

FIRST UNITED CORP/MD/
Form 424B3
June 15, 2012

Filed Pursuant to Rule 424(b)(3)

Registration Statement No. 333-180514

PROSPECTUS SUPPLEMENT NO. 1

(to Prospectus dated April 19, 2012)

Dividend Reinvestment and Stock Purchase Plan

800,000 Shares of Common Stock, Par Value \$.01 Per Share

This Prospectus Supplement No. 1 supplements and amends our Prospectus dated April 19, 2012 and includes our attached Quarterly Report on Form 10-Q for the quarter ended March 31, 2012 that was filed with the Securities and Exchange Commission on May 14, 2012.

The Prospectus and this Prospectus Supplement No. 1 relate to our sale of up to 800,000 shares of our common stock, par value \$.01 per share, to our shareholders under our Dividend Reinvestment and Stock Purchase Plan, as amended (the “Plan”). We will receive all of the net proceeds from sales of newly issued shares to you under the Plan. We will not receive any proceeds from sales of shares that the Plan’s administrator buys from persons other than us.

Our common stock is listed on The NASDAQ Global Select Market under the symbol “FUNC”. As of June 14, 2012, the 20-day average of the high and low sales prices of the common stock on The NASDAQ Global Select Market was \$5.09 per share. On June 14, 2012, the closing price of our common stock on The NASDAQ Global Select Market was \$4.41 per share.

This Prospectus Supplement No. 1 should be read in conjunction with the Prospectus. Any statement contained in the Prospectus shall be deemed to be modified or superseded to the extent that information in this Prospectus Supplement No. 1 modifies or supersedes such statement. Any statement that is modified or superseded shall not be deemed to

constitute a part of the Prospectus except as modified or superseded by this Prospectus Supplement No. 1.

Investing in our common stock involves certain risks. You should review carefully the risks described under “Risk Factors” beginning on page 5 of the Prospectus and under similar headings in any amendments or supplements to the Prospectus.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THE SECURITIES OFFERED HEREBY ARE NOT DEPOSIT OR SAVINGS ACCOUNTS OR OTHER OBLIGATIONS OF ANY BANK OR NON-BANK SUBSIDIARY OF FIRST UNITED CORPORATION, AND THEY ARE NOT INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION OR ANY OTHER GOVERNMENT AGENCY OR INSTRUMENTALITY.

The date of this Prospectus Supplement No. 1 is June 15, 2012.

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 quarterly period ended March 31, 2012

.. TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from _____ to _____

Commission file number 0-14237

First United Corporation

(Exact name of registrant as specified in its charter)

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

19 South Second Street, Oakland, Maryland 21550-0009

(Address of principal executive offices) (Zip Code)

(800) 470-4356

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer £

Accelerated filer £

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 6,182,757 shares of common stock, par value \$.01 per share, as of April 30, 2012.

INDEX TO QUARTERLY REPORT

FIRST UNITED CORPORATION

PART I. FINANCIAL INFORMATION	3
Item 1. Financial Statements (unaudited)	3
Consolidated Statements of Financial Condition – March 31, 2012 and December 31, 2011	3
Consolidated Statements of Operations - for the three months ended March 31, 2012 and 2011	4
Consolidated Statements of Comprehensive Income/(Loss) – for the three months ended March 31, 2012 and 2011	5
Consolidated Statements of Changes in Shareholders' Equity - for the three months ended March 31, 2012 and year ended December 31, 2011	6
Consolidated Statements of Cash Flows - for the three months ended March 31, 2012 and 2011	7
Notes to Consolidated Financial Statements	8
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	33
Item 3. Quantitative and Qualitative Disclosures About Market Risk	51
Item 4. Controls and Procedures	51
PART II. OTHER INFORMATION	52
Item 1. Legal Proceedings	52
Item 1A. Risk Factors	52
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	52
Item 3. Defaults Upon Senior Securities	52
Item 4. Mine Safety Disclosures	52
Item 5. Other Information	52
Item 6. Exhibits	52
SIGNATURES	52

EXHIBIT INDEX

53

2

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

Consolidated Statements of Financial Condition

(In thousands, except per share and percentage data)

	March 31, 2012 (Unaudited)	December 31, 2011
Assets		
Cash and due from banks	\$ 85,597	\$ 52,049
Interest bearing deposits in banks	12,528	13,058
Cash and cash equivalents	98,125	65,107
Investment securities – available-for-sale (at fair value)	226,147	245,023
Investment securities – held to maturity (at cost)	4,040	0
Restricted investment in bank stock, at cost	10,726	10,726
Loans	914,348	938,694
Allowance for loan losses	(17,213)	(19,480)
Net loans	897,135	919,214
Premises and equipment, net	30,512	30,826
Goodwill and other intangible assets, net	11,004	14,432
Bank owned life insurance	30,641	31,435
Deferred tax assets	30,113	28,711
Other real estate owned	19,118	16,676
Accrued interest receivable and other assets	27,980	28,715
Total Assets	\$ 1,385,541	\$ 1,390,865
Liabilities and Shareholders' Equity		
Liabilities:		
Non-interest bearing deposits	\$ 155,580	\$ 149,888
Interest bearing deposits	874,325	877,896
Total deposits	1,029,905	1,027,784
Short-term borrowings	35,227	36,868
Long-term borrowings	206,779	207,044
Accrued interest payable and other liabilities	19,924	22,513
Total Liabilities	1,291,835	1,294,209

Shareholders' Equity:

Preferred stock – no par value;

Authorized 2,000 shares of which 30 shares of Series A, \$1,000 per share liquidation preference, 5% cumulative increasing to 9% cumulative on February 15, 2014, were issued and outstanding on March 31, 2012 and December 31, 2011 (discount of \$124 and \$140, respectively)

29,876	29,860
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Common Stock – par value \$.01 per share;

Authorized 25,000 shares; issued and outstanding 6,183 shares at March 31, 2012 and December 31, 2011

62	62
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Surplus

21,513	21,500
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Retained earnings

63,116	66,196
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Accumulated other comprehensive loss

(20,861)	(20,962)
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Total Shareholders' Equity

93,706	96,656
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Total Liabilities and Shareholders' Equity

\$ 1,385,541	\$ 1,390,865
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See accompanying notes to the consolidated financial statements.

FIRST UNITED CORPORATION

Consolidated Statements of Operations

(In thousands, except per share data)

	Three Months Ended March 31,	
	2012	2011
	(Unaudited)	
Interest income	\$ 12,049	\$ 13,914
Interest and fees on loans		
Interest on investment securities		
Taxable	1,105	705
Exempt from federal income tax	555	862
Total investment income	1,660	1,567
Other	59	147
Total interest income	13,768	15,628
Interest expense		
Interest on deposits	1,893	3,671
Interest on short-term borrowings	46	61
Interest on long-term borrowings	1,946	2,426
Total interest expense	3,885	6,158
Net interest income	9,883	9,470
Provision for loan losses	8,124	1,344
Net interest income after provision for loan losses	1,759	8,126
Other operating income		
Changes in fair value on impaired securities	328	691
Portion of gain recognized in other comprehensive income (before taxes)	(328)	(710)
Net securities impairment losses recognized in operations	0	(19)
Net gains – other	1,326	101
Total net gains	1,326	82
Service charges	862	866
Trust department	1,115	1,064
Insurance commissions	6	623
Debit card income	492	608
Bank owned life insurance	971	254
Other	606	347
Total other income	4,052	3,762
Total other operating income	5,378	3,844
Other operating expenses		
Salaries and employee benefits	4,889	5,132
FDIC premiums	465	895
Equipment	682	815
Occupancy	710	738
Data processing	680	702
Other	2,337	2,631

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Total other operating expenses	9,763	10,913
(Loss)/Income before income tax expense	(2,626)	1,057
Applicable income tax expense	39	100
Net (Loss)/Income	(2,665)	957
Accumulated preferred stock dividends and discount accretion	(415)	(394)
Net (Loss) Attributable to/Net Income Available to Common Shareholders	\$ (3,080)	\$ 563
Basic net (loss)/income per common share	\$ (.50)	\$.09
Diluted net (loss)/income per common share	\$ (.50)	\$.09
Weighted average number of basic and diluted shares outstanding	6,183	6,166

See accompanying notes to the consolidated financial statements.

FIRST UNITED CORPORATION

Consolidated Statements of Comprehensive Income/(Loss)

(In thousands, except per share data)

	Three Months Ended March 31	
Components of Comprehensive Income/(Loss) (in thousands)	2012	2011
Net (Loss)/Income	\$ (2,665)	\$ 957
Available for sale (AFS) securities with OTTI:		
Securities with OTTI charges during the period	\$ 328	\$ 691
Less: OTTI charges recognized in income	0	(19)
Unrealized gains on investments with OTTI	328	710
Taxes	(132)	(288)
Net unrealized gains on investments with OTTI	196	422
Available for sale securities – all other:		
Unrealized holding gains during the period	122	1,010
Less: securities with OTTI charges during the period	328	691
Unrealized (losses)/gains on all other AFS securities	(206)	319
Taxes	84	(128)
Net unrealized (losses)/gains on all other AFS securities	(122)	191
Net unrealized gains on AFS securities	74	613
Unrealized gains on cash flow hedges	46	169
Taxes	(19)	(68)
Net unrealized gains on cash flow hedges	27	101
Other comprehensive income, net of tax	\$ 101	\$ 714
Comprehensive (loss)/income	\$ (2,564)	\$ 1,671

See accompanying notes to the consolidated financial statements.

FIRST UNITED CORPORATION

Consolidated Statements of Changes in Shareholders' Equity

(In thousands, except share and per share data)

	Preferred Stock	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance at January 1, 2011	\$ 29,798	62	21,422	64,179	(19,821)	95,640
Net income				3,626		3,626
Other comprehensive loss					(1,141)	(1,141)
Stock based compensation			78			78
Preferred stock discount accretion	62			(62)		0
Preferred stock dividends deferred				(1,547)		(1,547)
Balance at December 31, 2011	29,860	62	21,500	66,196	(20,962)	96,656
Net loss				(2,665)		(2,665)
Other comprehensive income					101	101
Stock based compensation			13			13
Preferred stock discount accretion	16			(16)		0
Preferred stock dividends deferred				(399)		(399)
Balance at March 31, 2012	\$ 29,876	\$ 62	\$ 21,513	\$ 63,116	\$ (20,861)	\$ 93,706

See accompanying notes to the consolidated financial statements.

FIRST UNITED CORPORATION

Consolidated Statements of Cash Flows

(In thousands)

	Three Months Ended March 31,	
	2012	2011
	(Unaudited)	
Operating activities		
Net (loss)/income	\$(2,665)	\$957
Adjustments to reconcile net (loss)/income to net cash provided by operating activities:		
Provision for loan losses	8,124	1,344
Depreciation	515	640
Stock compensation	13	32
Amortization of intangible assets	0	67
Gain on sales of Insurance assets	(88)	0
(Gain)/loss on sales of other real estate owned	(623)	7
Write-downs of other real estate owned	0	63
Gain on loan sales	(20)	(19)
Loss on disposal of fixed assets	4	3
Net amortization of investment securities discounts and premiums	375	610
Other-than-temporary-impairment loss on securities	0	19
Gain on sales of investment securities – available-for-sale	(599)	(155)
Amortization of deferred Loan Fees	(127)	(139)
Decrease in accrued interest receivable and other assets	781	2,090
Deferred tax benefit	(1,469)	(1,313)
Decrease in accrued interest payable and other liabilities	(3,076)	(1,126)
Earnings on bank owned life insurance	(971)	(254)
Net cash provided by operating activities	174	2,826
Investing activities		
Proceeds from maturities/calls of investment securities available-for-sale	8,414	20,230
Proceeds from sales of investment securities available-for-sale	10,454	22,048
Purchases of investment securities available-for-sale	(3,686)	(37,765)
Proceeds from sales of other real estate owned	2,708	532
Proceeds from loan sales	1,462	0
Proceeds from disposal of fixed assets	19	0
Proceeds from sale of insurance assets	3,604	0
Proceeds from BOLI death benefit	1,765	0
Net decrease in loans	8,113	26,715
Purchases of premises and equipment	(224)	(65)
Net cash provided by investing activities	32,629	31,695
Financing activities		
Net increase/(decrease) in deposits	2,121	(174,066)
Net (decrease)/increase in short-term borrowings	(1,641)	3,859
Proceeds from long-term borrowings	20,000	0

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Payments on long-term borrowings	(20,265)	(10,264)
Net cash provided by/(used in) financing activities	215	(180,471)
Increase/(decrease) in cash and cash equivalents	33,018	(145,950)
Cash and cash equivalents at beginning of the year	65,107	299,313
Cash and cash equivalents at end of period	\$98,125	\$153,363
Supplemental information		
Interest paid	\$3,553	\$5,283
Non-cash investing activities:		
Transfers from loans to other real estate owned	\$4,527	\$562
Transfers from loans to loans held for sale	\$0	\$44,502
Transfers from securities available for sale to held-to-maturity	\$4,040	\$0

See accompanying notes to the consolidated financial statements.

FIRST UNITED CORPORATION

NoteS to Consolidated Financial Statements (UNAUDITED)

for the quarter ended March 31, 2012

Note 1 – Basis of Presentation

The accompanying unaudited consolidated financial statements of First United Corporation and its consolidated subsidiaries, including First United Bank & Trust (the “Bank”), have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information, as required by the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 270, *Interim Reporting*, and with the instructions to Form 10-Q and Rule 8-03 of Regulation S-X. Accordingly, they do not include all the information and footnotes required for annual financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation, consisting of normal recurring items, have been included. Operating results for the three month period ended March 31, 2012 are not necessarily indicative of the results that may be expected for the full year or for any future interim period. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in First United Corporation’s Annual Report on Form 10-K for the year ended December 31, 2011. For purposes of comparability, certain prior period amounts have been reclassified to conform to the 2012 presentation. Such reclassifications had no impact on net income/(loss) or equity.

First United Corporation has evaluated events and transactions occurring subsequent to the statement of financial condition date of March 31, 2012 for items that should potentially be recognized or disclosed in these financial statements as prescribed by ASC Topic 855, *Subsequent Events*.

As used in these notes to consolidated financial statements, First United Corporation and its consolidated subsidiaries are sometimes collectively referred to as the “Corporation”.

Note 2 – Earnings/(loss) Per Common Share

Basic earnings/(loss) per common share is derived by dividing net income available to/(loss) attributable to common shareholders by the weighted-average number of common shares outstanding during the period and does not include the effect of any potentially dilutive common stock equivalents. Diluted earnings/(loss) per share is derived by dividing net income available to/(loss) attributable to common shareholders by the weighted-average number of shares outstanding, adjusted for the dilutive effect of outstanding common stock equivalents. There were no common stock

equivalents during the quarters ended March 31, 2012 and March 31, 2011. There is no dilutive effect on the earnings per share during loss periods.

The following table sets forth the calculation of basic and diluted earnings/(loss) per common share for the three month periods ended March 31, 2012 and 2011:

(in thousands, except for per share amount)	For the three months ended March 31,					
	2012			2011		
	Loss	Average Shares	Per Share Amount	Income	Average Shares	Per Share Amount
Basic and Diluted (Loss)/Earnings Per Share:						
Net (loss)/income	\$(2,665)			\$957		
Preferred stock dividends deferred	(399)			(379)		
Discount accretion on preferred stock	(16)			(15)		
Net (loss) attributable to/income available to common shareholders	\$(3,080)	6,183	\$ (.50)	\$563	6,166	\$.09

Note 3 – Net Gains

The following table summarizes the gain/(loss) activity for the three-month periods ended March 31, 2012 and 2011:

(in thousands)	Three months ended March 31,	
	2012	2011
Other-than-temporary impairment charges:		
Available-for-sale securities	\$ 0	\$ (19)
Net gains/(losses) – other:		
Available-for-sale securities:		
Realized gains	663	237
Realized losses	(64)	(82)
Gain/(loss) on sales of other real estate owned	623	(7)
Write-down of other real estate owned	0	(63)
Gain on sale of consumer loans	20	19
Gain on sale of insurance assets	88	0
Loss on disposal of fixed assets	(4)	(3)
Net gains – other	1,326	101
Net gains	\$ 1,326	\$ 82

Note 4 – Cash and Cash Equivalents

Cash and due from banks, which represents vault cash in the retail offices and invested cash balances at the Federal Reserve, is carried at fair value.

	March 31, 2012	December 31, 2011
Cash and due from banks, weighted average interest rate of 0.15% (at March 31, 2012)	\$ 85,597	\$ 52,049

Interest bearing deposits in banks, which represent funds invested at a correspondent bank, are carried at fair value and, as of March 31, 2012 and December 31, 2011, consisted of daily funds invested at the Federal Home Loan Bank (“FHLB”) of Atlanta, First Tennessee Bank (“FTN”), Merchants and Traders (“M&T”) and Community Bankers Bank (“CBB”).

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	March 31, 2012	December 31, 2011
FHLB daily investments, interest rate of 0.005% (at March 31, 2012)	\$ 4,067	\$ 4,244
FTN daily investments, interest rate of 0.09% (at March 31, 2012)	1,350	1,350
M&T Fed Funds sold, interest rate of 0.25% (at March 31, 2012)	6,026	6,379
CBB Fed Funds sold, interest rate of 0.22% (at March 31, 2012)	1,085	1,085
	\$ 12,528	\$ 13,058

Note 5 – Investments

The investment portfolio is classified and accounted for based on the guidance of ASC Topic 320, *Investments – Debt and Equity Securities*.

The following table shows a comparison of amortized cost and fair values of investment securities at March 31, 2012 and December 31, 2011:

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	OTTI in AOCI
March 31, 2012					
Available for Sale:					
U.S. government agencies	25,492	70	68	25,494	0
Residential mortgage-backed agencies	121,177	1,870	145	122,902	0
Collateralized mortgage obligations	10,815	0	54	10,761	0
Obligations of states and political subdivisions	54,229	2,998	191	57,036	0
Collateralized debt obligations	36,450	0	26,496	9,954	17,399
Total available for sale	\$ 248,163	\$ 4,938	\$ 26,954	\$ 226,147	\$ 17,399
Held to Maturity:					
Obligations of states and political subdivisions	\$ 4,040	\$ 0	\$ 0	\$ 4,040	\$ 0
December 31, 2011					
U.S. government agencies	\$ 25,490	\$ 107	\$ 17	\$ 25,580	\$ 0
Residential mortgage-backed agencies	129,019	1,653	270	130,402	0
Collateralized mortgage obligations	10,843	58	123	10,778	0
Obligations of states and political subdivisions	65,424	3,400	8	68,816	0
Collateralized debt obligations	36,385	0	26,938	9,447	17,726
Totals	\$ 267,161	\$ 5,218	\$ 27,356	\$ 245,023	\$ 17,726

Proceeds from sales and calls of securities and the realized gains and losses are as follows:

	Three Months Ended	
	March 31,	
(in thousands)	2012	2011
Proceeds	\$ 10,454	\$ 22,048
Realized gains	663	237