

FIRST UNITED CORP/MD/
Form 10-Q
May 13, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For quarterly period ended March 31, 2013

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

Commission file number 0-14237

First United Corporation

(Exact name of registrant as specified in its charter)

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

19 South Second Street, Oakland, Maryland 21550-0009
(Address of principal executive offices) (Zip Code)

(800) 470-4356

(Registrant's telephone number, including area code)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter periods that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

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

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date: 6,199,283 shares of common stock, par value \$.01 per share, as of April 30, 2013.

INDEX TO QUARTERLY REPORT

FIRST UNITED CORPORATION

PART I. FINANCIAL INFORMATION	3
Item 1. Financial Statements (unaudited)	3
Consolidated Statement of Financial Condition – March 31, 2013 and December 31, 2012	3
Consolidated Statement of Operations - for the three months ended March 31, 2013 and 2012	4
Consolidated Statement of Comprehensive Income/(Loss) – for the three months ended March 31, 2013 and 2012	5
Consolidated Statement of Changes in Shareholders' Equity - for the three months ended March 31, 2013 and year ended December 31, 2012	6
Consolidated Statement of Cash Flows - for the three months ended March 31, 2013 and 2012	7
Notes to Consolidated Financial Statements	8
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	38
Item 3. Quantitative and Qualitative Disclosures about Market Risk	56
Item 4. Controls and Procedures	57
PART II. OTHER INFORMATION	58
Item 1. Legal Proceedings	58
Item 1A. Risk Factors	58
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	58
Item 3. Defaults upon Senior Securities	58
Item 4. Mine Safety Disclosures	58
Item 5. Other Information	58
Item 6. Exhibits	58
	3

SIGNATURES	58
EXHIBIT INDEX	59

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

Consolidated Statement of Financial Condition

(In thousands, except per share and percentage data)

	March 31, 2013 (Unaudited)	December 31, 2012
Assets		
Cash and due from banks	\$71,592	\$ 71,290
Interest bearing deposits in banks	13,236	11,778
Cash and cash equivalents	84,828	83,068
Investment securities – available-for-sale (at fair value)	239,440	223,273
Investment securities – held to maturity (at cost)	4,040	4,040
Restricted investment in bank stock, at cost	7,853	8,349
Loans	859,669	874,829
Allowance for loan losses	(16,025)	(16,047)
Net loans	843,644	858,782
Premises and equipment, net	29,229	29,455
Goodwill and other intangible assets, net	11,004	11,004
Bank owned life insurance	31,656	31,407
Deferred tax assets	27,871	28,882
Other real estate owned	16,188	17,513
Accrued interest receivable and other assets	27,014	25,010
Total Assets	\$ 1,322,767	\$ 1,320,783
Liabilities and Shareholders' Equity		
Liabilities:		
Non-interest bearing deposits	\$ 184,288	\$ 161,500
Interest bearing deposits	791,512	815,384
Total deposits	975,800	976,884
Short-term borrowings	38,633	39,257
Long-term borrowings	182,720	182,735
Accrued interest payable and other liabilities	23,679	23,002
Total Liabilities	1,220,832	1,221,878
Shareholders' Equity:		
Preferred stock – no par value;		

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Authorized 2,000 shares of which 30 shares of Series A, \$1,000 per share liquidation preference, 5% cumulative increasing to 9% cumulative on February 15, 2014, were issued and outstanding on March 31, 2013 and December 31, 2012 (discount of \$58 and \$75, respectively)	29,942	29,925
Common Stock – par value \$.01 per share; Authorized 25,000 shares; issued and outstanding 6,199 shares	62	62
Surplus	21,592	21,573
Retained earnings	70,653	69,168
Accumulated other comprehensive loss	(20,314)	(21,823)
Total Shareholders' Equity	101,935	98,905
Total Liabilities and Shareholders' Equity	\$1,322,767	\$ 1,320,783

See accompanying notes to the consolidated financial statements

FIRST UNITED CORPORATION

Consolidated Statement of Operations

(In thousands, except per share data)

	Three Months Ended March 31,	
	2013	2012
	(Unaudited)	
Interest income		
Interest and fees on loans	\$ 10,685	\$ 12,049
Interest on investment securities		
Taxable	1,091	1,162
Exempt from federal income tax	428	498
Total investment income	1,519	1,660
Other	84	59
Total interest income	12,288	13,768
Interest expense		
Interest on deposits	1,327	1,893
Interest on short-term borrowings	14	46
Interest on long-term borrowings	1,614	1,946
Total interest expense	2,955	3,885
Net interest income	9,333	9,883
Provision for loan losses	865	8,124
Net interest income after provision for loan losses	8,468	1,759
Other operating income		
Changes in fair value on impaired securities	1,663	328
Portion of gain recognized in other comprehensive income (before taxes)	(1,663)	(328)
Net securities impairment losses recognized in operations	0	0
Net gains – other	329	703
Total net gains	329	703
Service charges	874	862
Trust department	1,196	1,115
Insurance commissions	1	6
Debit card income	476	492
Bank owned life insurance	249	971
Brokerage commissions	162	185
Other	369	421
Total other income	3,327	4,052
Total other operating income	3,656	4,755
Other operating expenses		
Salaries and employee benefits	4,844	4,889
FDIC premiums	451	465
Equipment	642	682
Occupancy	704	710

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Data processing	729	680
Other	2,264	1,714
Total other operating expenses	9,634	9,140
Income/(Loss) before income tax expense	2,490	(2,626)
Applicable income tax expense	568	39
Net Income/(Loss)	1,922	(2,665)
Accumulated preferred stock dividends and discount accretion	(437)	(415)
Net Income Available to/Net (Loss) Attributable to Common Shareholders	\$ 1,485	\$ (3,080)
Basic and diluted net income/(loss) per common share	\$ 0.24	\$ (0.50)
Weighted average number of basic and diluted shares outstanding	6,199	6,183

See accompanying notes to the consolidated financial statements

FIRST UNITED CORPORATION

Consolidated Statement of Comprehensive Income/(Loss)

(In thousands, except per share data)

	Three Months Ended March 31,	
	2013	2012
Comprehensive Income/(Loss) (in thousands)		
Net Income/(Loss)	\$ 1,922	\$ (2,665)
Other comprehensive income, net of tax and reclassification adjustments:		
Net unrealized gains on investments with OTTI	995	196
Net unrealized losses on all other AFS securities	(265)	(122)
Net unrealized gains on cash flow hedges	60	27
Net unrealized gains on Pension	715	0
Net unrealized gains on SERP	4	0
Other comprehensive income, net of tax	1,509	101
Comprehensive income /(loss)	\$ 3,431	\$ (2,564)

See accompanying notes to the consolidated financial statements

FIRST UNITED CORPORATION

Consolidated Statement of Changes in Shareholders' Equity

(In thousands, except share and per share data)

	Preferred Stock	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance at January 1, 2012	\$ 29,860	\$ 62	\$21,500	\$66,196	\$ (20,962)) \$ 96,656
Net income				4,663		4,663
Other comprehensive loss					(861)) (861)
Stock based compensation			73			73
Preferred stock discount accretion	65			(65)		0
Preferred stock dividends deferred				(1,626)) (1,626)
Balance at December 31, 2012	29,925	62	21,573	69,168	(21,823)) 98,905
Net income				1,922		1,922
Other comprehensive income					1,509	1,509
Stock based compensation			19			19
Preferred stock discount accretion	17			(17)		0
Preferred stock dividends deferred				(420)) (420)
Balance at March 31, 2013	\$ 29,942	\$ 62	\$21,592	\$70,653	\$ (20,314)) \$ 101,935

See accompanying notes to the consolidated financial statements

FIRST UNITED CORPORATION

Consolidated Statement of Cash Flows

(In thousands)

	Three Months Ended March 31,	
	2013	2012
	(Unaudited)	
Operating activities		
Net income/(loss)	\$1,922	\$(2,665)
Adjustments to reconcile net income/(loss) to net cash provided by operating activities:		
Provision for loan losses	865	8,124
Depreciation	509	515
Stock compensation	19	13
Gain on sales of Insurance assets	0	(88)
Gain on sales of other real estate owned	(7)	(623)
Write-downs of other real estate owned	20	0
Gain on loan sales	(79)	(20)
Loss on disposal of fixed assets	0	4
Net amortization of investment securities discounts and premiums	395	375
Gain on sales of investment securities – available-for-sale	(250)	(599)
Amortization of deferred Loan Fees	(191)	(127)
Decrease in accrued interest receivable and other assets	(810)	781
Deferred tax benefit	1	(1,469)
Increase/(decrease) in accrued interest payable and other liabilities	364	(3,076)
Earnings on bank owned life insurance	(249)	(971)
Net cash provided by operating activities	2,509	174
Investing activities		
Proceeds from maturities/calls of investment securities available-for-sale	13,381	8,414
Proceeds from sales of investment securities available-for-sale	35,136	10,454
Purchases of investment securities available-for-sale	(63,611)	(3,686)
Proceeds from sales of other real estate owned	1,765	2,708
Proceeds from loan sales	11,313	1,462
Proceeds from disposal of fixed assets	0	19
Proceeds from sale of insurance assets	0	3,604
Proceeds from BOLI death benefit	0	1,765
Net decrease in FHLB stock	496	0
Net decrease in loans	2,777	8,113
Purchases of premises and equipment	(283)	(224)
Net cash provided by investing activities	974	32,629
Financing activities		
Net (decrease)/increase in deposits	(1,084)	2,121

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Net decrease in short-term borrowings	(624)	(1,641)
Proceeds from long-term borrowings	0	20,000
Payments on long-term borrowings	(15)	(20,265)
Net cash (used in)/ provided by financing activities	(1,723)	215
Increase in cash and cash equivalents		