non-interest bearing deposits remain a smaller portion of the funding source for the Corporation than for most of its peers. Non-interest bearing deposits comprised 9.2% of total deposits at March 31, 2008 compared to 8.8% at March 31, 2007.

In addition to traditional deposits, the Corporation maintains both short-term and long-term borrowing arrangements. These borrowings consisted of FHLB borrowings totaling \$67.1 million and \$67.3 million at March 31, 2008 and December 31, 2007, respectively; securities sold under agreement to repurchase and customer repurchase agreements totaling \$26.8 million and \$24.6 million at March 31, 2008 and December 31, 2007, respectively; and junior subordinated deferrable interest debentures of \$10.3 million at March 31, 2008 and 2007. Management plans to maintain access to various borrowing alternatives as an appropriate funding source.

### **Shareholders' Equity**

For the three month period ended March 31, 2008, the Corporation had net income of \$945,000 and declared dividends of \$516,000, resulting in a dividend payout ratio of 54.63% of net income. Management believes the overall equity level supports this payout ratio. During the three month periods ended March 31, 2008 and 2007, the Corporation issued 3,723 and 3,891 shares, respectively of treasury stock to participants of the Corporation's

Employee Stock Purchase Plan. In addition, during the three month period ended March 31, 2008 and 2007, the Corporation purchased 50,000 and 39,000 shares, respectively through its share repurchase program.

The increase in net unrealized gains on available-for-sale securities, net of income taxes, was \$1,301,000 for the three months ended March 31, 2008. Since all the securities in the Corporation's portfolio are classified as available-for-sale, both the securities and equity sections of the consolidated balance sheet are sensitive to the changing market values of securities.

The Corporation has also complied with the standards of capital adequacy mandated by the banking industry. Bank regulators have established risk-based capital requirements designed to measure capital adequacy. Risk-based capital ratios reflect the relative risks of various assets banks hold in their portfolios. A weight category of 0% (lowest risk assets), 20%, 50%, or 100% (highest risk assets) is assigned to each asset on the balance sheet and to certain off-balance sheet commitments.

### **Liquidity and Interest Rate Sensitivity**

The objective of the Corporation's asset/liability management function is to maintain consistent growth in net interest income through management of the Corporation's balance sheet liquidity and interest rate exposure based on changes in economic conditions, interest rate levels, and customer preferences.

The Corporation manages interest rate risk to minimize the impact of fluctuating interest rates on earnings. The Corporation uses simulation techniques that attempt to measure the volatility of changes in the level of interest rates, basic banking interest rate spreads, the shape of the yield curve, and the impact of changing product growth patterns. The primary method of measuring the sensitivity of earnings of changing market interest rates is to simulate expected cash flows using varying assumed interest rates while also adjusting the timing and magnitude of non-contractual deposit repricing to more accurately reflect anticipated pricing behavior. These simulations include adjustments for the lag in prime loan repricing and the spread and volume elasticity of interest-bearing deposit accounts, regular savings and money market deposit accounts.

The principal function of interest rate risk management is to maintain an appropriate relationship between those assets and liabilities that are sensitive to changing market interest rates. The Corporation closely monitors the sensitivity of its assets and liabilities on an ongoing basis and projects the effect of various interest rate changes on its net interest margin. Interest sensitive assets and liabilities are defined as those assets or liabilities that mature or reprice within a designated time frame.

Management believes the Corporation's current mix of assets and liabilities provides a reasonable level of risk related to significant fluctuations in net interest income and the resulting volatility of the Corporation's earning base. The Corporation's management reviews interest rate risk in relation to its effect on net interest income, net interest margin, and the volatility of the earnings base of the Corporation.

### **Effects of Inflation on Financial Statements**

Substantially all of the Corporation's assets relate to banking and are monetary in nature. Therefore, they are not impacted by inflation to the same degree as companies in capital-intensive industries in a replacement cost environment. During a period of rising prices, a net monetary asset position results in loss in purchasing power and conversely a net monetary liability position results in an increase in purchasing power. In the banking industry, typically monetary assets exceed monetary liabilities. Therefore, as prices have recently increased, financial institutions experienced a decline in the purchasing power of their net assets.

### **ITEM 3**

#### **QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The only significant market risk to which the Corporation is exposed is interest rate risk. The business of the Corporation and the composition of its balance sheet consist of investments in interest-earning assets (primarily loans and securities), which are funded by interest bearing liabilities (deposits and borrowings). These financial instruments have varying levels of sensitivity to changes in the market rates of interest, resulting in market risk. None of the Corporation's financial instruments are held for trading purposes.

The Corporation manages interest rate risk regularly through its Asset Liability Committee. The Committee meets on a regular basis and reviews various asset and liability management information, including but not limited to, the bank's liquidity positions, projected sources and uses of funds, interest rate risk positions and economic conditions.

The Corporation monitors its interest rate risk through a sensitivity analysis, whereby it measures potential changes in its future earnings and the fair values of its financial instruments that may result from one or more hypothetical changes in interest rates. This analysis is performed by estimating the expected cash flows of the Corporation's financial instruments using interest rates in effect at year-end. For the fair value estimates, the cash flows are then discounted to year-end to arrive at an estimated present value of the Corporation's financial instruments. Hypothetical changes in interest rates are then applied to the financial instruments, and the cash flows and fair values are again estimated using these hypothetical rates. For the net interest income estimates, the hypothetical rates are applied to the financial instruments based on the assumed cash flows. The Corporation applies these interest rate shocks to its financial instruments up and down 100, 200, and 300 basis points.

There have been no material changes in the quantitative and qualitative information about market risk from the information provided in the December 31, 2007 Form 10-K.

### **ITEM 4T**

#### **CONTROLS AND PROCEDURES**

##### **Evaluation of Controls and Procedures.**

With the participation of our management, including our chief executive officer and chief financial officer, we have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the

Securities Exchange Act of 1934, as amended (the "Exchange Act")); as of the end of the period covered by this Quarterly Report on Form 10-Q. Based upon that evaluation, our chief executive officer and chief financial officer have concluded that:

(a)

information required to be disclosed by the Corporation in this Quarterly Report on Form 10-Q would be accumulated and communicated to the Corporation's management, including its chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure;

(b)

information required to be disclosed by the Corporation in this Quarterly Report on Form 10-Q would be recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms; and

(c)

the Corporation's disclosure controls and procedures are effective as of the end of the period covered by this Quarterly Report on Form 10-Q to ensure that material information relating to the Corporation and its consolidated subsidiary is made known to them, particularly during the period for which our periodic reports, including this Quarterly Report on Form 10-Q, are being prepared.

**Changes in Internal Control over Financial Reporting.**

There were no significant changes during the period covered by this Quarterly Report on Form 10-Q in our internal control over financial reporting (as defined in Rules 13a-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II Other Information**

**Item 1: Legal Proceedings.**

There are no pending legal proceedings to which the Corporation or its subsidiary are a party or to which any of their property is subject except routine legal proceedings to which the Corporation or its subsidiary are a party incident to the banking business. None of such proceedings are considered by the Corporation to be material.

**Item 1A: Risk Factors**

There have been no material changes in the discussion pertaining to risk factors that was provided in the December 31, 2007 Form 10-K.

**Item 2: Unregistered Sales of Equity Securities and Use of Proceeds.**

The Corporation has not sold any of its securities which were not registered under the Securities Act during the period covered by this report. The table below includes certain information regarding the Corporation's purchase of United Bancshares, Inc. common stock during the quarterly period ended March 31, 2008:

<u>Period</u>	<u>total number</u> of shares <u>purchased</u>	<u>Average</u> price paid <u>per share</u>	<u>Total number</u> shares purchased as part of a publicly announced plan <u>or program</u>	<u>Maximum number</u> of shares that may yet be purchased under the plan <u>or program (a)</u>
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01/01/08 -

01/31/08

None

None

247,058

152,942

02/01/08 -

02/29/08

50,000

14.15

297,058

102,942

03/01/08 -

03/31/08

None

None

297,058

102,942

(a) A stock repurchase program ( Plan ) was announced on July 29, 2005 (100,000 shares authorized) and expanded by 100,000 shares on December 23, 2005 and 200,000 shares on March 20, 2007. The Plan authorizes the Corporation to repurchase up to 400,000 of the Corporation's common shares from time to time in a program of market purchases or in privately negotiated transactions as the securities laws and market conditions permit.

**Item 3: Defaults upon Senior Securities.**

None

**Item 4: Submission of Matters to a Vote of Security Holders.**

None

**Item 5: Other Information.**

On January 8, 2008, the Bank entered into a contract to purchase for \$425,000 a facility in Lima, Ohio to be used for a new branch office. The Bank is also in process of contracting for the construction of a new branch office in Ottawa, Ohio to replace the former branch that was damaged by a flood in August 2007. The anticipated cost to construct the new branch is \$950,000.



**Item 6: Exhibits**

(a) Exhibits

Exhibit 3(i) Amended and Restated Articles of Incorporation

Exhibit 3(ii) Amended and Restated Code of Regulations

Exhibit 10 Material Contracts

Exhibit 10.1 Employment Agreement Daniel W. Schutt

Exhibit 10.11 Salary Continuation Agreement Daniel W. Schutt

Exhibit 10.2 Agreement - Brian D. Young

Exhibit 10.3 Salary Continuation Agreement - Brian D. Young

Exhibit 10.4 Executive Supplemental Income Agreement - Bonita Selhorst

Exhibit 10.5 Salary Continuation Agreement, Second Amendment Daniel W. Schutt

Exhibit 10.6 Preferred Trust Securities, Placement and Debenture agreements

Exhibit 10.7 Executive Supplemental Income Agreement, First Amendment Bonita Selhorst

Exhibit 10.8 Salary Continuation Agreement, First Amendment Daniel W. Schutt

Exhibit 10.9 Salary Continuation Agreement, First Amendment Brian D. Young

Exhibit 31.1 Rule 13a-14(a)/15d-14(a) Certification of CEO

Exhibit 31.2 Rule 13a-14(a)/15d-14(a) Certification of CFO

Exhibit 32.1 Section 1350 CEO's Certification

Exhibit 32.2 Section 1350 CFO's Certification

Exhibit 99 Safe Harbor under The Private Securities Litigation Reform Act of 1995

**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.

**UNITED BANCSHARES, INC.**

**Date:** April 29, 2008

By: /s/ Brian D. Young  
Brian D. Young  
Chief Financial Officer

**EXHIBIT INDEX**

UNITED BANCSHARES, INC. QUARTERLY REPORT ON FORM 10-Q

FOR PERIOD ENDED MARCH 31, 2008

**Exhibit**

<b>Number</b>	<b>Description</b>	<b>Exhibit Location</b>
3(i)	Amended and Restated Articles of Incorporation	Incorporated herein by reference to the Corporation's Definitive Proxy Statement pursuant to Section 14(a) filed March 8, 2002.
3(ii)	Amended and Restated Code of Regulations	Incorporated herein by reference to the Corporation's Form 10-Q for the quarter ended June 30, 2007.
10.1	Employment Agreement Daniel W. Schutt	Incorporated herein by reference to the Corporation's 2004 Form 10K/A filed August 5, 2005.
10.11	Salary Continuation Agreement Daniel W. Schutt	Incorporated by reference to Corporation's Form 10-K filed March 23, 2007.
10.2	Agreement - Brian D. Young	Incorporated by reference to Corporation's Form 8-K filed July 20, 2006.
10.3	Salary Continuation Agreement - Brian D. Young	Incorporated herein by reference to the Corporation's 2004 Form 10K/A filed August 5, 2005.
10.4	Executive Supplemental Income Agreement - Bonita Selhorst	Incorporated herein by reference to the Corporation's 2004 Form 10K/A filed August 5, 2005.
10.5	Salary Continuation Agreement Second Amendment Daniel W. Schutt	Incorporated herein by reference to the Corporation's 2007 Form 10Q filed April 27, 2007.
10.6	Preferred Trust Securities, Placement and Debenture agreements	Incorporated herein by reference to the Corporation's 2004 Form 10K/A filed August 5, 2005.
10.7	Executive Supplemental Income Agreement, First Amendment - Bonita Selhorst	Incorporated herein by reference to the Corporation's 2007 Form 10Q filed April 27, 2007.
10.8	Salary Continuation Agreement, First Amendment Daniel W. Schutt	Incorporated herein by reference to the Corporation's 2007 Form 10Q filed April 27, 2007.
10.9	Salary Continuation Agreement, First	Incorporated herein by reference to the Corporation's

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	Amendment	Brian D. Young	2007 Form 10Q filed April 27, 2007.
31.1	Rule 13a-14(a)/15d-14(a)	Certification of CEO	Filed herewith
31.2	Rule 13a-14(a)/15d-14(a)	Certification of CFO	Filed herewith
32.1	Section 1350	CEO's Certification	Filed herewith
32.2	Section 1350	CFO's Certification	Filed herewith
99	Safe Harbor under the Private Securities		Filed herewith

Litigation Reform Act of 1995