

FIRST UNITED CORP/MD/
Form 10-Q
August 13, 2012

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

For quarterly period ended June 30, 2012

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT
For the transition period from _____ to _____

Commission file number 0-14237

First United Corporation

(Exact name of registrant as specified in its charter)

Maryland 52-1380770
(State or other jurisdiction of (I. R. S. Employer Identification No.)
incorporation or organization)

19 South Second Street, Oakland, Maryland 21550-0009

(Address of principal executive offices) (Zip Code)

(800) 470-4356

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(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 periods that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes R No ☒

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes R 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 definition 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 R

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 6,199,283 shares of common stock, par value \$.01 per share, as of July 31, 2012.

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PART I. FINANCIAL INFORMATION**Item 1. Financial Statements****FIRST UNITED CORPORATION**

Consolidated Statements of Financial Condition

(In thousands, except per share and percentage data)

	June 30, 2012	December 31, 2011
	(Unaudited)	
Assets		
Cash and due from banks	\$53,305	\$52,049
Interest bearing deposits in banks	13,634	13,058
Cash and cash equivalents	66,939	65,107
Investment securities – available-for-sale (at fair value)	227,244	245,023
Investment securities – held to maturity (at cost)	4,040	0
Restricted investment in bank stock, at cost	9,679	10,726
Loans	907,909	938,694
Allowance for loan losses	(16,770)	(19,480)
Net loans	891,139	919,214
Premises and equipment, net	30,378	30,826
Goodwill and other intangible assets, net	11,004	14,432
Bank owned life insurance	30,893	31,435
Deferred tax assets	30,054	28,711
Other real estate owned	19,828	16,676
Accrued interest receivable and other assets	27,241	28,715
Total Assets	\$1,348,439	\$1,390,865
Liabilities and Shareholders' Equity		
Liabilities:		
Non-interest bearing deposits	\$157,324	\$149,888
Interest bearing deposits	839,016	877,896
Total deposits	996,340	1,027,784
Short-term borrowings	28,902	36,868
Long-term borrowings	206,515	207,044
Accrued interest payable and other liabilities	21,579	22,513
Total Liabilities	1,253,336	1,294,209

Shareholders' Equity:

Preferred stock – no par value;

Authorized 2,000 shares of which 30 shares of Series A, \$1,000 per share liquidation preference, 5% cumulative increasing to 9% cumulative on February 15, 2014, were issued and outstanding on June 30, 2012 and December 31, 2011 (discount of \$108 and \$140, respectively)	29,892	29,860
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Common Stock – par value \$.01 per share;

Authorized 25,000 shares; issued and outstanding 6,199 shares at June 30, 2012 and 6,183 shares at December 31, 2011	62	62
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Surplus	21,531	21,500
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Retained earnings	64,334	66,196
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Accumulated other comprehensive loss	(20,716)	(20,962)
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Total Shareholders' Equity	95,103	96,656
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Total Liabilities and Shareholders' Equity	\$1,348,439	\$1,390,865
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See accompanying notes to the consolidated financial statements

FIRST UNITED CORPORATION

Consolidated Statements of Operations

(In thousands, except per share data)

	Six Months Ended June 30, 2012 2011 (Unaudited)	
Interest income		
Interest and fees on loans	\$23,954	\$27,163
Interest on investment securities		
Taxable	2,145	1,795
Exempt from federal income tax	1,036	1,552
Total investment income	3,181	3,347
Other	134	239
Total interest income	27,269	30,749
Interest expense		
Interest on deposits	3,558	6,903
Interest on short-term borrowings	97	127
Interest on long-term borrowings	3,833	4,701
Total interest expense	7,488	11,731
Net interest income	19,781	19,018
Provision for loan losses	9,236	4,605
Net interest income after provision for loan losses	10,545	14,413
Other operating income		
Changes in fair value on impaired securities	(43)	793
Portion of loss/(gain) recognized in other comprehensive income (before taxes)	43	(812)
Net securities impairment losses recognized in operations	0	(19)
Net gains – other	1,362	668
Total net gains	1,362	649
Service charges	1,725	1,803
Trust department	2,269	2,143
Insurance commissions	8	1,288
Debit card income	1,021	1,112
Bank owned life insurance	1,264	509
Other	911	725
Total other income	7,198	7,580
Total other operating income	8,560	8,229
Other operating expenses		
Salaries and employee benefits	9,936	10,158
FDIC premiums	977	1,387
Equipment	1,341	1,575
Occupancy	1,401	1,425
Data processing	1,445	1,387

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Other	4,849	5,071
Total other operating expenses	19,949	21,003
(Loss)/Income before income tax expense	(844)	1,639
Applicable income tax expense/(benefit)	172	(451)
Net (Loss)/Income	(1,016)	2,090
Accumulated preferred stock dividends and discount accretion	(846)	(794)
Net (Loss) Attributable to/Net Income Available to Common Shareholders	\$(1,862)	\$1,296
Basic net (loss)/income per common share	\$(.30)	\$.21
Diluted net (loss)/income per common share	\$(.30)	\$.21
Weighted average number of basic and diluted shares outstanding	6,188	6,172

See accompanying notes to the consolidated financial statements

FIRST UNITED CORPORATION

Consolidated Statements of Operations

(In thousands, except per share data)

	Three Months Ended June 30, 2012 2011 (Unaudited)	
Interest income		
Interest and fees on loans	\$ 11,905	\$ 13,249
Interest on investment securities		
Taxable	1,040	1,090
Exempt from federal income tax	481	690
Total investment income	1,521	1,780
Other	75	92
Total interest income	13,501	15,121
Interest expense		
Interest on deposits	1,665	3,232
Interest on short-term borrowings	51	66
Interest on long-term borrowings	1,887	2,275
Total interest expense	3,603	5,573
Net interest income	9,898	9,548
Provision for loan losses	1,112	3,261
Net interest income after provision for loan losses	8,786	6,287
Other operating income		
Changes in fair value on impaired securities	(371)	102
Portion of loss/(gain) recognized in other comprehensive income (before taxes)	371	(102)
Net securities impairment losses recognized in operations	0	0
Net gains – other	36	567
Total net gains	36	567
Service charges	863	937
Trust department	1,154	1,079
Insurance commissions	2	665
Debit card income	529	504
Bank owned life insurance	293	255
Other	305	378
Total other income	3,146	3,818
Total other operating income	3,182	4,385
Other operating expenses		
Salaries and employee benefits	5,047	5,026
FDIC premiums	512	492
Equipment	659	760
Occupancy	691	687

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Data processing	765	685
Other	2,512	2,440
Total other operating expenses	10,186	10,090
Income before income tax expense	1,782	582
Applicable income tax expense/(benefit)	133	(551)
Net Income	1,649	1,133
Accumulated preferred stock dividends and discount accretion	(431)	(400)
Net Income Available to Common Shareholders	\$1,218	\$733
Basic net income per common share	\$.20	\$.12
Diluted net income per common share	\$.20	\$.12
Weighted average number of basic and diluted shares outstanding	6,194	6,177

See accompanying notes to the consolidated financial statements

FIRST UNITED CORPORATION

Consolidated Statements of Comprehensive Income/(Loss)

(In thousands, except per share data)

	Six Months Ended June 30	
Components of Comprehensive Income/(Loss) (in thousands)	2012	2011
Net Income/(Loss)	\$(1,016)	\$2,090
Available for sale (AFS) securities with OTTI:		
Securities with OTTI charges during the period	\$(43)	\$793
Less: OTTI charges recognized in income	0	(19)
Unrealized (losses)/gains on investments with OTTI	(43)	812
Taxes	17	(329)
Net unrealized (losses)/gains on investments with OTTI	(26)	483
Available for sale securities – all other:		
Unrealized holding gains during the period	333	1,873
Less: securities with OTTI charges during the period	(43)	793
Unrealized gains on all other AFS securities	376	1,080
Taxes	(151)	(435)
Net unrealized gains on all other AFS securities	225	645
Net unrealized gains on AFS securities	199	1,128
Unrealized gains/(losses) on cash flow hedges	79	(84)
Taxes	(32)	34
Net unrealized gains/(losses) on cash flow hedges	47	(50)
Other comprehensive income, net of tax	\$246	\$1,078
Comprehensive income/(loss)	\$(770)	\$3,168

See accompanying notes to the consolidated financial statements

FIRST UNITED CORPORATION

Consolidated Statements of Comprehensive Income/(Loss)

(In thousands, except per share data)

	Three Months Ended June 30	
Components of Comprehensive Income/(Loss) (in thousands)	2012	2011
Net Income	\$1,649	\$1,133
Available for sale (AFS) securities with OTTI:		
Securities with OTTI charges during the period	\$(371)	\$102
Less: OTTI charges recognized in income	0	0
Unrealized (losses)/gains on investments with OTTI	(371)	102
Taxes	150	(41)
Net unrealized (losses)/gains on investments with OTTI	(221)	61
Available for sale securities – all other:		
Unrealized holding gains during the period	211	863
Less: securities with OTTI charges during the period	(371)	102
Unrealized gains on all other AFS securities	582	761
Taxes	(236)	(307)
Net unrealized gains on all other AFS securities	346	454
Net unrealized gains on AFS securities	125	515
Unrealized gains/(losses) on cash flow hedges	33	(253)
Taxes	(13)	102
Net unrealized gains/(losses) on cash flow hedges	20	(151)
Other comprehensive income, net of tax	\$145	\$364
Comprehensive income	\$1,794	\$1,497

See accompanying notes to the consolidated financial statements

FIRST UNITED CORPORATION

Consolidated Statements of Changes in Shareholders' Equity

(In thousands, except share and per share data)

Preferred Stock	Common Stock	Surplus	Retained Earnings
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