UNITED COMMUNITY BANKS INC
Form 10-Q
August 07, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2009

OR

o 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 0-21656

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

Georgia (State of Incorporation)	58-1807304 (I.R.S. Employer Identification No.)
63 Highway 515 Blairsville, Georgia Address of Principal Executive Offices	30512 (Zip Code)

(706) 781-2265
(Telephone Number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES x NO o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Date 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 o NO o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or 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.

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller Reporting Company o

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

YES o NO x

Common stock, par value $1 per share: 48,966,262 shares
outstanding as of July 31, 2009

INDEX

Part I – Financial Information

Item 1 – Financial Statements

UNITED COMMUNITY BANKS, INC.
Consolidated Statement of Income (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands, except per share data)	2009	2008	2009	2008
Interest revenue:				
Loans, including fees	$ 81,691	$ 97,051	$ 163,571	$ 206,317
Investment securities, including tax exempt of $309, $398, $628 and $792	20,485	19,277	41,237	38,299
Federal funds sold, commercial paper and deposits in banks	98	50	540	272
Total interest revenue	102,274	116,378	205,348	244,888
Interest expense:				
Deposits:				
NOW	2,843	7,216	6,180	15,803
Money market	2,269	2,310	4,506	5,223
Savings	121	180	248	407
Time	32,064	38,828	68,117	77,712
Total deposit interest expense	37,297	48,534	79,051	99,145
Federal funds purchased, repurchase agreements and other short-term borrowings	595	1,820	1,148	6,138
Federal Home Loan Bank advances	1,203	2,818	2,277	8,563
Long-term debt	2,760	2,059	5,529	4,139
Total interest expense	41,855	55,231	88,005	117,985
Net interest revenue	60,419	61,147	117,343	126,903
Provision for loan losses	60,000	15,500	125,000	23,000
Net interest revenue after provision for loan losses	419	45,647	(7,657)	103,903
Fee revenue:				
Service charges and fees	7,557	7,957	14,591	15,770
Mortgage loan and other related fees	2,825	2,202	5,476	4,165
Consulting fees	1,745	2,252	2,766	4,059
Brokerage fees	497	814	1,186	1,907
Securities (losses) gains, net	(711)	357	(408)	357
Gain from acquisition	11,390	—	11,390	—
Other	1,137	1,523	2,285	3,044
Total fee revenue	24,440	15,105	37,286	29,302
Total revenue	24,859	60,752	29,629	133,205
Operating expenses:				
Salaries and employee benefits	28,058	28,753	56,897	57,507

Communications and equipment	3,645	3,852	7,374	7,684
Occupancy	3,853	3,704	7,660	7,420
Advertising and public relations	1,191	2,009	2,300	3,360
Postage, printing and supplies	1,294	1,448	2,476	3,040
Professional fees	2,806	1,679	5,099	3,600
Foreclosed property	5,737	2,852	10,056	3,763
FDIC assessments and other regulatory charges	6,810	1,265	9,492	2,531
Amortization of intangibles	739	745	1,478	1,512
Other	1,215	3,454	5,085	6,873
Goodwill impairment	—	—	70,000	—
Severance costs	—	—	2,898	—
Total operating expenses	55,348	49,761	180,815	97,290
(Loss) income before income taxes	(30,489)	10,991	(151,186)	35,915
Income tax (benefit) expense	(14,488)	3,898	(31,412)	12,744
Net (loss) income	(16,001)	7,093	(119,774)	23,171
Preferred stock dividends, including discount accretion	2,559	4	5,113	8
Net (loss) income available to common shareholders	$ (18,560)	$ 7,089	$ (124,887)	$ 23,163
Basic (loss) earnings per common share	$ (.38)	$ .15	$ (2.57)	$ .49
Diluted (loss) earnings per common share	(.38)	.15	(2.57)	.49
Cash dividends per common share	—	.09	—	.18
Stock dividends per common share (new shares issued per shares held)	1 for 130	—	2 for 130	—
Weighted average common shares outstanding - Basic	48,794	47,158	48,560	47,105
Weighted average common shares outstanding - Diluted	48,794	47,249	48,560	47,260

See notes to Consolidated Financial Statements

UNITED COMMUNITY BANKS, INC.
Consolidated Balance Sheet

(in thousands, except share and per share data)	June 30, 2009 (unaudited)	December 31, 2008 (audited)	June 30, 2008 (unaudited)
ASSETS			
Cash and due from banks	$ 110,943	$ 116,395	$ 176,240
Interest-bearing deposits in banks	70,474	8,417	12,455
Federal funds sold, commercial paper and short-term investments	—	368,609	—
Cash and cash equivalents	181,417	493,421	188,695
Securities available for sale	1,816,787	1,617,187	1,430,588
Mortgage loans held for sale	42,185	20,334	27,094
Loans, net of unearned income	5,513,087	5,704,861	5,933,141
Less allowance for loan losses	145,678	122,271	91,035
Loans, net	5,367,409	5,582,590	5,842,106
Covered assets	230,125	—	—
Premises and equipment, net	178,983	179,160	181,395
Accrued interest receivable	41,405	46,088	50,399
Goodwill and other intangible assets	251,821	321,798	323,296
Other assets	292,914	260,187	220,478
Total assets	$ 8,403,046	$ 8,520,765	$ 8,264,051
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities:			
Deposits:			
Demand	$ 714,630	$ 654,036	$ 696,575
NOW	1,273,368	1,543,385	1,541,609
Money market	573,463	466,750	418,935
Savings	180,368	170,275	187,088
Time:			
Less than $100,000	1,992,056	1,953,235	1,747,763
Greater than $100,000	1,351,527	1,422,974	1,573,078
Brokered	763,348	792,969	531,408
Total deposits	6,848,760	7,003,624	6,696,456
Federal funds purchased, repurchase agreements, and other short-term borrowings	252,493	108,411	288,650
Federal Home Loan Bank advances	283,292	235,321	285,807
Long-term debt	150,026	150,986	107,996
Accrued expenses and other liabilities	13,203	33,041	47,252
Total liabilities	7,547,774	7,531,383	7,426,161
Shareholders' equity:			
Preferred stock, $1 par value; 10,000,000 shares authorized;	217	258	258

Series A; $10 stated value; 21,700, 25,800 and 25,800 shares issued and outstanding			
Series B; $1,000 stated value; 180,000 shares issued and outstanding	173,785	173,180	—
Common stock, $1 par value; 100,000,000 shares authorized;48,933,383, 48,809,301 and 48,809,301 shares issued	48,933	48,809	48,809
Common stock issuable; 182,041, 129,304 and 105,579 shares	3,383	2,908	2,696
Capital surplus	450,514	460,708	462,939
Retained earnings	136,624	265,405	362,089
Treasury stock; 799,892 and 1,713,310 shares, at cost	—	(16,465)	(39,222)
Accumulated other comprehensive income	41,816	54,579	321
Total shareholders' equity	855,272	989,382	837,890
Total liabilities and shareholders' equity	$ 8,403,046	$ 8,520,765	$ 8,264,051

See notes to Consolidated Financial Statements

UNITED COMMUNITY BANKS, INC.
Consolidated Statement of Changes in Shareholders' Equity (Unaudited)
For the Six Months Ended June 30, 2009

(in thousands, except share and per share data)	Series A Preferred Stock	Series B Preferred Stock	Common Stock	Common Stock Issuable	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2007	$ 258	$ —	$ 48,809	$ 2,100	$ 462,881	$ 347,391	$ (43,798)	$ 14,261	$ 831,902
Comprehensive income:									
Net income						23,171			23,171
Other comprehensive income:									
Unrealized holding losses on available for sale securities, net of deferred tax benefit and reclassification adjustment								(15,203)	(15,203)
Unrealized gains on derivative financial instruments qualifying as cash flow hedges, net of deferred tax expense								1,263	1,263
Comprehensive income						23,171		(13,940)	9,231
Cash dividends declared on common stock ($.18 per share)						(8,465)			(8,465)
Exercise of stock options (62,860 shares)					(717)		1,529		812
Common stock issued to dividend reinvestment plan and					(1,024)		2,648		1,624

employee benefit plans (113,047 shares)									
Amortization of stock option and restricted stock awards					1,944				1,944
Vesting of restricted stock (15,159 shares issued, 8,700 shares deferred)				264	(626)		362		—
Deferred compensation plan, net, including dividend equivalents				374					374
Shares issued from deferred compensation plan (1,545 shares)				(42)	5		37		—
Tax benefit from options exercised					476				476
Dividends on Series A preferred stock ($.30 per share)						(8)			(8)
Balance, June 30, 2008	$ 258	$ —	$ 48,809	$ 2,696	$ 462,939	$ 362,089	$ (39,222)	$ 321	$ 837,890
Balance, December 31, 2008	$ 258	$ 173,180	$ 48,809	$ 2,908	$ 460,708	$ 265,405	$ (16,465)	$ 54,579	$ 989,382
Comprehensive income:									
Net loss						(119,774)			(119,774)
Other comprehensive loss:									
Unrealized holding gains on available for sale securities, net of deferred tax expense and reclassification adjustment								1,582	1,582
Unrealized losses on								(14,345)	(14,345)

derivative financial instruments qualifying as cash flow hedges, net of deferred tax benefit								
Comprehensive loss					(119,774)		(12,763)	(132,537)
Retirement of Series A preferred stock (4,100 shares)	(41)							(41)
Stock dividends declared on common stock (737,530 shares)		108		(8,893)	(3,894)	12,649		(30)
Exercise of stock options (437 shares)				(6)		8		2
Common stock issued to dividend reinvestment plan and employee benefit plans (167,873 shares)		14		(2,474)		3,434		974
Amortization of stock options and restricted stock awards				1,846				1,846
Vesting of restricted stock (12,447 shares issued, 16,162 shares deferred)		2	416	(658)		240		—
Deferred compensation plan, net, including dividend equivalents			214					214
Shares issued from deferred compensation plan (5,687 shares)			(155)	21		134		—
Tax on option exercise and				(30)				(30)

restricted stock vesting									
Dividends on Series A preferred stock ($.30 per share)						(8)			(8)
Dividends on Series B preferred stock (5%)		605				(5,105)			(4,500)
Balance, June 30, 2009	$ 217	$ 173,785	$ 48,933	$ 3,383	$ 450,514	$ 136,624	$ —	$ 41,816	$ 855,272

Comprehensive loss for the second quarter of 2009 and 2008 was $32,735,000 and $31,569,000, respectively.

See notes to Consolidated Financial Statements

4

UNITED COMMUNITY BANKS, INC.
Consolidated Statement of Cash Flows (Unaudited)

	Six Months Ended June 30,	
(in thousands)	2009	2008
Operating activities:		
Net (loss) income	$ (119,774)	$ 23,171
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation, amortization and accretion	7,215	7,211
Provision for loan losses	125,000	23,000
Goodwill impairment charge	70,000	—
Stock-based compensation	1,846	1,944
Loss (gain) on sale of securities available for sale	408	(357)
(Gain) loss on sale of other assets and other real estate owned	(601)	578
Write downs of other real estate owned	(4,889)	(11)
Gain from acquisition	(11,390)	—
Changes in assets and liabilities:		
Other assets and accrued interest receivable	(10,943)	(14,651)
Accrued expenses and other liabilities	50,868	25,309
Mortgage loans held for sale	(21,851)	910
Net cash provided by operating activities	85,889	67,104
Investing activities:		
Proceeds from sales of securities available for sale	15,017	79,735
Proceeds from maturities and calls of securities available for sale	399,401	344,597
Purchases of securities available for sale	(584,100)	(511,626)
Net increase in loans	(12,617)	(65,062)
Proceeds from sales of premises and equipment	547	323
Purchases of premises and equipment	(6,237)	(7,291)
Net cash received from acquisitions	63,618	—
Proceeds from sale of other real estate	56,060	30,636
Net cash used by investing activities	(68,311)	(128,688)
Financing activities:		
Net change in deposits	(462,921)	620,505
Net change in federal funds purchased, repurchase agreements, and other short-term borrowings	141,412	(349,812)
Proceeds from FHLB advances	130,000	400,000
Repayments of FHLB advances	(135,000)	(634,000)
Proceeds from exercise of stock options	2	812
Proceeds from issuance of common stock for dividend reinvestment and employee benefit plans	974	1,624
Retirement of preferred stock	(41)	—
Cash dividends on common stock	—	(8,465)
Cash dividends on preferred stock	(4,008)	(8)
Net cash (used) provided by financing activities	(329,582)	30,656
Net change in cash and cash equivalents	(312,004)	(30,928)

Cash and cash equivalents at beginning of period	493,421	219,623
Cash and cash equivalents at end of period	$ 181,417	$ 188,695
Supplemental disclosures of cash flow information:		
Cash paid (received) during the period for:		
Interest	$ 91,865	$ 120,314
Income taxes	(23,850)	20,098

See notes to Consolidated Financial Statements

5

United Community Banks, Inc.

Notes to Consolidated Financial Statements

Note 1 – Accounting Policies

The accounting and financial reporting policies of United Community Banks, Inc. (“United”) and its subsidiaries conform to accounting principles generally accepted in the United States of America (“GAAP”) and general banking industry practices. The accompanying interim consolidated financial statements have not been audited. All material intercompany balances and transactions have been eliminated. A more detailed description of United’s accounting policies is included in the 2008 annual report filed on Form 10-K.

In management’s opinion, all accounting adjustments necessary to accurately reflect the financial position and results of operations on the accompanying financial statements have been made. These adjustments are normal and recurring accruals considered necessary for a fair and accurate presentation. The results for interim periods are not necessarily indicative of results for the full year or any other interim periods.

Statement of Financial Accounting Standards No. 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133 (“SFAS 161”), amends and expands the disclosure requirements of Financial Accounting Standards Board (“FASB”) Statement No. 133, Accounting for Derivative Instruments and Hedging Activities (“SFAS 133”) with the intent to provide users of financial statements with an enhanced understanding of: (1) how and why an entity uses derivative instruments, (2) how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations, and (3) how derivative instruments and related hedged items affect an entity’s financial position, financial performance, and cash flows. SFAS 161 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about the fair value of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative instruments.

As required by SFAS 133, United records all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether United has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Derivatives may also be designated as hedges of the foreign currency exposure of a net investment in a foreign operation. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. United may enter into derivative contracts that are intended to economically hedge certain of its risks, even though hedge accounting does not apply or United elects not to apply hedge accounting under SFAS 133.

Foreclosed property is initially recorded at fair value, less cost to sell. If the fair value, less cost to sell at the time of foreclosure, is less than the loan balance, the deficiency is charged against the allowance for loan losses. If the fair value, less cost to sell, of the foreclosed property decreases during the holding period, a valuation allowance is established with a charge to operating expenses. When the foreclosed property is sold, a gain or loss is recognized on the sale for the difference between the sales proceeds and the carrying amount of the property. Financed sales of foreclosed property are accounted for in accordance with Statement of Financial Accounting Standards No. 66, Accounting for Sales of Real Estate (“SFAS 66”).

Note 2 – Federally Assisted Acquisition of Southern Community Bank

On June 19, 2009, United Community Bank (“UCB”) purchased substantially all the assets and assumed substantially all the liabilities of Southern Community Bank (“SCB”) from the Federal Deposit Insurance Corporation (“FDIC”), as Receiver of SCB. SCB operated five commercial banking branches on the south side of Atlanta in Fayetteville, Peachtree City, Locust Grove and Newnan, Georgia. The FDIC took SCB under receivership upon SCB’s closure by the Georgia Department of Banking and Finance at the close of business June 19, 2009. UCB submitted a bid for the acquisition of SCB with the FDIC on June 16, 2009. The transaction resulted in a cash payment of $31 million from the FDIC to UCB. Further, UCB and the FDIC entered loss sharing agreements regarding future losses incurred on loans and foreclosed loan collateral existing at June 19, 2009. Under the terms of the loss sharing agreements, the FDIC will absorb 80 percent of losses and share 80 percent of loss recoveries on the first $109 million of losses and, absorb 95 percent of losses and share in 95 percent of loss recoveries on losses exceeding $109 million. The term for loss sharing on residential real estate loans is ten years, while the term for loss sharing on all other loans is five years.

The SCB acquisition was accounted for under the purchase method of accounting in accordance with the FASB's Statement of Financial Accounting Standards No. 141(R) Business Combinations ("SFAS 141(R)"). The statement of net assets acquired as of June 19, 2009 and the resulting gain from acquisition are presented in the following table.

Statement of net assets acquired (at estimated fair values)

(in thousands)	Southern Community Bank
Assets acquired:	
Cash and due from banks	$ 63,618
Securities available for sale	80,148
Loans	110,023
Foreclosed property	25,913
Estimated loss reimbursement from the FDIC	94,550
Covered assets	230,486
Core deposit intangible	1,500
Accrued interest receivable and other assets	2,434
Total assets acquired	378,186
Liabilities assumed:	
Deposits	309,437
Federal Home Loan Bank advances	53,416
Accrued interest payable and other liabilities	3,943
Total liabilities assumed	366,796
	$ 11,390

Net assets
acquired / gain
from
acquisition

The purchased assets and assumed liabilities were recorded at their respective acquisition date fair values, and identifiable intangible assets were recorded at fair value. Fair values are preliminary and subject to refinement for up to one year after the closing date of a merger as information relative to closing date fair values become available. A gain totaling $11.4 million resulted from the acquisition and is included as a component of fee revenue on the consolidated statement of income. The amount of the gain is equal to the amount by which the fair value of assets purchased exceeded the fair value of liabilities assumed. The results of operations of SCB for the period of June 19, 2009 to June 30, 2009 are included in the consolidated financial statements. SCB's results of operations prior to the acquisition are not included in United's consolidated statement of income.

United made significant estimates and exercised significant judgment in accounting for the acquisition of SCB. Management engaged an independent third party to assist in determining the value of SCB's loans. United also recorded an identifiable intangible asset representing the value of the core deposit customer base of SCB. In determining the value of the identifiable intangible asset, United estimated average lives of depository accounts, future interest rate levels, the cost of servicing various depository products, and other significant items. Management used quoted market prices and observable data to determine the fair value of investment securities. The fair values of FHLB advances, certificates of deposit and other borrowings which were purchased and assumed from SCB were determined based on discounted cash flows at current rates for similar instruments.

Purchased loans acquired in a business combination are recorded at estimated fair value on their purchase date. The carryover of the related allowance for loan losses is prohibited. Purchased loans are accounted for under American Institute of Certified Public Accountants Statement of Position 03-3, Accounting for Certain Loans or Debt Securities Acquired in a Transfer ("SOP 03-3"), when the loans have evidence of credit deterioration since origination and it is probable at the date of acquisition that United will not collect all contractually required principal and interest payments. Evidence of credit quality deterioration as of the purchase date may include statistics such as past due and nonaccrual status. Generally, acquired loans that meet United's definition of nonaccrual status fall within the scope of SOP 03-3. The difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition is referred to as the non-accretable difference which is deducted from the carrying amount of loans. Subsequent decreases to the expected cash flows will generally result in a provision for loan losses. Subsequent increases in cash flows result in a reversal of the provision for loan losses to the extent of prior charges or a reversal of the non-accretable difference with a positive impact on interest revenue. Further, any excess of cash flows expected at acquisition over the estimated fair value is referred to as the accretable yield and is recognized into interest revenue over the remaining life of the loan when there is reasonable expectation about the amount and timing of such cash flows.

Loans, foreclosed property and the estimated FDIC reimbursement resulting from the loss share agreements with the FDIC are reported as "covered assets" in the consolidated balance sheet. The table below shows the components of covered assets at June 30, 2009.

(in thousands)	SOP 03-3 Loans	Non SOP 03-3 Loans	Other	Total
Covered loans	$ 23,513	$ 86,339	$ —	$ 109,852
Covered foreclosed property	—	—	25,723	25,723
Estimated loss reimbursement from the FDIC	—	—	94,550	94,550
Total covered assets	$ 23,513	$ 86,339	$ 120,273	$ 230,125

Covered loans are initially recorded at fair value at the acquisition date. Subsequent decreases in the amount expected to be collected results in a provision for loan losses and an increase in the estimated FDIC reimbursement, with any estimated net loss impacting earnings. Covered foreclosed property is initially recorded at its estimated fair value.

On the acquisition date, the preliminary estimate of the contractually required payments receivable for all SOP 03-3 loans acquired was $70.8 million, the cash flows expected to be collected were $24.5 million including interest, and the estimated fair value of the loans was $23.6 million. These amounts were determined based upon the estimated remaining life of the underlying loans, which include the effects of estimated prepayments. At June 30, 2009, a majority of these loans were valued based on the liquidation value of the underlying collateral, because the expected cash flows are primarily based on the liquidation of the underlying collateral and the timing and amount of the cash flows could not be reasonably estimated. Because of the short time period between the closing of the transaction and June 30, 2009, certain amounts related to the SOP 03-3 loans are preliminary estimates and adjustments in future quarters may occur.

Note 3 – Stock-Based Compensation

United has an equity compensation plan that allows for grants of incentive stock options, nonqualified stock options, restricted stock awards (also referred to as "nonvested stock" awards), stock awards, performance share awards or stock appreciation rights. Options granted under the plan can have an exercise price no less than the fair market value of the underlying stock at the date of grant. The general terms of the plan include a vesting period (usually four years) with an exercisable period not to exceed ten years. Certain option and restricted stock awards provide for accelerated vesting if there is a change in control (as defined in the plan). As of June 30, 2009, approximately 954,000 additional awards could be granted under the plan. Through June 30, 2009, only incentive stock options, nonqualified stock options and restricted stock awards and units had been granted under the plan.

The following table shows stock option activity for the first six months of 2009.

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinisic Value ($000)

Outstanding at December 31, 2008	3,350,701	$	19.99			
Stock dividend adjustment	51,266		—			
Granted	352,950		6.35			
Exercised	(437)		5.96			
Forfeited	(43,069)		22.35			
Expired	(27,198)		13.24			
Outstanding at June 30, 2009	3,684,213		18.43	6.1	$	—
Exercisable at June 30, 2009	2,464,201		19.26	4.8		—

The weighted average fair value of stock options granted in the second quarter of 2009 and 2008 was $2.88 and $2.93, respectively. The fair value of each option granted was estimated on the date of grant using the Black-Scholes model. Because United’s option plan has not been in place long enough to gather sufficient information about exercise patterns to establish an expected life, United uses the formula provided by the Securities and Exchange Commission in Staff Accounting Bulletin No. 107 to determine the expected life of options.

The weighted average assumptions used to determine the fair value of stock options are presented in the table below.

	Six Months Ended June 30, 2009	2008
Expected volatility	40.68%	23.42%
Expected dividend yield	0.00%	2.61%
Expected life (in years)	6.25	6.25
Risk-free rate	3.35%	3.43%

United's stock trading history began in March of 2002 when United listed on the Nasdaq National Market. For 2009 expected volatility was determined using United's historical monthly volatility for the seventy five months ended December 31, 2008. Seventy five months was chosen to correspond to the expected life of 6.25 years. For 2008, expected volatility was determined using United's historical monthly volatility over the period beginning in March of 2002 through the end of 2007. Compensation expense for stock options was $1.4 million and $1.5 million for the six months ended June 30, 2009 and 2008, respectively. Deferred tax benefits of $498,000 and $445,000, respectively, were included in the determination of income tax (benefit) expense for the six-month periods ended June 30, 2009 and 2008. The amount of compensation expense for both periods was determined based on the fair value of the options at the time of grant, multiplied by the number of options granted that were expected to vest, which was then amortized over the vesting period. The forfeiture rate for options is estimated to be approximately 3% per year. The total intrinsic value of options exercised during the six months ended June 30, 2009 and 2008 was $840 and $277,000.

The table below presents the activity in restricted stock awards for the first six months of 2009.

Restricted Stock	Shares	Weighted-Average Grant-Date Fair Value
Outstanding at December 31, 2008	89,498	$ 24.17
Stock dividend adjustment	1,876	—
Granted	106,000	7.07
Vested	(28,609)	25.08
Outstanding at June 30, 2009	168,765	13.01

Compensation expense for restricted stock is based on the fair value of restricted stock awards at the time of grant, which is equal to the value of United's common stock on the date of grant. The value of restricted stock grants that are expected to vest is amortized into expense over the vesting period. For the six months ended June 30, 2009 and 2008, compensation expense of $433,000 and $441,000, respectively, was recognized related to restricted stock awards. The total intrinsic value of the restricted stock was $1.0 million at June 30, 2009.

As of June 30, 2009, there was $6.9 million of unrecognized compensation cost related to nonvested stock options and restricted stock awards granted under the plan. That cost is expected to be recognized over a weighted-average period of 1.4 years. The aggregate grant date fair value of options and restricted stock awards that vested during the six months ended June 30, 2009, was $3.5 million.

Note 4 – Common Stock Issued / Common Stock Issuable

United provides a Dividend Reinvestment and Share Purchase Plan (“DRIP”) to its shareholders. Under the DRIP, shareholders of record can voluntarily reinvest all or a portion of their cash dividends into shares of United’s common stock, as well as purchase additional stock through the plan with cash. United’s 401(k) retirement plan regularly purchases shares of United’s common stock directly from United. In addition, United has an Employee Stock Purchase Program (“ESPP”) that allows eligible employees to purchase shares of common stock at a 5% discount, with no commission charges. For the six months ended June 30, 2009 and 2008, United issued 167,873 and 113,047 shares, respectively, and increased capital by $974,000 and $1.6 million, respectively, through these programs.

United offers its common stock as an investment option in its deferred compensation plan. The common stock component of the deferred compensation plan is accounted for as an equity instrument and is reflected in the consolidated financial statements as common stock issuable. At June 30, 2009 and 2008 182,041 and 105,579 shares, respectively, were issuable under the deferred compensation plan.

Note 5 – Securities Available for Sale

The cost basis, unrealized gains and losses, and fair value of securities available for sale at June 30, 2009, December 31, 2008 and June 30, 2008 are presented below (in thousands):

As of June 30, 2009	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasuries	$ 39,979	$ —	$ 4	$ 39,975
U.S. Government agencies	209,662	1,015	3,364	207,313
State and political subdivisions	55,194	619	310	55,503
Mortgage-backed securities	1,462,695	32,318	9,916	1,485,097
Other	28,645	311	57	28,899
Total	$ 1,796,175	$ 34,263	$ 13,651	$ 1,816,787
As of December 31, 2008				
U.S. Government agencies	$ 166,263	$ 2,122	$ —	$ 168,385
State and political subdivisions	43,649	469	378	43,740
Mortgage-backed securities	1,363,513	26,356	10,713	1,379,156
Other	26,080	79	253	25,906
Total	$ 1,599,505	$ 29,026	$ 11,344	$ 1,617,187
As of June 30, 2008				
U.S. Government agencies	$ 190,934	$ 568	$ 1,998	$ 189,504
State and political subdivisions	40,067	558	259	40,366
Mortgage-backed securities	1,212,565	2,052	20,379	1,194,238
Other	6,495	9	24	6,480
Total	$ 1,450,061	$ 3,187	$ 22,660	$ 1,430,588

The following table summarizes securities in an unrealized loss position as of June 30, 2009, December 31, 2008 and June 30, 2008 (in thousands):

	Less than 12 Months		12 Months or More		Total	
As of June 30, 2009	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Treasuries	$ 39,975	$ 4	$ —	$ —	$ 39,975	$ 4
U.S. Government agencies	142,256	3,364	—	—	142,256	3,364
State and political subdivisions	4,524	106	4,317	204	8,841	310
Mortgage-backed securities	240,979	3,146	150,071	6,770	391,050	9,916
Other	479	22	479	35	958	57

Total unrealized loss position	$ 428,213	$ 6,642	$ 154,867	$ 7,009	$ 583,080	$ 13,651
As of December 31, 2008						
State and political subdivisions	$ 9,672	$ 369	$ 14	$ 9	$ 9,686	$ 378
Mortgage-backed securities	215,396	10,210	11,719	503	227,115	10,713
Other	5,228	253	—	—	5,228	253
Total unrealized loss position	$ 230,296	$ 10,832	$ 11,733	$ 512	$ 242,029	$ 11,344
As of June 30, 2008						
U.S. Government agencies	$ 143,449	$ 1,998	$ —	$ —	$ 143,449	$ 1,998
State and political subdivisions	7,520	259	—	—	7,520	259
Mortgage-backed securities	810,995	20,341	1,898	38	812,893	20,379
Other	497	24	—	—	497	24
Total unrealized loss position	$ 962,461	$ 22,622	$ 1,898	$ 38	$ 964,359	$ 22,660

Management believes that there were no unrealized losses as of June 30, 2009, December 31, 2008 and June 30, 2008 that represented an other-than-temporary impairment. Unrealized losses were primarily attributable to changes in interest rates, and United has both the intent and ability to hold the securities for a time necessary to recover the amortized cost.

The amortized cost and fair value of the investment securities at June 30, 2009, by contractual maturity, are presented in the following table (in thousands). Expected maturities may differ from contractual maturities because issuers and borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
U.S. Treasuries		
Within 1 year	$ 39,979	$ 39,975
	39,979	39,975
U.S. Government agencies:		
Within 1 year	700	702
1 to 5 years	30,998	30,602
5 to 10 years	158,055	157,018
More than 10 years	19,909	18,991
	209,662	207,313
State and political subdivisions:		
Within 1 year	19,094	17,713
1 to 5 years	15,607	16,054
5 to 10 years	9,284	10,485
More than 10 years	11,209	11,251
	55,194	55,503
Other:		
Within 1 year	14,790	14,791
1 to 5 years	9,851	9,853
5 to 10 years	1,000	1,000
More than 10 years	3,004	3,255
	28,645	28,899
Total securities other than mortgage-backed securities:		
Within 1 year	74,563	73,181
1 to 5 years	56,456	56,509
5 to 10 years	168,339	168,503
More than 10 years	34,122	33,497
Mortgage-backed securities	1,462,695	1,485,097
	$ 1,796,175	$ 1,816,787

The following table summarizes securities sales activity for the three month and six month periods ended June 30, 2009 and 2008 (in thousands):

	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008

Proceeds from sales	$	798	$	54,735	$	15,017	$	79,735
Gross gains on sales	$	33	$	357	$	336	$	357
Gross losses on sales		—		—		—		—
Impairment losses		744		—		744		—
Net gains (losses) on sales of securities	$	(711)	$	357	$	(408)	$	357
Income tax expense (benefit) attributable to sales	$	(277)	$	139	$	(159)	$	139

During the second quarter of 2009, United recognized an impairment loss of $744,000 on an equity investment in Silverton Bank, a financial institution that failed during the quarter. The impairment loss represents the full amount of United’s investment in Silverton.

Note 6 – Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share for the three and six months ended June 30, 2009 and 2008.

(in thousands, except per share data)

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Net (loss) income available to common shareholders	$ (18,560)	$ 7,089	$ (124,887)	$ 23,163
Weighted average shares outstanding:				
Basic	48,794	47,158	48,560	47,105
Effect of dilutive securities				
Stock options and restricted stock	—	91	—	155
Warrants attached to trust preferred securities	—	—	—	—
Warrant granted with Series B preferred stock	—	—	—	—
Diluted	48,794	47,249	48,560	47,260
Earnings per common share:				
Basic	$ (.38)	$ .15	$ (2.57)	$ .49
Diluted	$ (.38)	$ .15	$ (2.57)	$ .49

Note 7 – Subsequent Events

United performed an evaluation of subsequent events through August 7, 2009, the date upon which United's quarterly report on Form 10-Q was filed with the Securities and Exchange Commission. No subsequent events were identified that would have required a change to the financial statements or disclosure in the notes to the financial statements.

Note 8 – Assets and Liabilities Measured at Fair Value

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The table below presents United's assets and liabilities measured at fair value on a recurring basis as of June 30, 2009, aggregated by the level in the fair value hierarchy within which those measurements fall.

(in thousands)

	Level 1	Level 2	Level 3	Balance at June 30, 2009
Assets				
Securities available for sale	$ —	$ 1,816,787	$ —	$ 1,816,787
Deferred compensation plan assets	3,976	—	—	3,976
Derivative financial instruments	—	30,815	—	30,815
Total assets	$ 3,976	$ 1,847,602	$ —	$ 1,851,578
Liabilities				
Deferred compensation plan liability	$ 3,976	$ —	$ —	$ 3,976

Total liabilities	$ 3,976	$ —	$ —	$ 3,976

12

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

United may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis in accordance with GAAP. These include assets that are measured at the lower of cost or market that were recognized at fair value below cost at the end of the period. The table below presents United's assets and liabilities measured at fair value on a nonrecurring basis as of June 30, 2009, aggregated by the level in the fair value hierarchy within which those measurements fall.

(in thousands)	Level 1	Level 2	Level 3	Balance at June 30, 2009
Assets				
Loans	$ —	$ —	$ 174,005	$ 174,005
Foreclosed assets	—	—	86,730	86,730
Goodwill	—	—	235,590	235,590
Total	$ —	$ —	$ 496,325	$ 496,325

Assets and Liabilities Not Measured at Fair Value

The carrying amount and fair values for other financial instruments that are not measured at fair value in United's balance sheet at June 30, 2009 are as follows (in thousands):

	2009	
	Carrying Amount	Fair Value
Assets:		
Loans, net	$ 5,367,409	$ 5,369,542
Liabilities:		
Deposits	6,848,760	6,893,851
Federal Home Loan Bank advances	283,292	290,908
Long-term debt	150,026	87,907

Note 9 – Stock Dividend

During the first and second quarters of 2009, United declared a quarterly stock dividend at a rate of 1 new share for every 130 shares owned. The stock dividend has been reflected in the financial statements as an issuance of stock with no proceeds rather than a stock split and therefore prior period numbers of shares outstanding have not been adjusted. The amount of $30,000 shown in the equity statement as a reduction of capital related to the stock dividend is the amount of cash paid to shareholders for fractional shares.

Note 10 – Derivatives and Hedging Activities

Risk Management Objective of Using Derivatives

United is exposed to certain risks arising from both its business operations and economic conditions. United principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. United manages interest rate risk primarily by managing the amount, sources, and duration of its investment securities portfolio and debt funding and the use of derivative financial instruments. Specifically, United enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. United's derivative financial instruments are used to manage differences in the amount, timing, and duration of United's known or expected cash receipts and its known or expected cash payments principally related to United's loans and wholesale borrowings.

The table below presents the fair value of United's derivative financial instruments as well as their classification on the balance sheet as of June 30, 2009, December 31, 2008 and June 30, 2008.

Derivatives designated as hedging instruments under SFAS 133 (in thousands).

Interest Rate Products	Balance Sheet Location		Fair Value June 30, 2009		December 31, 2008		June 30, 2008
Asset derivatives	Other assets	$	30,815	$	81,612	$	28,356

There were no derivatives classified as liabilities in the balance sheet at June 30, 2009, December 31, 2008 or June 30, 2008.

Cash Flow Hedges of Interest Rate Risk

United's objectives in using interest rate derivatives are to add stability to interest revenue and to manage its exposure to interest rate movements. To accomplish this objective, United primarily uses interest rate swaps and floors as part of its interest rate risk management strategy. For United's variable-rate loans, interest rate swaps designated as cash flow hedges involve the receipt of fixed-rate amounts from a counterparty in exchange for United making variable-rate payments over the life of the agreements without exchange of the underlying notional amount. Interest rate floors designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty if interest rates fall below the strike rate on the contract in exchange for an up front premium. As of June 30, 2009, United had six interest rate swaps with an aggregate notional amount of $325 million and two interest rate floors with an aggregate notional amount of $175 million that were designated as cash flow hedges of interest rate risk.

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in accumulated other comprehensive income and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During the second quarter of 2009, such derivatives were used to hedge the variable cash flows associated with existing prime-based, variable-rate loans. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. During the six months ended June 30, 2009 and June 30, 2008 no hedge ineffectiveness was recognized on derivative financial instruments designated as cash flow hedges.

Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest revenue as interest payments are received on United's prime-based, variable-rate loans. During the remaining six months of 2009, United estimates that an additional $26.7 million will be reclassified as an increase to interest revenue.

Fair Value Hedges of Interest Rate Risk

United is exposed to changes in the fair value of certain of its fixed rate obligations due to changes in LIBOR, a benchmark interest rate. United uses interest rate swaps to manage its exposure to changes in fair value on these instruments attributable to changes in the benchmark interest rate. Interest rate swaps designated as fair value hedges involve the receipt of fixed-rate amounts from a counterparty in exchange for United making variable rate payments over the life of the agreements without the exchange of the underlying notional amount. As of June 30, 2009, United had three interest rate swaps with an aggregate notional amount of $195 million that were designated as fair value hedges of interest rate risk.

For derivatives designated and that qualify as fair value hedges, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in earnings. United includes the gain or loss on the hedged items in the same line item as the offsetting loss or gain on the related derivatives. During the six months ended June 30, 2009, United recognized a loss of $1.8 million related to changes in the fair value of the swaps that were offset by a gain of $1.5 million related to changes in the fair value of the hedged items. During the six months ended June 30, 2009, United recognized net losses of $282,000 related to ineffectiveness of the hedging relationships. The table below presents the earnings impact of the changes in fair value of the swaps and the hedged items for the six months ended June 30, 2009 (in thousands).

Income Statement Classification	Gain (Loss) on Derivative	Gain (Loss) on Hedged Item
Other fee revenue	$ (259)	$ 431
Other expense	(1,566)	1,112

Tabular Disclosure of the Effect of Derivative Instruments on the Income Statement

The tables below present the effect of United's derivative financial instruments on the Consolidated Statement of Income for the six months ended June 30, 2009 and June 30, 2008. Derivatives in SFAS 133 Fair Value Hedging Relationships (in thousands).

Location of Gain (Loss) Recognized in Income on Derivative	Amount of Gain (Loss) Recognized in Income on Derivative June 30, 2009	Amount of Gain (Loss) Recognized in Income on Derivative June 30, 2008	Amount of Gain (Loss) Recognized in Income on Hedged Item June 30, 2009	Amount of Gain (Loss) Recognized in Income on Hedged Item June 30, 2008
Other fee revenue	$ (259)	$ (53)	$ 431	$ 51
Other expense	(1,566)	—	1,112	—

Derivatives in SFAS 133 Cash Flow Hedging Relationships (in thousands).

	Amount of Gain (Loss) Recognized in Other Comprehensive Income on Derivative (Effective Portion) June 30, 2009	Amount of Gain (Loss) Recognized in Other Comprehensive Income on Derivative (Effective Portion) June 30, 2008	Location of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income into Income (Effective Portion) June 30, 2009	Amount of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income into Income (Effective Portion) June 30, 2008	Location of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing) June 30, 2009	Amount of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing) June 30, 2008
Interest rate products	$ (5,216)	$ 13,191	Interest revenue	$ 21,178	$ 11,124	Other fee revenue	$ —	$ —

Credit-risk-related Contingent Features

United manages its credit exposure on derivatives transactions by entering into a bi-lateral credit support agreement with each counterparty. The credit support agreements require collateralization of exposures beyond specified minimum threshold amounts. The details of these agreements, including the minimum thresholds, vary by counterparty.

United's agreements with each of its derivative counterparties contain a provision where if either party defaults on any of its indebtedness, then it could also be declared in default on its derivative obligations. The agreements with derivatives counterparties also include provisions that if not met, could result in United being declared in default. United has agreements with certain of its derivative counterparties that contain a provision where if United fails to maintain its status as a well-capitalized institution, it could be declared in default on its derivative obligations. United has an agreement with one counterparty that contains a provision where if United fails to maintain a minimum shareholders' equity of $300 million, it could be declared in default on its derivative obligations. An agreement with another counterparty contains a provision where if United fails to maintain a minimum tier 1 leverage ratio of 5.0%, a minimum tier 1 risk-based capital ratio of 6.0%, and a minimum total risk-based capital ratio of 10%, it could be declared in default on its derivative obligations.

Note 11 – Recent Accounting Pronouncements

In May 2009, the FASB issued Statement of Financial Accounting Standards No. 165, Subsequent Events ("SFAS 165"). SFAS 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. In particular, this statement sets forth (1) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, (2) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and (3) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. This statement was effective for United in the second quarter of 2009 and will only affect United's financial statements if an event occurs subsequent to the balance sheet date that would require adjustment to the financial statements or disclosure. United evaluated events and transactions through the date of this report, which is the date its consolidated financial statements dated June 30, 2009, were filed with the SEC.

In June 2009, the FASB issued Statement of Financial Accounting Standards No. 166, Accounting for Transfers of Financial Assets, an amendment of FASB Statement No. 140 ("SFAS 166"). SFAS 166 addresses (1) practices that have developed since the issuance of Statement of Financial Accounting Standards No. 140 ("SFAS 140"), Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities, that are not consistent with the original intent and key requirements of SFAS 140 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. SFAS 166 will become effective for United beginning January 1, 2010 and is effective for transfers occurring on or after that date. Additionally, on and after the effective date, the concept of a qualifying special-purpose entity is no longer relevant for accounting purposes. Therefore, formerly qualifying special-purpose entities (as defined under previous accounting standards) should be evaluated for consolidation by reporting entities on and after the effective date in accordance with the applicable consolidation guidance. If the evaluation on the effective date results in consolidation, the reporting entity should apply the transition guidance provided in the pronouncement that requires consolidation. Additionally, the disclosure provisions of SFAS 166 should be applied to transfers that occurred both before and after the effective date of this statement. United does not operate any qualifying special-purpose entities; therefore, the consolidation requirements will have no effect on United's financial statements.

In June 2009, the FASB issued Statement of Financial Accounting Standards No. 167, Amendments to FASB Interpretation No. 46(R) ("SFAS 167"). SFAS 167 addresses (1) the effects on certain provisions of FASB Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities, as a result of the elimination of the qualifying special-purpose entity concept in SFAS 166, and (2) constituent concerns about the application of certain key provisions of Interpretation 46(R), including those in which the accounting and disclosures under the Interpretation do not always provide timely and useful information about an enterprise's involvement in a variable interest entity. SFAS 167 requires an enterprise to perform an analysis to determine whether the enterprise's variable interest or interests give it a controlling financial interest in a variable interest entity. This analysis identifies the primary beneficiary of a variable interest entity as the enterprise that has both of the following characteristics: (a) the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance, and (b) the obligation to absorb losses of the entity that could potentially be significant to the variable interest entity or the right to receive benefits from the entity that could potentially be significant to the variable interest entity. Additionally, an enterprise is required to assess whether it has an implicit financial responsibility to ensure that a variable interest entity operates as designed when determining whether it has the power to direct the activities of the variable interest entity that most significantly impact the entity's economic performance. This statement will be effective for United beginning January 1, 2010. United is in the process of determining the impact, if any, on its consolidated financial statements.

In June 2009, the FASB issued Statement of Financial Accounting Standards No. 168, The FASB Accounting Standards CodificationTM and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162 ("SFAS 168"). The FASB Accounting Standards CodificationTM ("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 non-grandfathered non-SEC accounting literature not included in the Codification will become non-authoritative. This Statement will be effective for United in the third quarter of 2009. Following this Statement, the FASB will not issue new standards in the form of Statements, FASB Staff Positions, or Emerging Issues Task Force Abstracts. Instead, it will issue Accounting Standards Updates. The FASB will not consider Accounting Standards Updates as authoritative in their own right. Accounting Standards Updates will serve only to update the Codification, provide background information about the guidance, and provide the bases for conclusions on the change(s) in Codification. FASB Statement No. 162 ("SFAS 162"), The Hierarchy of Generally Accepted Accounting Principles, which became effective on November 13, 2008, identified the sources of accounting principles and the framework for selecting the principles used in preparing the financial statements of nongovernmental entities that are presented in conformity with GAAP. SFAS 162 arranged these sources of GAAP in a hierarchy for users to apply accordingly. Once the Codification is in effect, all of its content will carry the same level of authority, effectively superseding SFAS 162. The implementation of SFAS 168 is not expected to have an impact on United's financial statements; however, references to existing accounting literature in the footnotes to the financial statements will be changed to reference sections of the Codification.

In April 2009, the FASB issued FASB Staff Position No. FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly ("FSP FAS 157-4"). FSP FAS 157-4 provides additional guidance for estimating fair value in accordance with FASB Statement No. 157, Fair Value Measurements, when the volume and level of activity for the asset or liability have significantly decreased. This FSP also includes guidance on identifying circumstances that indicate a transaction is not orderly. This FSP emphasizes that even if there has been a significant decrease in the volume and level of activity for the asset or liability and regardless of the valuation technique(s) used, the objective of a fair value measurement remains the same. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. This accounting standard became effective for

United in the second quarter of 2009. The adoption did not have a significant impact on results of operations or financial position.

In April 2009, the FASB issued FASB Staff Position No. FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments (“FSP FAS 107-1 and APB 28-1”). FSP FAS 107-1 and APB 28-1 amends FASB Statement No. 107, Disclosures about Fair Value of Financial Instruments, to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This FSP also amends APB No. 28, Interim Financial Reporting, to require those disclosures in summarized financial information at interim reporting periods. This accounting standard became effective for United in the second quarter of 2009. The additional disclosures required by this statement are included in Note 8 to the consolidated financial statements.

In April 2009, the FASB issued FASB Staff Position No. FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary-Impairments (“FSP FAS 115-2 and FAS 124-2”). The objective of an other-than-temporary impairment analysis under existing GAAP is to determine whether the holder of an investment in a debt or equity security for which changes in fair value are not regularly recognized in earnings (such as securities classified as held-to-maturity or available-for-sale) should recognize a loss in earnings when the investment is impaired. An investment is impaired if the fair value of the investment is less than its amortized cost basis. This FSP amends the other-than-temporary impairment guidance in GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. This FSP does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. This accounting standard became effective for United in the second quarter of 2009. It did not have a significant impact on results of operations or financial position.

Note 12 – Reclassifications

Certain 2008 amounts have been reclassified to conform to the 2009 presentation.

Note 13 – Goodwill

A summary of the changes in goodwill for the six months ended June 30, 2009 and 2008 is presented below, (in thousands).

	Six Months Ended June 30,	
	2009	2008
Beginning balance	$ 305,590	$ 306,086
Purchase adjustments	—	(496)
Impairment	(70,000)	—
Ending balance	$ 235,590	$ 305,590

During the first quarter of 2009, United updated its annual goodwill impairment assessment as a result of its stock price falling significantly below tangible book value. As a result of the updated assessment, goodwill was found to be impaired and was written down to its estimated fair value. The impairment charge of $70 million was recognized as an expense in the first quarter 2009 consolidated statement of income.

United has only one operating segment and all of the goodwill is included in that segment; therefore goodwill was tested for impairment for United as a whole. The first step (Step 1) of the goodwill impairment assessment was to determine the fair value of United as a whole and compare the result to the book value of equity. If the fair value resulting from Step 1 exceeds the book value of equity, goodwill is deemed not to be impaired. If the fair value is less than book value, Step 2 of the goodwill impairment assessment must be completed. Step 2 consists of valuing all of the assets and liabilities, including separately identifiable intangible assets, in order to determine the fair value of goodwill. The fair value of goodwill is the difference between the value of United determined in Step 1 and the value of the net assets and liabilities determined in Step 2. If the fair value of goodwill exceeds the book value, goodwill is not impaired. If the fair value of goodwill is less than book value, goodwill is impaired by the amount by which book value exceeds fair value.

The techniques used to determine fair value of United in Step 1 included a discounted cash flow analysis based on United’s long-term earnings forecast, the guideline public companies method that considered the implied value of United by comparing United to a select peer group of public companies and their current market capitalizations, adjusted for differences between the companies, and the merger and acquisition method that considered the amount an acquiring company might be willing to pay to gain control of United based on multiples of tangible book value paid by acquirers in recent merger and acquisition transactions.

In United's annual goodwill assessment performed at year-end, the results of Step 1 were that the fair value of United exceeded the book value so goodwill was determined to not be impaired. The interim assessment performed in the first quarter of 2009 indicated that the fair value of United was less than book value, so United proceeded to Step 2. United's Step 2 analysis indicated that the book value of goodwill exceeded the fair value by $70 million leading to the impairment charge. In arriving at the impairment charge there were a number of valuation assumptions made. The most significant valuation assumptions were related to valuing the loan portfolio. The key assumptions involved in valuing the non-performing portion of the loan portfolio included estimating future cash flows. The key assumptions involved in valuing the performing portion of the loan portfolio included determining a default rate and a rate of loss upon default. Changing these assumptions, or any other key assumptions, could have a material impact on the amount of goodwill impairment.

There have been no events or changes in operating conditions in the second quarter that would require an updated assessment of goodwill for impairment.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

This Form 10-Q contains forward-looking statements regarding United Community Banks, Inc. ("United"), including, without limitation, statements relating to United's expectations with respect to revenue, credit losses, levels of nonperforming assets, expenses, earnings and other measures of financial performance. Words such as "may", "could", "would", "should", "believes", "expects", "anticipates", "estimates", "intends", "plans", "targets" or similar expressions are int identify forward-looking statements. These forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties that are subject to change based on various factors (many of which are beyond United's control). The following factors, among others, could cause United's financial performance to differ materially from the expectations expressed in such forward-looking statements:

- the condition of the banking system and financial markets;
- our limited ability to raise capital or maintain liquidity;
- our ability to pay dividends;
- our past operating results may not be indicative of future operating results;
- our business is subject to the success of the local economies in which we operate;
- our concentration of construction and land development loans is subject to unique risks that could adversely affect our earnings;
- we may face risks with respect to future expansion and acquisitions or mergers;
- changes in prevailing interest rates may negatively affect our net income and the value of our assets;
- if our allowance for loan losses is not sufficient to cover actual loan losses, earnings would decrease;
- competition from financial institutions and other financial service providers may adversely affect our profitability;
- we may be subject to losses due to fraudulent and negligent conduct of our loan customers, third party service providers or employees;
- business increases, productivity gains and other investments are lower than expected or do not occur as quickly as anticipated;
- competitive pressures among financial services companies increase significantly;
- the success of our business strategy;
- the strength of the United States economy in general;
- changes in trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System;
- inflation or market conditions fluctuate;
- conditions in the stock market, the public debt market and other capital markets deteriorate;
- financial services laws and regulations change;
- technology changes and United fails to adapt to those changes;
- consumer spending and saving habits change;
- unanticipated regulatory or judicial proceedings occur; and
- United is unsuccessful at managing the risks involved in the foregoing.

Additional information with respect to factors that may cause actual results to differ materially from those contemplated by such forward-looking statements may also be included in other reports that United files with the Securities and Exchange Commission. United cautions that the foregoing list of factors is not exclusive and not to place undue reliance on forward-looking statements. United does not intend to update any forward-looking statement, whether written or oral, relating to the matters discussed in this Form 10-Q.

Acquisition

On June 19, 2009, United Community Bank ("Bank") acquired the banking operations of Southern Community Bank ("SCB") from the Federal Deposit Insurance Corporation ("FDIC"). The Bank acquired $378.2 million of assets and assumed $366.8 million of liabilities. The Bank and the FDIC entered loss sharing agreements regarding future losses incurred on loans and foreclosed loan collateral existing at June 19, 2009. Under the terms of the loss sharing agreements, the FDIC will absorb 80 percent of losses and share in 80 percent of loss recoveries on the first $109 million of losses, and absorb 95 percent of losses and share in 95 percent of loss recoveries on losses exceeding $109 million. The term for loss sharing on residential real estate loans is ten years, while the term for loss sharing on all other loans is five years. The SCB acquisition was accounted for under the purchase method of accounting in accordance with the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 141(R) Business Combinations ("SFAS 141(R)"). United recorded a gain totaling $11.4 million resulting from the acquisition, which is a component of fee revenue on the consolidated statement of income. The amount of the gain is equal to the amount by which the fair value of assets purchased exceeded the fair value of liabilities assumed. See Note 2 of the Notes to unaudited Consolidated Financial Statements for additional information regarding the acquisition.

The results of operations of SCB are included in the consolidated statement of income from the acquisition date of June 19, 2009 through June 30, 2009. Because the acquisition of SCB occurred late in the quarter, with the exception of the acquisition gain of $11.4 million, the results of operations contributed by SCB had very little impact on consolidated financial results.

Overview

The following discussion is intended to provide insight into the results of operations and financial condition of United and its subsidiaries and should be read in conjunction with the consolidated financial statements and accompanying notes.

United is a bank holding company registered with the Federal Reserve under the Bank Holding Company Act of 1956 that was incorporated under the laws of the state of Georgia in 1987 and commenced operations in 1988. At June 30, 2009, United had total consolidated assets of $8.4 billion, total loans of $5.5 billion, excluding the loans acquired from Southern Community Bank that are covered by loss sharing agreements, total deposits of $6.8 billion and stockholders' equity of $855 million.

United's activities are primarily conducted by its wholly owned Georgia banking subsidiary (the "Bank") and Brintech, Inc., a consulting firm providing professional services to the financial services industry. The Bank operations are conducted under a community bank model that operates 27 "community banks" with local bank presidents and boards in north Georgia, the Atlanta metropolitan statistical area ("MSA"), the Gainesville MSA, coastal Georgia, western North Carolina, and east Tennessee.

United reported a net loss of $16.0 million for the second quarter of 2009, which included a non-recurring bargain purchase gain of $11.4 million for the acquisition of SCB. United's net operating loss, which excludes the gain on acquisition, was $23.1 million for the second quarter of 2009. This compared with net income of $7.1 million for the second quarter of 2008. Diluted operating loss per common share was $.53 for the second quarter of 2009, compared with diluted earnings per common share of $.15 for the second quarter of 2008. The gain on acquisition represented $.15 of earnings per share for the second quarter of 2009, reducing the net loss per diluted share to $.38. The second quarter of 2009 operating loss reflects the continuing recessionary economic environment and credit losses primarily resulting from the weak residential construction and housing market.

For the six-month period ended June 30, 2009, United reported a net loss of $119.8 million, including the $11.4 million gain on acquisition, a $70 million charge for goodwill impairment and a $2.9 million charge for a reduction in workforce. United's net operating loss for the first six months of 2009, which excludes the gain on acquisition, goodwill impairment and severance costs, was $55.0 million, compared to net operating income for the first six months of 2008 of $23.2 million. Diluted operating loss per common share was $1.24 for the six months ended June 30, 2009, compared with diluted operating income per common share of $.49 for the same period in 2008. The gain on acquisition, goodwill impairment and severance costs represented $.14 of earnings per share, $1.44 of loss and $.04 of loss, respectively, for the year, bringing the net loss per common share to $2.57.

Operating loss and operating loss per diluted share are non-GAAP performance measures. United's management believes that operating performance is useful in analyzing the company's financial performance trends since it excludes items that are non-recurring in nature. A reconciliation of these operating performance measures to GAAP performance measures is included in the table on page 22.

Compared to a year ago, earnings for the quarter and year-to-date decreased primarily as a result of a higher provision for loan losses related to the deteriorating credit conditions and resulting increase in charge-offs within the loan portfolio. Margin compression due to an increase in non-performing assets, competitive deposit pricing and the ongoing effect of efforts to maintain liquidity also contributed to lower earnings. Although the margin was down for the quarter from a year ago, it was up 20 basis points from the first quarter of 2009, reflecting improvement in loan and deposit pricing. Housing sales remain at low levels, leaving a surplus of finished housing and lot inventory in our markets, most notably in the Atlanta MSA. This decline in housing sales negatively affects both the cash flows of our residential construction and land development customers, and the demand for foreclosed developed real estate held by United.

Nonperforming assets, of $392.6 million, which excludes assets of SCB that were covered by the loss sharing agreement with the FDIC, increased to 4.67% of total assets as of June 30, 2009, compared to 1.84% as of June 30, 2008 and 2.94% as of December 31, 2008. This increase was primarily the reflection of the continuing effects of declining home sales in United’s markets.

Fee revenue, excluding the gain from the acquisition of SCB, decreased $2.1 million, or 14%, and $3.4 million, or 12%, from the second quarter and first six months of 2008, respectively. With the exception of mortgage fees, all other fee revenue sources decreased from the respective periods in 2008. Mortgage fees were up $623,000, or 28%, and $1.3 million, or 31% for the quarter and year-to-date, respectively, reflecting higher refinancing activity resulting from the low interest rate environment. In terms of mortgage production, United closed 1,008 loans totaling $168 million in the second quarter of 2009, setting a new company record for the number of loans closed. For the first six months of 2009, 2,004 loans were closed, representing $342 million. The decrease in the other fee revenue categories primarily reflects the weak economy.

Operating expenses increased $5.6 million, or 11%, from the second quarter of 2008. Excluding the $70 million goodwill impairment charge and $2.9 million in severance costs in the first quarter of 2009, operating expenses for the first six months of 2009 increased 10.6 million, or 11%, from the same period of 2008. Both the quarter and year-to-date increases were primarily due to higher expenses associated with, and write-downs on, foreclosed real estate properties and higher FDIC insurance premiums. Effective January 1, 2009, the FDIC raised deposit insurance rates on all insured depository institutions by seven basis points on the balance of insured deposits. United’s second quarter expenses also includes a one-time special assessment of $3.7 million that will be paid in September.

Critical Accounting Policies

The accounting and reporting policies of United are in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and conform to general practices within the banking industry. The more critical accounting and reporting policies include United’s accounting for the allowance for loan losses, intangible assets and income taxes. In particular, United’s accounting policies related to allowance for loan losses, intangibles and income taxes involve the use of estimates and require significant judgment to be made by management. Different assumptions in the application of these policies could result in material changes in United’s consolidated financial position or consolidated results of operations. See “Asset Quality and Risk Elements” herein for additional discussion of United’s accounting methodologies related to the allowance.

Results of Operations

United reported a net loss of $16.0 million for the second quarter of 2009, which included a non-recurring gain on the acquisition of SCB of $11.4 million. This compared to net income of $7.1 million for the same period in 2008. The second quarter 2009 diluted loss per share was $.38, which included $.15 in earnings related to the gain on acquisition. This compared to diluted earnings per share of $.15 for the second quarter of 2008.

For the first six months of 2009, United reported a net loss of $119.8 million, which included the $11.4 million gain on acquisition, a non-recurring, non-cash goodwill impairment charge of $70 million and non-recurring severance costs of $2.9 million. Net income for the same period in 2008 was $23.2 million. Diluted loss per share for the six months ended June 30, 2009 was $2.57, of which $.15 in earnings per share was related to the gain on acquisition and $1.44 and $.04 in loss per share were related to the goodwill impairment charge and severance costs, respectively. This compared to diluted earnings per share of $.49 for the first six months of 2008. The net losses in the second quarter and first six months of 2009 reflect a higher provision for loan losses related to the continuing effect of the economic recession and the weak residential construction and housing markets.

Table 1 - Financial Highlights
Selected Financial Information

(in thousands, except per share data; taxable equivalent)	2009 Second Quarter	2009 First Quarter	2008 Fourth Quarter	2008 Third Quarter	2008 Second Quarter	Second Quarter 2009-2008 Change
INCOME SUMMARY						
Interest revenue	$ 102,737	$ 103,562	$ 108,434	$ 112,510	$ 116,984	
Interest expense	41,855	46,150	56,561	53,719	55,231	
Net interest revenue	60,882	57,412	51,873	58,791	61,753	(1)%
Provision for loan losses	60,000	65,000	85,000	76,000	15,500	
Operating fee revenue (1)	13,050	12,846	10,718	13,121	15,105	(14)
Total operating revenue	13,932	5,258	(22,409)	(4,088)	61,358	NM
Operating expenses (2)	55,348	52,569	52,439	56,970	49,761	11
Operating (loss) income before taxes	(41,416)	(47,311)	(74,848)	(61,058)	11,597	NM
Income tax (benefit) expense	(18,353)	(15,335)	(28,101)	(21,184)	4,504	
Net operating (loss) income (1)(2)	(23,063)	(31,976)	(46,747)	(39,874)	7,093	NM
Gain from acquisition, net of tax benefit	7,062	—	—	—	—	
Noncash goodwill impairment charge	—	(70,000)	—	—	—	
Severance costs, net of tax benefit	—	(1,797)	—	—	—	
Net (loss) income	(16,001)	(103,773)	(46,747)	(39,874)	7,093	NM
Preferred dividends and discount accretion	2,559	2,554	712	4	4	
Net (loss) income available to common shareholders	$ (18,560)	$ (106,327)	$ (47,459)	$ (39,878)	$ 7,089	NM
PERFORMANCE MEASURES						
Per common share:						
Diluted operating (loss) earnings (1)(2)	$ (.53)	$ (.71)	$ (.99)	$ (.84)	$ .15	NM
Diluted (loss) earnings	(.38)	(2.20)	(.99)	(.84)	.15	NM
Cash dividends declared	—	—	—	—	.09	
Stock dividends declared (6)	1 for 130	1 for 130	1 for 130	1 for 130	—	
Book value	13.87	14.70	16.95	17.12	17.75	(22)
Tangible book value (4)	8.85	9.65	10.39	10.48	11.03	(20)
Key performance ratios:						
Return on equity (3)(5)	(11.42)%	(58.28)%	(23.83)%	(19.07)%	3.41%	
Return on assets (5)	(.79)	(5.06)	(2.20)	(1.95)	.34	
Net interest margin (5)	3.28	3.08	2.70	3.17	3.32	
Operating efficiency ratio (1)(2)(4)	74.15	75.15	81.34	79.35	65.05	
Equity to assets	10.76	11.64	10.08	10.28	10.33	
Tangible equity to assets (4)	8.00	8.30	6.59	6.65	6.77	
Tangible common equity to assets (4)	5.81	6.13	6.23	6.65	6.77	
Tangible common equity to risk-weighted assets (4)	7.48	8.03	8.34	8.26	8.51	
ASSET QUALITY *						
Non-performing loans (NPLs)	$ 287,848	$ 259,155	$ 190,723	$ 139,266	$ 123,786	
Foreclosed properties	104,754	75,383	59,768	38,438	28,378	
Total non-performing assets (NPAs)	392,602	334,538	250,491	177,704	152,164	
Allowance for loan losses	145,678	143,990	122,271	111,299	91,035	

Net charge-offs	58,312	43,281	74,028	55,736	14,313	
Allowance for loan losses to loans	2.64%	2.56%	2.14%	1.91%	1.53%	
Net charge-offs to average loans (5)	4.18	3.09	5.09	3.77	.97	
NPAs to loans and foreclosed properties	6.99	5.86	4.35	3.03	2.55	
NPAs to total assets	4.67	4.11	2.94	2.20	1.84	
AVERAGE BALANCES						
Loans	$ 5,597,259	$ 5,675,054	$ 5,784,139	$ 5,889,168	$ 5,933,143	(6)
Investment securities	1,771,482	1,712,654	1,508,808	1,454,740	1,507,240	18
Earning assets	7,442,178	7,530,230	7,662,536	7,384,287	7,478,018	—
Total assets	8,168,147	8,312,648	8,449,097	8,146,880	8,295,748	(2)
Deposits	6,544,537	6,780,531	6,982,229	6,597,339	6,461,361	1
Shareholders’ equity	879,210	967,505	851,956	837,487	856,727	3
Common shares - basic	48,794	48,324	47,844	47,417	47,158	
Common shares - diluted	48,794	48,324	47,844	47,417	47,249	
AT PERIOD END						
Loans	$ 5,513,087	$ 5,632,705	$ 5,704,861	$ 5,829,937	$ 5,933,141	(7)
Investment securities	1,816,787	1,719,033	1,617,187	1,400,827	1,430,588	27
Total assets	8,403,046	8,140,909	8,520,765	8,072,543	8,264,051	2
Deposits	6,848,760	6,616,488	7,003,624	6,689,335	6,696,456	2
Shareholders’ equity	855,272	888,853	989,382	816,880	837,890	2
Common shares outstanding	48,933	48,487	48,009	47,596	47,096	

(1) Excludes the gain from acquisition of $11.4 million, net of income tax expense of $4.3 million in the second quarter of 2009. (2) Excludes the non-recurring goodwill impairment charge of $70 million and severance costs of $2.9 million, net of income tax benefit of $1.1 million in the first quarter of 2009. (3) Net income available to common shareholders, which excludes preferred stock dividends, divided by average realized common equity, which excludes accumulated other comprehensive income (loss). (4) Excludes effect of acquisition related intangibles and associated amortization. (5) Annualized. (6) Number of new shares issued for shares currently held. NM - Not meaningful.

* Excludes covered loans and covered NPAs

Table 1 Continued - Operating Earnings to GAAP Earnings Reconciliation
Selected Financial Information

(in thousands, except per share data; taxable equivalent)	2009 Second Quarter	2009 First Quarter	2008 Fourth Quarter	2008 Third Quarter	2008 Second Quarter	For the Six Months Ended 2009	For the Six Months Ended 2008
Interest revenue reconciliation							
Interest revenue - taxable equivalent	$ 102,737	$ 103,562	$ 108,434	$ 112,510	$ 116,984	$ 206,299	$ 246,025
Taxable equivalent adjustment	(463)	(488)	(553)	(571)	(606)	(951)	(1,137)
Interest revenue (GAAP)	$ 102,274	$ 103,074	$ 107,881	$ 111,939	$ 116,378	$ 205,348	$ 244,888
Net interest revenue reconciliation							
Net interest revenue - taxable equivalent	$ 60,882	$ 57,412	$ 51,873	$ 58,791	$ 61,753	$ 118,294	$ 128,040
Taxable equivalent adjustment	(463)	(488)	(553)	(571)	(606)	(951)	(1,137)
Net interest revenue (GAAP)	$ 60,419	$ 56,924	$ 51,320	$ 58,220	$ 61,147	$ 117,343	$ 126,903
Fee revenue reconciliation							
Operating fee revenue	$ 13,050	$ 12,846	$ 10,718	$ 13,121	$ 15,105	$ 25,896	$ 29,302
Gain from acquisition	11,390	—	—	—	—	11,390	—
Fee revenue (GAAP)	$ 24,440	$ 12,846	$ 10,718	$ 13,121	$ 15,105	$ 37,286	$ 29,302
Total revenue reconciliation							
Total operating revenue	$ 13,932	$ 5,258	$ (22,409)	$ (4,088)	$ 61,358	$ 19,190	$ 134,342
Taxable equivalent adjustment	(463)	(488)	(553)	(571)	(606)	(951)	(1,137)
Gain from acquisition	11,390	—	—	—	—	11,390	—
Total revenue (GAAP)	$ 24,859	$ 4,770	$ (22,962)	$ (4,659)	$ 60,752	$ 29,629	$ 133,205
Expense reconciliation							
Operating expense	$ 55,348	$ 52,569	$ 52,439	$ 56,970	$ 49,761	$ 107,917	$ 97,290
Noncash goodwill impairment charge	—	70,000	—	—	—	70,000	—
Severance costs	—	2,898	—	—	—	2,898	—
Operating expense (GAAP)	$ 55,348	$ 125,467	$ 52,439	$ 56,970	$ 49,761	$ 180,815	$ 97,290
(Loss) income before taxes reconciliation							
Operating (loss) income before taxes	$ (41,416)	$ (47,311)	$ (74,848)	$ (61,058)	$ 11,597	$ (88,727)	$ 37,052
	(463)	(488)	(553)	(571)	(606)	(951)	(1,137)

Taxable equivalent adjustment							
Gain from acquisition	11,390	—	—	—	—	11,390	—
Noncash goodwill impairment charge	—	(70,000)	—	—	—	(70,000)	—
Severance costs	—	(2,898)	—	—	—	(2,898)	—
(Loss) income before taxes (GAAP)	$ (30,489)	$ (120,697)	$ (75,401)	$ (61,629)	$ 10,991	$ (151,186)	$ 35,915
Income tax (benefit) expense reconciliation							
Operating income tax (benefit) expense	$ (18,353)	$ (15,335)	$ (28,101)	$ (21,184)	$ 4,504	$ (33,688)	$ 13,881
Taxable equivalent adjustment	(463)	(488)	(553)	(571)	(606)	(951)	(1,137)
Gain from acquisition, tax expense	4,328	—	—	—	—	4,328	—
Severance costs, tax benefit	—	(1,101)	—	—	—	(1,101)	—
Income tax (benefit) expense (GAAP)	$ (14,488)	$ (16,924)	$ (28,654)	$ (21,755)	$ 3,898	$ (31,412)	$ 12,744
(Loss) earnings per common share reconciliation							
Operating (loss) earnings per common share	$ (0.53)	$ (0.71)	$ (0.99)	$ (0.84)	$ 0.15	$ (1.24)	$ 0.49
Gain from acquisition	0.15	—	—	—	—	0.15	—
Noncash goodwill impairment charge	—	(1.45)	—	—	—	(1.44)	—
Severance costs	—	(0.04)	—	—	—	(0.04)	—
(Loss) earnings per common share (GAAP)	$ (0.38)	$ (2.20)	$ (0.99)	$ (0.84)	$ 0.15	$ (2.57)	$ 0.49
Book value reconciliation							
Tangible book value	$ 8.85	$ 9.65	$ 10.39	$ 10.48	$ 11.03	$ 8.85	$ 11.03
Effect of goodwill and other intangibles	5.02	5.05	6.56	6.64	6.72	5.02	6.72
Book value (GAAP)	$ 13.87	$ 14.70	$ 16.95	$ 17.12	$ 17.75	$ 13.87	$ 17.75
Efficiency ratio reconciliation							
Operating efficiency ratio	74.15%	75.15%	81.34%	79.35%	65.05%	74.63%	61.97%
Gain from acquisition	(9.82)	—	—	—	—	(9.12)	—
Noncash goodwill impairment charge	—	100.06	—	—	—	48.41	—
Severance costs	—	4.14	—	—	—	2.00	—
Efficiency ratio (GAAP)	64.33%	179.35%	81.34%	79.35%	65.05%	115.92%	61.97%
Average equity to assets reconciliation							

Tangible common equity to assets	5.81%	6.13%	6.23%	6.65%	6.77%	5.97%	6.75%
Effect of preferred equity	2.19	2.17	.36	—	—	2.18	—
Tangible equity to assets	8.00	8.30	6.59	6.65	6.77	8.15	6.75
Effect of goodwill and other intangibles	2.76	3.34	3.49	3.63	3.56	3.05	3.56
Equity to assets (GAAP)	10.76%	11.64%	10.08%	10.28%	10.33%	11.20%	10.31%
Actual tangible common equity to risk-weighted assets reconciliation							
Tangible common equity to risk-weighted assets	7.48%	8.03%	8.34%	8.26%	8.51%	7.48%	8.51%
Effect of other comprehensive income	(.72)	(1.00)	(.91)	(.28)	(.01)	(.72)	(.01)
Effect of trust preferred	.89	.89	.88	.68	.67	.89	.67
Effect of preferred equity	3.00	2.96	2.90	—	—	3.00	—
Tier I capital ratio (Regulatory)	10.65%	10.88%	11.21%	8.66%	9.17%	10.65%	9.17%

Net Interest Revenue (Taxable Equivalent)

Net interest revenue (the difference between the interest earned on assets and the interest paid on deposits and borrowed funds) is the single largest component of total revenue. United actively manages this revenue source to provide optimal levels of revenue while balancing interest rate, credit and liquidity risks. Net interest revenue for the three months ended June 30, 2009 was $60.9 million, down $871,000, or 1%, from last year but up $3.5 million from the first quarter of 2009. Average loans decreased $336 million, or 6%, from the second quarter last year. The decrease in the loan portfolio was a result of the slowdown in the housing market, particularly in the Atlanta MSA where period-end loans decreased $329 million from June 30, 2008. The decrease was the result of loan charge-offs, decreased loan demand and management's efforts to rebalance the loan portfolio by reducing the concentration of residential construction loans, particularly in the Atlanta MSA where the housing market has been under considerable stress. Period-end loans in north Georgia, North Carolina and the Gainesville, Georgia MSA decreased $87 million, $25 million and $9 million, respectively. In contrast, coastal Georgia increased $19 million and east Tennessee increased $11 million from the second quarter of 2008.

Average interest-earning assets for the second quarter 2009 decreased $35.8 million from the same period in 2008. An increase in the investment securities portfolio and other short-term investments of $300 million was offset by decreased loan balances of $336 million. Average interest-bearing liabilities decreased $135 million from the second quarter of 2008 with the Series B preferred stock of $180 million, issued in the fourth quarter as part of the U.S. Treasury's Capital Purchase Program, funding the difference in the decrease of average interest-bearing liabilities and the decrease in average interest-earning assets. Dividends on the Series B preferred shares and the related discount accretion are not included in net income (loss) but are subtracted from net income (loss) in the determination of net income (loss) available to common shareholders.

The banking industry uses two ratios to measure relative profitability of net interest revenue. The net interest spread measures the difference between the average yield on interest-earning assets and the average rate paid on interest-bearing liabilities. The interest rate spread eliminates the effect of non-interest-bearing deposits and gives a direct perspective on the effect of market interest rate movements. The net interest margin is defined as net interest revenue as a percent of average total interest-earning assets and takes into account the positive effect of investing non-interest-bearing deposits and capital.

For the three months ended June 30, 2009 and 2008, the net interest spread was 2.97 and 2.96%, respectively, while the net interest margin was 3.28% and 3.32%, respectively. Even though there was only four basis points of margin compression year over year, the interim quarters experienced severe compression in the second half of 2008 and expansion in 2009. The compression of the margin in late 2008 was primarily the result of a rise in non-performing assets and higher than normal deposit pricing resulting from competition for deposits due to liquidity pressures affecting the banking industry as a whole in the second half of 2008. The compression of the margin was also due to the lowering of the prime interest rate initiated by actions of the Federal Reserve beginning in September 2007 and the resulting decrease in the repricing of our interest earning assets faster than our interest-bearing liabilities. Also contributing to the lower net interest margin was a shift in earning-asset mix from loans to investment securities. These factors continued to compress the net interest margin through most of the fourth quarter of 2008 leading to a net interest margin of 2.70% in the fourth quarter. Deposit pricing competition began to ease late in the fourth quarter and United intensified its focus on loan pricing to ensure that it was being adequately compensated for the credit risk it was taking. The combined effect of the easing of deposit pricing competition and widening credit spreads in United's loan portfolio led to the 58 basis point increase in the net interest margin from the fourth quarter of 2008 to the second quarter of 2009.

The average yield on interest-earning assets for the second quarter of 2009 was 5.53%, compared with 6.29% in the second quarter of 2008. Loan yields were down 73 basis points compared with the second quarter of 2008, due to the effect of the Federal Reserve's policy of lowering interest rates to stimulate the economy on United's primarily prime-based loan portfolio and the higher level of non-performing loans.

The average cost of interest-bearing liabilities for the second quarter was 2.56% compared to 3.33% from the same period of 2008. Throughout most of 2008, United was unable to reduce deposit rates commensurate with the rate declines in its loan portfolio. This trend became more visible in the third and fourth quarters of 2008 when industry liquidity pressures led to increased competition for deposits and did not allow United to reduce deposit rates to correspond with the Federal Reserve's actions to lower interest rates. Late in the fourth quarter of 2008, liquidity pressures began to ease, allowing United to lower its deposit rates and still maintain its strong liquidity position.

The following table shows the relationship between interest revenue and expense, and the average amounts of interest-earning assets and interest-bearing liabilities for the three months ended June 30, 2009 and 2008.

Table 2 - Average Consolidated Balance Sheets and Net Interest Analysis
For the Three Months Ended June 30,

	2009			2008		
(dollars in thousands, taxable equivalent)	Average Balance	Interest	Avg. Rate	Average Balance	Interest	Avg. Rate
Assets:						
Interest-earning assets:						
Loans, net of unearned income (1)(2)	$ 5,597,259	$ 81,567	5.85%	$ 5,933,143	$ 97,080	6.58%
Taxable securities (3)	1,742,620	20,176	4.63	1,471,958	18,879	5.13
Tax-exempt securities (1)(3)	28,862	506	7.01	35,282	655	7.43
Federal funds sold and other interest-earning assets	73,437	488	2.66	37,635	370	3.93
Total interest-earning assets	7,442,178	102,737	5.53	7,478,018	116,984	6.29
Non-interest-earning assets:						
Allowance for loan losses	(147,691)			(93,776)		
Cash and due from banks	101,830			144,589		
Premises and equipment	179,446			181,454		
Other assets (3)	592,384			585,463		
Total assets	$ 8,168,147			$ 8,295,748		
Liabilities and Shareholders' Equity:						
Interest-bearing liabilities:						
Interest-bearing deposits:						
NOW	$ 1,258,134	2,843	.91	$ 1,505,280	7,216	1.93
Money market	521,989	2,269	1.74	422,419	2,310	2.20
Savings	178,435	121	.27	186,826	180	.39
Time less than $100,000	1,894,071	15,342	3.25	1,643,740	17,285	4.23
Time greater than $100,000	1,325,757	11,513	3.48	1,484,032	16,135	4.37
Brokered	686,070	5,209	3.05	534,835	5,408	4.06
Total interest-bearing deposits	5,864,456	37,297	2.55	5,777,132	48,534	3.38
Federal funds purchased and other borrowings	220,376	595	1.08	383,378	1,820	1.91
Federal Home Loan Bank advances	309,962	1,203	1.56	412,268	2,818	2.75
Long-term debt	151,019	2,760	7.33	107,996	2,059	7.67
Total borrowed funds	681,357	4,558	2.68	903,642	6,697	2.98
Total interest-bearing liabilities	6,545,813	41,855	2.56	6,680,774	55,231	3.33
Non-interest-bearing liabilities:						
Non-interest-bearing deposits	680,081			684,229		
Other liabilities	63,043			74,018		
Total liabilities	7,288,937			7,439,021		
Shareholders' equity	879,210			856,727		