UNITED COMMUNITY BANKS INC
Form 10-Q/A
February 10, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

Amendment No. 2

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

For the Quarterly Period Ended June 30, 2011

OR

¨ **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 001-35095

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.)**
125 Highway 515 East	
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 ¨

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 x NO ¨

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	¨	Accelerated filer	x
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 Act). YES ¨ NO x

Common stock, par value $1 per share 41,568,707 shares voting and 15,914,209 shares non-voting

outstanding as of July 31, 2011

Explanatory Note

This Amendment No. 2 to the Form 10-Q/A (this Amendment) of United Community Banks, Inc. (United) amends and restates United s Form 10-Q/A for the quarter ended June 30, 2011 that was originally filed with the Securities and Exchange Commission on August 9, 2011 (collectively with Amendment, this Form 10-Q/A).

This Amendment is filed to reflect United s establishment of a full deferred tax asset valuation allowance as of December 31, 2010 and the effects thereof on certain related disclosures contained in this Form 10-Q/A, including (i) United s previously reported income tax expense, other comprehensive income in shareholders equity and net loss for the first and second quarter of 2011 and full year 2010, tangible book value, tangible equity and tangible common equity to asset ratios and regulatory capital ratios as of June 30, 2011, March 31, 2011 and December 31, 2010, and (ii) United s disclosure in Item 4 Controls and Procedures.

Unless otherwise indicated, this Amendment does not reflect events occurring after August 9, 2011.

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Part I Financial Information

Item 1 Financial Statements

UNITED COMMUNITY BANKS, INC.

Consolidated Statement of Operations *(Unaudited)*

(in thousands, except per share data)	September 30, Three Months Ended June 30, (As restated) 2011	September 30, 2010	September 30, Six Months Ended June 30, (As restated) 2011	September 30, 2010
Interest revenue:				
Loans, including fees	$ 60,958	$ 70,611	$ 122,065	$ 142,826
Investment securities, including tax exempt of $251, $295, $510 and $606	14,792	15,829	28,396	32,032
Federal funds sold, commercial paper and deposits in banks	752	759	1,571	1,697
Total interest revenue	76,502	87,199	152,032	176,555
Interest expense:				
Deposits:				
NOW	1,036	1,745	2,360	3,599
Money market	1,499	1,829	3,527	3,586
Savings	64	83	141	167
Time	10,995	17,718	22,727	37,916
Total deposit interest expense	13,594	21,375	28,755	45,268
Federal funds purchased, repurchase agreements and other short-term borrowings	1,074	1,056	2,116	2,094
Federal Home Loan Bank advances	570	974	1,160	1,951
Long-term debt	2,747	2,667	5,527	5,329
Total interest expense	17,985	26,072	37,558	54,642
Net interest revenue	58,517	61,127	114,474	121,913
Provision for loan losses	11,000	61,500	201,000	136,500
Net interest revenue after provision for loan losses	47,517	(373)	(86,526)	(14,587)
Fee revenue:				
Service charges and fees	7,608	7,993	14,328	15,440
Mortgage loan and other related fees	952	1,601	2,446	3,080
Brokerage fees	691	586	1,368	1,153
Securities gains, net	783		838	61
Loss from prepayment of debt	(791)		(791)	
Other	4,662	1,399	7,554	3,511
Total fee revenue	13,905	11,579	25,743	23,245
Total revenue	61,422	11,206	(60,783)	8,658
Operating expenses:				
Salaries and employee benefits	26,436	23,590	51,360	47,950

Communications and equipment		3,378		3,511		6,722		6,784
Occupancy		3,805		3,836		7,879		7,650
Advertising and public relations		1,317		1,352		2,295		2,395
Postage, printing and supplies		1,085		765		2,203		1,990
Professional fees		2,350		2,178		5,680		4,121
Foreclosed property		1,891		14,540		66,790		25,353
FDIC assessments and other regulatory charges		3,644		3,566		9,057		7,192
Amortization of intangibles		760		794		1,522		1,596
Other		4,062		4,176		10,491		8,097
Loss on sale of nonperforming assets				45,349				45,349
Total operating expenses		48,728		103,657		163,999		158,477
Income (loss) from continuing operations before income taxes		12,694		(92,451)		(224,782)		(149,819)
Income tax expense (benefit)		666		(32,919)		526		(55,829)
Net income (loss) from continuing operations		12,028		(59,532)		(225,308)		(93,990)
Loss from discontinued operations, net of income taxes								(101)
Gain from sale of subsidiary, net of income taxes and selling costs								1,266
Net income (loss)		12,028		(59,532)		(225,308)		(92,825)
Preferred stock dividends and discount accretion		3,016		2,577		5,794		5,149
Net income (loss) available to common shareholders	$	9,012	$	(62,109)	$	(231,102)	$	(97,974)
Earnings (loss) from continuing operations per common share Basic	$	.35	$	(3.29)	$	(10.52)	$	(5.25)
Earnings (loss) from continuing operations per common share Diluted		.16		(3.29)		(10.52)		(5.25)
Earnings (loss) per common share Basic		.35		(3.29)		(10.52)		(5.19)
Earnings (loss) per common share Diluted		.16		(3.29)		(10.52)		(5.19)
Weighted average common shares outstanding Basic		25,427		18,905		21,965		18,891
Weighted average common shares outstanding Diluted		57,543		18,905		21,965		18,891

See accompanying notes to consolidated financial statements.

UNITED COMMUNITY BANKS, INC.

Consolidated Balance Sheet

(in thousands, except share and per share data)	September 30, (As restated) June 30, 2011 (unaudited)	September 30, (As restated) December 31, 2010 (audited)	September 30, June 30, 2010 (unaudited)
ASSETS			
Cash and due from banks	$ 163,331	$ 95,994	$ 115,088
Interest-bearing deposits in banks	41,863	111,901	105,183
Federal funds sold, commercial paper and short-term investments	174,996	441,562	148,227
Cash and cash equivalents	380,190	649,457	368,498
Securities available for sale	1,816,613	1,224,417	1,165,776
Securities held to maturity (fair value $379,231, 267,988 and $327,497)	371,578	265,807	322,148
Mortgage loans held for sale	19,406	35,908	22,705
Loans, net of unearned income	4,163,447	4,604,126	4,873,030
Less allowance for loan losses	127,638	174,695	174,111
Loans, net	4,035,809	4,429,431	4,698,919
Assets covered by loss sharing agreements with the FDIC	95,726	131,887	156,611
Premises and equipment, net	178,208	178,239	180,125
Accrued interest receivable	21,291	24,299	29,650
Goodwill and other intangible assets	9,922	11,446	223,600
Foreclosed property	47,584	142,208	123,910
Net deferred tax asset			111,485
Other assets	175,968	183,160	249,057
Total assets	$ 7,152,295	$ 7,276,259	$ 7,652,484
LIABILITIES AND SHAREHOLDERS EQUITY			
Liabilities:			
Deposits:			
Demand	$ 899,017	$ 793,414	$ 779,934
NOW	1,306,109	1,424,781	1,326,861
Money market	989,600	891,252	756,370
Savings	197,927	183,894	185,176
Time:			
Less than $100,000	1,508,444	1,496,700	1,575,211
Greater than $100,000	981,154	1,002,359	1,093,975
Brokered	300,964	676,772	611,985
Total deposits	6,183,215	6,469,172	6,329,512
Federal funds purchased, repurchase agreements, and other short-term borrowings	103,666	101,067	104,127
Federal Home Loan Bank advances	40,625	55,125	104,138
Long-term debt	150,186	150,146	150,106
Unsettled securities purchases	35,634		20,941
Accrued expenses and other liabilities	36,368	32,171	39,243
Total liabilities	6,549,694	6,807,681	6,748,067
Shareholders equity:			
Preferred stock, $1 par value; 10,000,000 shares authorized;			
Series A; $10 stated value; 21,700 shares issued and outstanding	217	217	217
Series B; $1,000 stated value; 180,000 shares issued and outstanding	176,392	175,711	175,050
Series D; $1,000 stated value; 16,613 shares issued and outstanding	16,613		
	41,555	18,937	18,856

Common stock, $1 par value; 100,000,000 shares authorized; 41,554,874, 18,937,001 and 18,856,185 shares issued and outstanding						
Common stock, non-voting, $1 par value; 30,000,000 shares authorized; 15,914,209 shares issued and outstanding		15,914				
Common stock issuable; 83,575, 67,287 and 56,954 shares		3,574		3,894		3,898
Capital surplus		1,052,482		741,244		739,261
Accumulated deficit		(723,378)		(492,276)		(77,590)
Accumulated other comprehensive income		19,232		20,851		44,725
Total shareholders equity		602,601		468,578		904,417
Total liabilities and shareholders equity	$	7,152,295	$	7,276,259	$	7,652,484

See accompanying notes to consolidated financial statements.

UNITED COMMUNITY BANKS, INC.

Consolidated Statement of Changes in Shareholders   Equity *(Unaudited)*

For the Six Months Ended June 30,

	mber 30, ries A	September 30, Series B	September 30, Preferred Stock Series D	September 30, Series F	September 30, Series G	September 30, Common Stock	September 30, Non-Voting Common Stock	September 30, Common Stock Issuable	September 30, Capital Surplus	Septemb (Accumu Defici Retain Earnin
	217	$ 174,408	$	$	$	$ 18,809	$	$ 3,597	$ 697,271	$
										(9
										(9
									39,813	
						42			898	
									1,428	
						2		607	(609)	
								162		
						3		(468)	460	
		642								
	217	$ 175,050	$	$	$	$ 18,856	$	$ 3,898	$ 739,261	$ (1
	217	$ 175,711	$	$	$	$ 18,937	$	$ 3,894	$ 741,244	$ (49
										(22
										(22
nsaction									3,250	
			16,613			(1,551)			(15,062)	
				(195,872)	(151,185)	20,618	15,914		310,525	

					79			665	
			195,872	151,185	3,468			11,035	
								758	
					1		54	(55)	
							127		
					3		(501)	498	
								(376)	
	681								
217	$ 176,392	$ 16,613	$	$	$ 41,555	$ 15,914	$ 3,574	$ 1,052,482	$ (7

Comprehensive income (loss) for the second quarters of 2011 and 2010 was $16,309,000 and $(60,133,000), respectively.

See accompanying notes to consolidated financial statements.

UNITED COMMUNITY BANKS, INC.

Consolidated Statement of Cash Flows *(Unaudited)*

(in thousands)	September 30, Six Months Ended June 30, (As restated) 2011	September 30, 2010
Operating activities:		
Net loss	$ (225,308)	$ (92,825)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation, amortization and accretion	9,374	7,747
Provision for loan losses	201,000	136,500
Stock based compensation	758	1,428
Securities gains, net	(838)	(61)
Losses and write downs on sales of other real estate owned	60,505	19,289
Gain from sale of subsidiary		(2,110)
Loss on sale of nonperforming assets		45,349
Loss on prepayment of borrowings	791	
Changes in assets and liabilities:		
Other assets and accrued interest receivable	41,184	(55,249)
Accrued expenses and other liabilities	1,078	(6,888)
Mortgage loans held for sale	16,502	7,521
Net cash provided by operating activities	105,046	60,701
Investing activities:		
Investment securities held to maturity:		
Proceeds from maturities and calls	34,742	12,059
Purchases	(141,862)	(19,617)
Investment securities available for sale:		
Proceeds from sales	106,603	40,817
Proceeds from maturities and calls	220,018	432,436
Purchases	(875,250)	(398,877)
Net decrease in loans	64,778	50,600
Proceeds from loan sales	99,298	22,331
Proceeds from sales of premises and equipment	534	39
Purchases of premises and equipment	(5,276)	(3,601)
Net cash received from sale of subsidiary		290
Net cash received from sale of nonperforming assets		20,618
Proceeds from sale of other real estate	60,310	80,898
Net cash (used in) provided by investing activities	(436,105)	237,993
Financing activities:		
Net change in deposits	(285,957)	(295,729)
Net change in federal funds purchased, repurchase agreements, and other short-term borrowings	2,599	2,738
Repayments of FHLB advances	(15,291)	(10,000)
Proceeds from issuance of common stock for dividend reinvestment and employee benefit plans	744	935
Proceeds from issuance of common and preferred stock, net of offering costs	361,560	
Proceeds from penalty on incomplete private equity transaction	3,250	
Cash dividends on preferred stock	(5,113)	(4,507)
Net cash provided by (used in) financing activities	61,792	(306,563)
Net change in cash and cash equivalents	(269,267)	(7,869)

Cash and cash equivalents at beginning of period		649,457		376,367
Cash and cash equivalents at end of period	$	380,190	$	368,498
Supplemental disclosures of cash flow information:				
Cash paid during the period for:				
Interest	$	36,703	$	60,083
Income taxes		1,527		819
Unsettled securities purchases		35,634		20,941

See accompanying notes to consolidated financial statements**.**

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

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 2010 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.

Foreclosed property is initially recorded at fair value, less estimated costs to sell. If the fair value, less estimated costs 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 the Financial Accounting Standards Board s (FASB) Accounting Standards Codification Topic 360, Subtopic 20, *Real Estate Sales* (ASC 360-20).

Note 2 Restatement of Consolidated Financial Statements

Subsequent to filing United s quarterly report on Form 10-Q, for the period ended June 30, 2011, United determined that a full valuation allowance on its deferred tax asset should be recognized as of December 31, 2010. Management decided to establish a valuation allowance against the net deferred tax asset after reconsidering the positive and negative evidence regarding the ultimate realization of the net deferred tax asset. Realization of the net deferred tax asset is dependent upon United s ability to generate future taxable income. Management has concluded that the objective and verifiable negative evidence represented by United s recent losses outweighs the more subjective positive evidence. As a result of this conclusion, United has established a full valuation allowance against its deferred tax asset.

On June 17, 2011, United completed a 1-for-5 reverse stock split, whereby each 5 shares of United s common stock was reclassified into one share of common stock, and each 5 shares of United s non-voting common stock was reclassified into one share of non-voting common stock. All share and per share amounts for all periods presented have been adjusted to reflect the reverse split as though it had occurred prior to the earliest period presented.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Accordingly, the June 30, 2011 consolidated financial statements have been restated to account for this determination. The effect of this change in the consolidated financial statements was as follows *(in thousands except per share amounts).*

	September 30,	September 30,	September 30,	September 30,	September 30,	September 30,
	Three Months Ended June 30, 2011			Six Months Ended June 30, 2011		
	As Reported	Adjustment	As Restated	As Reported	Adjustment	As Restated
Consolidated Statement of Operations						
Income tax expense (benefit)	$ 5,077	$ (4,411)	$ 666	$ (89,913)	$ 90,439	$ 526
Net income (loss) from continuing operations	7,617	4,411	12,028	(134,869)	(90,439)	(225,308)
Net income (loss)	7,617	4,411	12,028	(134,869)	(90,439)	(225,308)
Net income (loss) available to common shareholders	4,601	4,411	9,012	(140,663)	(90,439)	(231,102)
Income (loss) from continuing operations per common share basic	0.18	0.17	0.35	(6.40)	(4.12)	(10.52)
Income (loss) from continuing operations per common share diluted	0.08	0.08	0.16	(6.40)	(4.12)	(10.52)
Income (loss) per common share basic	0.18	0.17	0.35	(6.40)	(4.12)	(10.52)
Income (loss) per common share diluted	0.08	0.08	0.16	(6.40)	(4.12)	(10.52)
Consolidated Statement of Changes in Shareholders Equity						
Net loss				$ (134,869)	$ (90,439)	$ (225,308)
Unrealized holding losses on available for sale securities				5,133	2,870	8,003
Unrealized losses on derivative financial instrument qualifying as cash flow hedges				(5,879)	(3,743)	(9,622)
Comprehensive loss				(135,615)	(91,312)	(226,927)
Consolidated Statement of Cash Flows						
Operating activities:						
Net loss				$ (134,869)	$ (90,439)	$ (225,308)
Net change in other assets and accrued interest receivable				(49,255)	90,439	41,184

	September 30,	September 30,	September 30,	September 30,	September 30,	September 30,
	As of June 30, 2011			As of December 31, 2010		
	As Reported	Adjustment	As Restated	As Reported	Adjustment	As Restated
Consolidated Balance Sheet						
Net deferred tax asset	$ 261,268	$ (261,268)	$	$ 166,937	$ (166,937)	$

Other assets	172,074	3,894	175,968	183,160		183,160
Total assets	7,409,669	(257,374)	7,152,295	7,443,196	(166,937)	7,276,259
Capital surplus	1,051,607	875	1,052,482	741,244		741,244
(Accumulated deficit) retained earnings	(476,230)	(247,148)	(723,378)	(335,567)	(156,709)	(492,276)
Accumulated other comprehensive income	30,333	(11,101)	19,232	31,079	(10,228)	20,851
Total shareholders equity	859,975	(257,374)	602,601	635,515	(166,937)	468,578
Total liabilities and shareholders equity	7,409,669	(257,374)	7,152,295	7,443,196	(166,937)	7,276,259

Note 3 Accounting Standards Updates

In May 2011, the FASB issued Accounting Standards Update No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS* (ASU No. 2011-04). ASU No. 2011-04 primarily represents clarification to existing guidance. It does change the concepts of the valuation premise and highest and best use, stating that they are only relevant for nonfinancial assets. The guidance also changes the application of premiums and discounts and includes new disclosures. ASU No. 2011-04 is effective for United in the first quarter of 2012. Although evaluation of the impact is not complete, it is not expected to have a material impact on United s results of operations, financial position, or disclosures.

In June 2011, the FASB issued Accounting Standards Update No. 2011-05, *Presentation of Comprehensive Income* (ASU No. 2011-05). ASU No. 2011-05 requires entities to present net income and other comprehensive income in either a single continuous statement or in two separate, but consecutive statements of net income and other comprehensive income. The option to present items of other comprehensive income in the statement of changes in equity is eliminated. The guidance is effective for United for the first quarter of 2012, and will not have a material impact on United s results of operations or financial position. It will result in a change of disclosure, as United currently presents other comprehensive income in the statement of changes in shareholders equity. United will apply these disclosure changes retrospectively as required by the standard.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Note 4 Mergers and Acquisitions

On June 19, 2009, United Community Bank (UCB or the Bank) 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. 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 1-4 Family loans is ten years, while the term for loss sharing on all other loans is five years.

Under the loss sharing agreement, the portion of the losses expected to be indemnified by FDIC is considered an indemnification asset in accordance with ASC 805 *Business Combinations*. The indemnification asset, referred to as estimated loss reimbursement from the FDIC is included in the balance of Assets covered by loss sharing agreements with the FDIC on the Consolidated Balance Sheet. The indemnification asset was recognized at fair value, which was estimated at the acquisition date based on the terms of the loss sharing agreement. The indemnification asset is expected to be collected over a four-year average life. No valuation allowance was required.

Loans, foreclosed property and the estimated FDIC reimbursement resulting from the loss sharing agreements with the FDIC are reported as assets covered by loss sharing agreements with the FDIC in the consolidated balance sheet.

The table below shows the components of covered assets at June 30, 2011 *(in thousands)*.

(in thousands)	**September 30, Purchased Impaired Loans**	**September 30, Other Purchased Loans**	**September 30, Other**	**September 30, Total**
Commercial (secured by real estate)	$	$ 43,179	$	$ 43,179
Commercial (commercial and industrial)		3,133		3,133
Construction and land development	1,729	13,505		15,234
Residential mortgage	186	8,913		9,099
Installment	6	188		194
Total covered loans	1,921	68,918		70,839
Covered forclosed property			8,270	8,270
Estimated loss reimbursement from the FDIC			16,617	16,617
Total covered assets	$ 1,921	$ 68,918	$ 24,887	$ 95,726

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Note 5 Securities

During the second quarter of 2010, securities available for sale with a fair value of $315 million were transferred to held to maturity. The securities were transferred at their fair value on the date of transfer. The unrealized gain of $7.1 million on the transferred securities on the date of transfer is being amortized into interest revenue as an adjustment to the yield on those securities over the remaining life of the transferred securities. Securities are classified as held to maturity when management has the positive intent and ability to hold them until maturity. Securities held to maturity are carried at amortized cost.

The amortized cost, gross unrealized gains and losses and fair value of securities held to maturity at June 30, 2011, December 31, 2010 and June 30, 2010 are as follows *(in thousands)*.

	September 30, Amortized Cost	September 30, Gross Unrealized Gains	September 30, Gross Unrealized Losses	September 30, Fair Value
As of June 30, 2011				
U.S. Government agencies	$ 5,000	$	$	$ 5,000
State and political subdivisions	49,122	1,823	292	50,653
Mortgage-backed securities [1]	317,456	6,184	62	323,578
Total	$ 371,578	$ 8,007	$ 354	$ 379,231
As of December 31, 2010				
U.S. Government agencies	$ 11,939	$ 79	$	$ 12,018
State and political subdivisions	47,007	416	1,005	46,418
Mortgage-backed securities [1]	206,861	2,700	9	209,552
Total	$ 265,807	$ 3,195	$ 1,014	$ 267,988
As of June 30, 2010				
U.S. Government agencies	$ 70,284	$ 1,076	$	$ 71,360
State and political subdivisions	26,246	252	7	26,491
Mortgage-backed securities [1]	225,618	4,046	18	229,646
Total	$ 322,148	$ 5,374	$ 25	$ 327,497

(1) All are residential type mortgage-backed securities

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The cost basis, unrealized gains and losses, and fair value of securities available for sale at June 30, 2011, December 31, 2010 and June 30, 2010 are presented below *(in thousands)*.

	September 30, Amortized Cost	September 30, Gross Unrealized Gains	September 30, Gross Unrealized Losses	September 30, Fair Value
As of June 30, 2011				
U.S. Government agencies	$ 77,930	$ 61	$ 514	$ 77,477
State and political subdivisions	25,569	1,207	4	26,772
Mortgage-backed securities [1]	1,556,910	35,991	283	1,592,618
Other	121,473	100	1,827	119,746
Total	$ 1,781,882	$ 37,359	$ 2,628	$ 1,816,613
As of December 31, 2010				
U.S. Government agencies	$ 99,969	$ 67	$ 1,556	$ 98,480
State and political subdivisions	27,600	878	36	28,442
Mortgage-backed securities [1]	963,475	29,204	1,671	991,008
Other	107,811	192	1,516	106,487
Total	$ 1,198,855	$ 30,341	$ 4,779	$ 1,224,417
As of June 30, 2010				
U.S. Government agencies	$ 216,759	$ 936	$	$ 217,695
State and political subdivisions	32,998	1,001	14	33,985
Mortgage-backed securities [1]	864,141	37,730	1,103	900,768
Other	13,160	168		13,328
Total	$ 1,127,058	$ 39,835	$ 1,117	$ 1,165,776

[1] All are residential type mortgage-backed securities

The following table summarizes held to maturity securities in an unrealized loss position as of June 30, 2011, December 31, 2010 and June 30, 2010 *(in thousands)*.

	September 30, Less than 12 Months	September 30,	September 30, 12 Months or More	September 30,	September 30, Total	September 30,
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
As of June 30, 2011						
State and political subdivisions	$ 10,160	$ 292	$	$	$ 10,160	$ 292
Mortgage-backed securities	25,160	60	1,937	2	27,097	62

Total unrealized loss position	$	35,320	$	352	$	1,937	$	2	$	37,257	$	354
As of December 31, 2010												
State and political subdivisions	$	28,949	$	1,005	$		$		$	28,949	$	1,005
Mortgage-backed securities		1,951		9						1,951		9
Total unrealized loss position	$	30,900	$	1,014	$		$		$	30,900	$	1,014
As of June 30, 2010												
State and political subdivisions	$	1,145	$	7	$		$		$	1,145	$	7
Mortgage-backed securities		1,963		18						1,963		18
Total unrealized loss position	$	3,108	$	25	$		$		$	3,108	$	25

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The following table summarizes available for sale securities in an unrealized loss position as of June 30, 2011, December 31, 2010 and June 30, 2010 *(in thousands)*.

	September 30, Less than 12 Months	September 30,	September 30, 12 Months or More	September 30,	September 30, Total	September 30,
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
As of June 30, 2011						
U.S. Government agencies	$ 54,482	$ 514	$	$	$ 54,482	$ 514
State and political subdivisions	301		10	4	311	4
Mortgage-backed securities	169,907	283			169,907	283
Other	97,145	1,827			97,145	1,827
Total unrealized loss position	$ 321,835	$ 2,624	$ 10	$ 4	$ 321,845	$ 2,628
As of December 31, 2010						
U.S. Government agencies	$ 68,412	$ 1,556	$	$	$ 68,412	$ 1,556
State and political subdivisions	1,082	30	12	6	1,094	36
Mortgage-backed securities	59,505	1,630	2,799	41	62,304	1,671
Other	69,985	1,516			69,985	1,516
Total unrealized loss position	$ 198,984	$ 4,732	$ 2,811	$ 47	$ 201,795	$ 4,779
As of June 30, 2010						
State and political subdivisions	$ 300	$ 2	$ 401	$ 12	$ 701	$ 14
Mortgage-backed securities	19,499	456	25,639	647	45,138	1,103
Total unrealized loss position	$ 19,799	$ 458	$ 26,040	$ 659	$ 45,839	$ 1,117

At June 30, 2011, there were 28 available for sale securities and 13 held to maturity securities that were in an unrealized loss position. United does not intend to sell nor believes it will be required to sell securities in an unrealized loss position prior to the recovery of their amortized cost basis. Unrealized losses at June 30, 2011 were primarily attributable to changes in interest rates.

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, among other factors. In analyzing an issuer s financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analyst s reports. During the six months ended June 30, 2010, United recorded impairment losses of $950,000 on investments in financial institutions that showed evidence of other-than-temporary impairment. No impairment losses were identified in the first six months of 2011.

Realized gains and losses are derived using the specific identification method for determining the cost of securities sold. The following table summarizes securities sales activity for the three and six month periods ended June 30, 2011 and 2010 *(in thousands)*.

	September 30,		September 30,		September 30,		September 30,	
	Three Months Ended June 30,				**Six Months Ended June 30,**			
	2011		**2010**		**2011**		**2010**	
Proceeds from sales	$	55,363	$		$	106,603	$	40,817
Gross gains on sales	$	838	$		$	1,169	$	1,260
Gross losses on sales		55				331		249
Impairment losses								950
Net gains on sales of securities	$	783	$		$	838	$	61
Income tax expense attributable to sales	$	305	$		$	326	$	24

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Securities with a carrying value of $2.11 billion, $1.43 billion, and $1.12 billion were pledged to secure public deposits, FHLB advances and other secured borrowings at June 30, 2011, December 31, 2010 and June 30, 2010.

The amortized cost and fair value of held to maturity and available for sale securities at June 30, 2011, by contractual maturity, are presented in the following table *(in thousands)*.

	September 30,	September 30,	September 30,	September 30,
	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
U.S. Government agencies:				
5 to 10 years	$ 64,350	$ 64,034	$	$
More than 10 years	13,580	13,443	5,000	5,000
	77,930	77,477	5,000	5,000
State and political subdivisions:				
Within 1 year	4,715	4,781		
1 to 5 years	14,682	15,485	2,025	2,078
5 to 10 years	5,324	5,627	21,273	22,336
More than 10 years	848	879	25,824	26,239
	25,569	26,772	49,122	50,653
Other:				
1 to 5 years	18,475	17,962		
5 to 10 years	99,546	99,033		
More than 10 years	3,452	2,751		
	121,473	119,746		
Total securities other than mortgage-backed securities:				
Within 1 year	4,715	4,781		
1 to 5 years	33,157	33,447	2,025	2,078
5 to 10 years	169,220	168,694	21,273	22,336
More than 10 years	17,880	17,073	30,824	31,239
Mortgage-backed securities	1,556,910	1,592,618	317,456	323,578
	$ 1,781,882	$ 1,816,613	$ 371,578	$ 379,231

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.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Note 6 Loans and Allowance for Loan Losses

Major classifications of loans as of June 30, 2011, December 31, 2010 and June 30, 2010, are summarized as follows *(in thousands)*.

	September 30, June 30, 2011	September 30, December 31, 2010	September 30, June 30, 2010
Commercial (secured by real estate)	$ 1,741,754	$ 1,761,424	$ 1,780,142
Commercial construction	195,190	296,582	342,140
Commercial (commercial and industrial)	428,058	441,518	441,097
Total commercial	2,365,002	2,499,524	2,563,379
Residential construction	501,909	695,166	819,930
Residential mortgage	1,177,226	1,278,780	1,355,582
Consumer installment	119,310	130,656	134,139
Total loans	4,163,447	4,604,126	4,873,030
Less allowance for loan losses	127,638	174,695	174,111
Loans, net	$ 4,035,809	$ 4,429,431	$ 4,698,919

The Bank makes loans and extensions of credit to individuals and a variety of firms and corporations located primarily in counties in north Georgia, the Atlanta, Georgia MSA, the Gainesville, Georgia MSA, coastal Georgia, western North Carolina and east Tennessee. Although the Bank has a diversified loan portfolio, a substantial portion of the loan portfolio is collateralized by improved and unimproved real estate and is dependent upon the real estate market.

Changes in the allowance for loan losses for the three and six months ended June 30, 2011 and 2010 are summarized as follows *(in thousands)*.

	September 30,	September 30,	September 30,	September 30,
	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Balance beginning of period	$ 133,121	$ 173,934	$ 174,695	$ 155,602
Provision for loan losses	11,000	61,500	201,000	136,500
Charge-offs:				
Commercial (secured by real estate)	3,433	9,791	52,140	12,727
Commercial construction	980	1,460	50,695	3,671
Commercial (commercial and industrial)	604	1,764	4,966	6,318
Residential construction	6,769	41,781	99,024	85,971
Residential mortgage	4,667	6,752	41,343	11,392
Consumer installment	883	1,417	1,979	2,546
Total loans charged-off	17,336	62,965	250,147	122,625
Recoveries:				
Commercial (secured by real estate)	174	34	274	1,006
Commercial construction	111		111	5
Commercial (commercial and industrial)	81	897	403	1,341

Residential construction	140	266	257	1,356
Residential mortgage	78	235	371	324
Consumer installment	269	210	674	602
Total recoveries	853	1,642	2,090	4,634
Net charge-offs	16,483	61,323	248,057	117,991
Balance end of period	$ 127,638	$ 174,111	$ 127,638	$ 174,111

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Notes to Consolidated Financial Statements

At June 30, 2011, December 31, 2010 and June 30, 2010, loans with a carrying value of $991 million, $1.02 billion and $1.50 billion were pledged as collateral to secure FHLB advances and other contingent funding sources.

The following table presents the balance and activity in the allowance for loan losses by portfolio segment and the recorded investment in loans by portfolio segment based on impairment method as of June 30, 2011, December 31, 2010 and June 30, 2010 (*in thousands)*.

	00000	00000	00000	00000	00000	00000	00000	00000
	Commercial (Secured by Real Estate)	**Commercial Construction**	**Commercial (Commercial and Industrial)**	**Residential Construction**	**Residential Mortgage**	**Consumer Installment**	**Unallocated**	**Total**
Six Months Ended June 30, 2011								
Allowance for loan losses:								
Beginning balance	$ 31,191	$ 6,780	$ 7,580	$ 92,571	$ 22,305	$ 3,030	$ 11,238	$ 174,695
Charge-offs	(52,140)	(50,695)	(4,966)	(99,024)	(41,343)	(1,979)		(250,147)
Recoveries	274	111	403	257	371	674		2,090
Provision	42,671	51,256	4,016	55,249	49,063	498	(1,753)	201,000
Ending balance	$ 21,996	$ 7,452	$ 7,033	$ 49,053	$ 30,396	$ 2,223	$ 9,485	$ 127,638
Ending allowance attributable to loans:								
Individually evaluated for impairment	$ 78	$ 450	$	$	$ 639	$	$	$ 1,167
Collectively evaluated for impairment	21,918	7,002	7,033	49,053	29,757	2,223	9,485	126,471
Total ending allowance balance	$ 21,996	$ 7,452	$ 7,033	$ 49,053	$ 30,396	$ 2,223	$ 9,485	$ 127,638
Loans:								
Individually evaluated for impairment	$ 14,780	$ 1,015	$	$ 12,611	$ 7,247	$	$	$ 35,653
Collectively evaluated for impairment	1,726,974	194,175	428,058	489,298	1,169,979	119,310		4,127,794
Total loans	$ 1,741,754	$ 195,190	$ 428,058	$ 501,909	$ 1,177,226	$ 119,310	$	$ 4,163,447
December 31, 2010								
Allowance for loan losses:								
Ending allowance attributable to loans:								
Individually evaluated for impairment	$ 268	$	$	$ 644	$ 137	$	$	$ 1,049
Collectively evaluated for impairment	30,923	6,780	7,580	91,927	22,168	3,030	11,238	173,646
Total ending allowance balance	$ 31,191	$ 6,780	$ 7,580	$ 92,571	$ 22,305	$ 3,030	$ 11,238	$ 174,695
Loans:								
Individually evaluated for impairment	$ 41,818	$ 20,311	$ 5,874	$ 39,505	$ 15,468	$	$	$ 122,976
Collectively evaluated for impairment	1,719,606	276,271	435,644	655,661	1,263,312	130,656		4,481,150
Total loans	$ 1,761,424	$ 296,582	$ 441,518	$ 695,166	$ 1,278,780	$ 130,656	$	$ 4,604,126
Six Months Ended June 30, 2010								
Allowance for loan losses:								
Beginning balance	$ 19,208	$ 5,861	$ 6,892	$ 93,585	$ 17,266	$ 2,545	$ 10,245	$ 155,602
Charge-offs	(12,727)	(3,671)	(6,318)	(85,971)	(11,392)	(2,546)		(122,625)
Recoveries	1,006	5	1,341	1,356	324	602		4,634

Provision	11,726	6,209	7,365	95,794	13,005	2,171	230	136,500
Ending balance	$ 19,213	$ 8,404	$ 9,280	$ 104,764	$ 19,203	$ 2,772	$ 10,475	$ 174,111
Ending allowance attributable to loans:								
Individually evaluated for impairment	$	$ 203	$ 30	$ 685	$ 222	$	$	$ 1,140
Collectively evaluated for impairment	19,213	8,201	9,250	104,079	18,981	2,772	10,475	172,971
Total ending allowance balance	$ 19,213	$ 8,404	$ 9,280	$ 104,764	$ 19,203	$ 2,772	$ 10,475	$ 174,111
Loans:								
Individually evaluated for impairment	$ 48,018	$ 16,917	$ 7,909	$ 65,622	$ 24,106	$	$	$ 162,572
Collectively evaluated for impairment	1,732,124	325,223	433,188	754,308	1,331,476	134,139		4,710,458
Total loans	$ 1,780,142	$ 342,140	$ 441,097	$ 819,930	$ 1,355,582	$ 134,139	$	$ 4,873,030

United reviews all loans that are on nonaccrual with a balance of $500,000 or greater for impairment. A loan is considered impaired when, based on current events and circumstances, it is probable that all amounts due, according to the contractual terms of the loan, will not be collected. Impaired loans are measured based on the present value of expected future cash flows, discounted at the loan s effective interest rate, at the loan s observable market price, or the fair value of the collateral if the loan is collateral dependent. Interest payments received on impaired loans are applied as a reduction of the outstanding principal balance.

In the first quarter 2011, United s Board of Directors adopted an accelerated problem asset disposition plan which included the bulk sale of $267 million in classified loans. Those loans were classified as held for sale at the end of the first quarter and were written down to the expected proceeds from the sale. The charge-offs on the loans transferred to held for sale in anticipation of the bulk loan sale which closed on April 18, 2011, increased first quarter 2011 loan charge-offs by $186 million. The actual loss on the bulk loan sale at closing was less than the amount charged-off in the first quarter, resulting in a $7.27 million reduction of second quarter 2011 charge-offs.

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The recorded investments in individually evaluated impaired loans at June 30, 2011, December 31, 2010 and June 30, 2010 were as follows (*in thousands).*

	September 30, June 30, 2011	September 30, December 31, 2010	September 30, June 30, 2010
Period-end loans with no allocated allowance for loan losses	$ 32,791	$ 115,338	$ 150,083
Period-end loans with allocated allowance for loan losses	2,862	7,638	12,489
Total	$ 35,653	$ 122,976	$ 162,572
Amount of allowance for loan losses allocated	$ 1,167	$ 1,049	$ 1,140

The average balances of impaired loans and income recognized on impaired loans while they were considered impaired is presented below for the three and six months ended June 30, 2011 and 2010 (*in thousands).*

	September 30, Three Months Ended June 30,	September 30,	September 30, Six Months Ended June 30,	September 30,
	2011	2010	2011	2010
Average balance of individually evaluated impaired loans during period	$ 42,099	$ 171,469	$ 68,631	$ 191,161
Interest income recognized during impairment				
Cash-basis interest income recognized				

The following table presents loans individually evaluated for impairment by class of loans as of June 30, 2011, December 31, 2010 and June 30, 2010 *(in thousands).*

	00000	00000 June 30, 2011	00000	00000	00000 December 31, 2010	00000	00000	00000 June 30, 2010	00000
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
With no related allowance recorded:									
Commercial (secured by real estate)	$ 19,653	$ 13,572	$	$ 60,238	$ 39,588	$	$ 63,663	$ 48,018	$
Commercial construction				33,898	20,311		21,563	11,810	
Commercial (commercial and industrial)				10,115	5,874		9,212	7,172	
Total commercial	19,653	13,572		104,251	65,773		94,438	67,000	
Residential construction	27,441	12,611		59,502	34,597		128,082	62,595	
Residential mortgage	10,006	6,608		21,528	14,968		28,026	20,488	
Consumer installment									
Total with no related allowance recorded	57,100	32,791		185,281	115,338		250,546	150,083	

With an allowance recorded:									
Commercial (secured by real estate)	1,398	1,208	78	2,230	2,230	268			
Commercial construction	1,441	1,015	450				5,146	5,107	203
Commercial (commercial and industrial)							737	737	30
Total commercial	2,839	2,223	528	2,230	2,230	268	5,883	5,844	233
Residential construction				14,480	4,908	644	3,197	3,027	685
Residential mortgage	639	639	639	500	500	137	3,618	3,618	222
Consumer installment									
Total with an allowance recorded	3,478	2,862	1,167	17,210	7,638	1,049	12,698	12,489	1,140
Total	$ 60,578	$ 35,653	$ 1,167	$ 202,491	$ 122,976	$ 1,049	$ 263,244	$ 162,572	$ 1,140

There were no loans more than 90 days past due and still accruing interest at June 30, 2011, December 31, 2010 or June 30, 2010. Nonaccrual loans at June 30, 2011, December 31, 2010 and June 30, 2010 were $71.1 million, $179 million and $224 million, respectively. Nonaccrual loans include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually evaluated impaired loans with larger balances.

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The following table presents the recorded investment (unpaid principal less amounts charged-off) in nonaccrual loans by loan class as of June 30, 2011, December 31, 2010 and June 30, 2010 *(in thousands)*.

	September 30, June 30, 2011	September 30, Nonaccrual Loans December 31, 2010	September 30, June 30, 2010
Commercial (secured by real estate)	$ 17,764	$ 44,927	$ 56,013
Commercial construction	2,782	21,374	17,872
Commercial (commercial and industrial)	1,998	5,611	7,245
Total commercial	22,544	71,912	81,130
Residential construction	22,643	54,505	88,375
Residential mortgage	24,809	51,083	53,175
Consumer installment	1,069	1,594	1,655
Total	$ 71,065	$ 179,094	$ 224,335
Balance as a percentage of unpaid principal	64.5%	67.2%	69.4%

The following table presents the aging of the recorded investment in past due loans as of June 30, 2011, December 31, 2010 and June 30, 2010 by class of loans *(in thousands)*.

	September 30, 30 - 59 Days Past Due	September 30, 60 - 89 Days Past Due	September 30, Greater Than 90 Days Past Due	September 30, Total Past Due	September 30, Loans Not Past Due	September 30, Total
As of June 30, 2011						
Commercial (secured by real estate)	$ 6,990	$ 2,001	$ 11,605	$ 20,596	$ 1,721,158	$ 1,741,754
Commercial construction	930	651	1,985	3,566	191,624	195,190
Commercial (commercial and industrial)	1,496	624	809	2,929	425,129	428,058
Total commercial	9,416	3,276	14,399	27,091	2,337,911	2,365,002
Residential construction	2,942	2,242	15,774	20,958	480,951	501,909
Residential mortgage	13,788	3,594	12,678	30,060	1,147,166	1,177,226
Consumer installment	1,234	353	273	1,860	117,450	119,310
Total loans	$ 27,380	$ 9,465	$ 43,124	$ 79,969	$ 4,083,478	$ 4,163,447
As of December 31, 2010						

Commercial (secured by real estate)	$ 10,697	$ 3,672	$ 19,457	$ 33,826	$ 1,727,598	$ 1,761,424
Commercial construction	4,616	2,917	9,189	16,722	279,860	296,582
Commercial (commercial and industrial)	2,016	2,620	3,092	7,728	433,790	441,518
Total commercial	17,329	9,209	31,738	58,276	2,441,248	2,499,524
Residential construction	13,599	5,158	34,673	53,430	641,736	695,166
Residential mortgage	24,375	7,780	38,209	70,364	1,208,416	1,278,780
Consumer installment	2,104	462	808	3,374	127,282	130,656
Total loans	$ 57,407	$ 22,609	$ 105,428	$ 185,444	$ 4,418,682	$ 4,604,126
As of June 30, 2010						
Commercial (secured by real estate)	$ 18,192	$ 8,636	$ 36,010	$ 62,838	$ 1,717,304	$ 1,780,142
Commercial construction	10,563	1,307	10,451	22,321	319,819	342,140
Commercial (commercial and industrial)	4,175	1,668	3,775	9,618	431,479	441,097
Total commercial	32,930	11,611	50,236	94,777	2,468,602	2,563,379
Residential construction	33,499	10,224	48,302	92,025	727,905	819,930
Residential mortgage	28,905	7,707	40,271	76,883	1,278,699	1,355,582
Consumer installment	2,776	618	754	4,148	129,991	134,139
Total loans	$ 98,110	$ 30,160	$ 139,563	$ 267,833	$ 4,605,197	$ 4,873,030

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There were no specific reserves established for loans considered to be troubled debt restructurings at June 30, 2011 and June 30, 2010. As of December 31, 2010, $173,000 of specific reserves were allocated to customers whose loan terms have been modified in troubled debt restructurings. United committed to lend additional amounts totaling up to $396,000, $1.17 million, and $1.19 million as of June 30, 2011 and December 31, 2010, and June 30, 2010 respectively, to customers with outstanding loans that are classified as troubled debt restructurings.

The following table presents additional information on troubled debt restructurings including the number of loan contracts restructured and the pre and post modification recorded investment. Also included in the table are the number of contracts and the recorded investment for those trouble debt restructurings that have subsequently defaulted *(dollars in thousands)*.

	September 30, Number of Contracts	September 30, Pre-Modification Outstanding Recorded Investment	September 30, Post-Modification Outstanding Recorded Investment	September 30, Troubled Debt Restructurings That Have Subsequently Defaulted Number of Contracts	September 30, Troubled Debt Restructurings That Have Subsequently Defaulted Recorded Investment
As of June 30, 2011					
Commercial (secured by real estate)	31	$ 24,946	$ 21,998	4	$ 1,580
Commercial construction	5	9,477	9,477		
Commercial (commercial and industrial)	5	156	156		
Total commercial	41	34,579	31,631	4	1,580
Residential construction	46	11,741	10,718	4	763
Residential mortgage	29	3,937	3,784	2	155
Consumer installment	6	111	111		
Total loans	122	$ 50,368	$ 46,244	10	$ 2,498
As of December 31, 2010					
Commercial (secured by real estate)	41	$ 40,649	$ 36,759	3	$ 1,402
Commercial construction	16	37,980	37,067	2	1,083
Commercial (commercial and industrial)	7	645	364	1	7
Total commercial	64	79,274	74,190	6	2,492
Residential construction	63	22,012	20,782	11	2,028
Residential mortgage	43	6,574	6,285	4	324
Consumer installment	7	124	124		
Total loans	177	$ 107,984	$ 101,381	21	$ 4,844
As of June 30, 2010					
Commercial (secured by real estate)	44	$ 34,629	$ 32,986	1	$ 103
Commercial construction	8	18,437	18,402		
Commercial (commercial and industrial)	7	265	265		
Total commercial	59	53,331	51,653	1	103
Residential construction	44	20,234	18,758	7	1,478
Residential mortgage	33	6,980	6,518	2	639

Consumer installment	5	987	987		
Total loans	141	$ 81,532	$ 77,916	10	$ 2,220

Risk Ratings

United categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, current economic trends, among other factors. United analyzes loans individually by classifying the loans as to credit risk. This analysis is performed on a continuous basis. United uses the following definitions for its risk ratings:

Watch. Weakness exists that could cause future impairment, including the deterioration of financial ratios, past due status and questionable management capabilities. Collateral values generally afford adequate coverage, but may not be immediately marketable.

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Substandard. Specific and well-defined weaknesses exist that may include poor liquidity and deterioration of financial ratios. The loan may be past due and related deposit accounts experiencing overdrafts. Immediate corrective action is necessary.

Doubtful. Specific weaknesses characterized as Substandard that are severe enough to make collection in full unlikely. There is no reliable secondary source of full repayment.

Loss. Loans categorized as Loss have the same characteristics as Doubtful however probability of loss is certain. Loans classified as Loss are generally charged-off.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans. Loans listed as not rated are generally deposit account overdrafts that have not been assigned a grade.

As of June 30, 2011, December 31, 2010 and June 30, 2010, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows *(in thousands)*.

	September 30, Pass	September 30, Watch	September 30, Substandard	September 30, Doubtful / Loss	September 30, Not Rated	September 30, Total
As of June 30, 2011						
Commercial (secured by real estate)	$ 1,508,284	$ 98,175	$ 135,295	$	$	$ 1,741,754
Commercial construction	143,609	17,452	34,129			195,190
Commercial (commercial and industrial)	404,704	3,682	18,647		1,025	428,058
Total commercial	2,056,597	119,309	188,071		1,025	2,365,002
Residential construction	353,769	51,223	96,917			501,909
Residential mortgage	1,046,255	35,775	95,196			1,177,226
Consumer installment	114,718	608	3,984			119,310
Total loans	$ 3,571,339	$ 206,915	$ 384,168	$	$ 1,025	$ 4,163,447
As of December 31, 2010						
Commercial (secured by real estate)	$ 1,476,974	$ 82,762	$ 201,688	$	$	$ 1,761,424
Commercial construction	174,049	10,413	112,120			296,582
Commercial (commercial and industrial)	402,969	15,153	22,379		1,017	441,518
Total commercial	2,053,992	108,328	336,187		1,017	2,499,524
Residential construction	398,926	82,973	213,267			695,166

Residential mortgage	1,103,487	38,378	136,915			1,278,780
Consumer installment	125,134	650	4,872			130,656
Total loans	$ 3,681,539	$ 230,329	$ 691,241	$	$ 1,017	$ 4,604,126
As of June 30, 2010						
Commercial (secured by real estate)	$ 1,500,246	$ 83,078	$ 196,818	$	$	$ 1,780,142
Commercial construction	210,471	35,360	96,309			342,140
Commercial (commercial and industrial)	402,795	7,858	29,285		1,159	441,097
Total commercial	2,113,512	126,296	322,412		1,159	2,563,379
Residential construction	485,047	97,208	237,675			819,930
Residential mortgage	1,173,580	49,337	132,665			1,355,582
Consumer installment	127,717	410	6,008	4		134,139
Total loans	$ 3,899,856	$ 273,251	$ 698,760	$ 4	$ 1,159	$ 4,873,030

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Note 7 Foreclosed Property

Major classifications of foreclosed properties at June 30, 2011, December 31, 2010 and June 30, 2010 are summarized as follows *(in thousands).*

	September 30, June 30, 2011	September 30, December 31, 2010	September 30, June 30, 2010
Commercial (secured by real estate)	$ 11,944	$ 25,893	$ 14,390
Commercial construction	6,764	17,808	11,699
Total commercial	18,708	43,701	26,089
Residential construction	47,916	91,385	80,327
Residential mortgage	11,346	23,687	26,066
Total foreclosed property	77,970	158,773	132,482
Less valuation allowance	30,386	16,565	8,572
Foreclosed property, net	$ 47,584	$ 142,208	$ 123,910
Balance as a percentage of original loan unpaid principal	32.6%	64.4%	71.9%

Activity in the valuation allowance for foreclosed property is presented in the following table *(in thousands).*

	September 30, Three Months Ended June 30,	September 30,	September 30, Six Months Ended June 30,	September 30,
	2011	2010	2011	2010
Balance at beginning of year	$ 53,023	$ 9,992	$ 16,565	$ 7,433
Additions charged to expense	3,118	6,094	51,703	10,673
Direct write downs	(25,755)	(7,514)	(37,882)	(9,534)
Balance at end of period	$ 30,386	$ 8,572	$ 30,386	$ 8,572

Expenses related to foreclosed assets include *(in thousands).*

	September 30, Three Months Ended June 30,	September 30,	September 30, Six Months Ended June 30,	September 30,
	2011	2010	2011	2010
Net (gain) loss on sales	$ (3,218)	$ 5,098	$ 8,802	$ 8,616
Provision for unrealized losses	3,118	6,094	51,703	10,673
Operating expenses, net of rental income	1,991	3,348	6,285	6,064
Total foreclosed property expense	$ 1,891	$ 14,540	$ 66,790	$ 25,353

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Note 8 Earnings Per Share

United is required to report on the face of the statement of operations, earnings (loss) per common share with and without the dilutive effects of potential common stock issuances from instruments such as options, convertible securities and warrants. Basic earnings per common share is based on the weighted average number of common shares outstanding during the period while the effects of potential common shares outstanding during the period are included in diluted earnings per common share. During the three and six months ended June 30, 2011 and 2010, United accrued dividends on preferred stock, including accretion of discounts, as shown in the following table *(in thousands).*

		September 30,	September 30,	September 30,	September 30,
		Three Months Ended June 30,		Six Months Ended June 30,	
		2011	2010	2011	2010
Series A	6% fixed	$ 4	$ 4	$ 7	$ 7
Series B	5% fixed until December 6, 2013, 9% thereafter	2,598	2,573	5,200	5,142
Series D	LIBOR plus 9.6875%, resets quarterly	414		587	
Total preferred stock dividends		$ 3,016	$ 2,577	$ 5,794	$ 5,149

All preferred stock dividends are payable quarterly.

Series B preferred stock was issued at a discount. Dividend amounts shown include discount accretion for each period.

There is no dilution from potentially dilutive securities for the six months ended June 30, 2011 and the three and six months ended June 30, 2010, due to the antidilutive effect of the net loss for those periods.

The following table sets forth the computation of basic and diluted loss per share for the three and six months ended June 30, 2011 and 2010 *(in thousands, except per share data).*

	September 30,	September 30,	September 30,	September 30,
	Three Months Ended June 30,		Six Months Ended June 30,	
	(As restated) 2011	2010	(As restated) 2011	2010
Net income (loss) available to common shareholder	$ 9,012	$ (62,109)	$ (231,102)	$ (97,974)
Weighted average shares outstanding:				
Basic	25,427	18,905	21,965	18,891
Effect of dilutive securities				
Convertible securities	32,116			
Stock options				
Warrants				
Diluted	57,543	18,905	21,965	18,891

Earnings (loss) per common share:								
Basic	$	.35	$	(3.29)	$	(10.52)	$	(5.19)
Diluted	$	.16	$	(3.29)	$	(10.52)	$	(5.19)

At June 30, 2011, United had a number of potentially dilutive securities outstanding including a warrant to purchase 219,909 common shares at $61.40 per share issued to the U.S. Treasury in connection with the issuance of United s Series B preferred stock; 129,670 shares issuable upon exercise of warrants attached to trust preferred securities with an exercise price of $100 per share; 606,112 shares issuable upon exercise of stock options granted to employees with a weighted average exercise price of $96.11; 390,947 shares issuable upon completion of vesting of restricted stock awards; 1,411,765 shares issuable upon exercise of warrants exercisable at $21.25 per share granted to Fletcher International in connection with a 2010 asset purchase and sale agreement; 2,476,191 shares issuable upon conversion of preferred stock if Fletcher International exercises its option to purchase $65 million in convertible preferred stock, convertible at $26.25 per share; 1,162,791 shares issuable upon exercise of warrants, exercisable at $30.10 per share to be granted to Fletcher International upon exercise of its option to acquire preferred stock; and 1,551,126 shares issuable upon exercise of warrants owned by Elm Ridge Off Shore Fund and Elm Ridge Value Fund, exercisable at $12.50 per share.

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Note 9 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 through 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 consolidated balance sheet as of June 30, 2011, December 31, 2010 and June 30, 2010.

Derivatives designated as hedging instruments under ASC 815 *Hedge Accounting (in thousands).*

Interest Rate Products	**September 30, Balance Sheet Location**	**September 30, June 30, 2011**	**September 30, Fair Value December 31, 2010**	**September 30, June 30, 2010**
Asset derivatives	Other assets	$	$	$ 1,167

As of June 30, 2011, December 31, 2010 and June 30, 2010, United did not have any derivatives in a net liability position.

Cash Flow Hedges of Interest Rate Risk

United s objectives in using interest rate derivatives are to add stability to net interest revenue and to manage its exposure to interest rate movements. To accomplish this objective, United primarily uses interest rate swaps 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. United had no active derivative contracts outstanding at June 30, 2011 or December 31, 2010 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 2010, 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 three and six months ended June 30, 2011, $2.81 million and $4.11 million, respectively, in hedge ineffectiveness was recognized in other fee revenue. During the three and six months ended June 30, 2010, $120,000 and $642,000, respectively, in hedge ineffectiveness was recognized in other fee revenue.

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. At June 30, 2011, the amount included in other comprehensive income represents deferred gains from terminated cash flow hedges where the forecasted hedging transaction is expected to remain effective over the remaining unexpired term of the original contract. Such gains are being deferred and recognized over the remaining life of the contract on a straight line basis. During the three and six months ended June 30, 2011, United accelerated the reclassification of $2.81 million and $4.11 million, respectively, in gains from terminated positions as a result of forecasted transactions becoming probable not to occur. During the next twelve months, United estimates that an additional $7.24 million of the deferred gains on terminated cash flow hedging positions 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, 2011 and December 31, 2010, United had no active derivatives designated as fair value hedges of interest rate risk.

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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 three and six months ended June 30, 2011 and 2010, United recognized net gains of $119,000 and $207,000, respectively, related to ineffectiveness of the fair value hedging relationships. United also recognized a net reduction of interest expense of $1.38 million for the three months ended June 30, 2010 related to United s fair value hedges, which includes net settlements on the derivatives. For the six months ended June 30, 2010, United recognized a net reduction of interest expense of $3.16 million, related to United s fair value hedges. There were no active fair value hedges during the first six months of 2011.

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 operations for the three and six months ended June 30, 2011 and 2010.

Derivatives in Fair Value Hedging Relationships *(in thousands).*

Location of Gain (Loss) Recognized in Income on Derivative	September 30, Amount of Gain (Loss) Recognized in Income on Derivative 2011	September 30, 2010	September 30, Amount of Gain (Loss) Recognized in Income on Hedged Item 2011	September 30, 2010
Three Months Ended June 30,				
Other fee revenue	$	$ (1,397)	$	$ 1,516
Six Months Ended June 30,				
Other fee revenue	$	$ (2,592)	$	$ 2,799

Derivatives in Cash Flow Hedging Relationships *(in thousands).*

	September 30, Amount of Gain (Loss) Recognized in Other Comprehensive Income on Derivative (Effective Portion) 2011	September 30, 2010	September 30, Gain (Loss) Reclassified from Accumulated Other Comprehensive Income into Income (Effective Portion) Location	September 30, 2011	September 30, 2010
Three Months Ended June 30,					
			Interest revenue	$ 2,589	$ 4,922
			Other income	2,809	120
Interest rate products	$	$ 840	Total	$ 5,398	$ 5,042
Six Months Ended June 30,					
			Interest revenue	$ 5,512	$ 10,934
			Other income	4,112	643
Interest rate products	$	$ 2,314	Total	$ 9,624	$ 11,577

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. At June 30, 2011, United had no active derivative positions and therefore no credit support agreements remained in effect.

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Note 10 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, 2011, 336,700 additional awards could be granted under the plan, subject to shareholder approval of a 400,000 increase in shares available under the plan. Through June 30, 2011, incentive stock options, nonqualified stock options, restricted stock awards and units and base salary stock grants had been granted under the plan.

The following table shows stock option activity for the first six months of 2011.

Options	September 30, Shares	September 30, Weighted-Average Exercise Price	September 30, Weighted-Average Remaining Contractual Term (Years)	September 30, Aggregate Intrinisic Value ($000)
Outstanding at December 31, 2010	678,313	$ 92.99		
Forfeited	(6,527)	42.59		
Expired	(65,674)	69.26		
Outstanding at June 30, 2011	606,112	96.11	4.4	$
Exercisable at June 30, 2011	548,453	100.77	4.0	

No options were granted during the first six months of 2011. The fair value of each option is 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 SEC in Staff Accounting Bulletin (SAB) 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.

	September 30, Six Months Ended June 30, 2011	September 30, 2010
Expected volatility	NA	55.00%
Expected dividend yield	NA	0.00%
Expected life (in years)	NA	6.14
Risk-free rate	NA	3.19%

For 2010, expected volatility was determined using United s historical monthly volatility for over a period of 25 quarters ending December 31, 2009. Compensation expense relating to stock options of $465,000 and $1.1 million was included in earnings for the six months ended June 30, 2011 and 2010, respectively. Deferred tax benefits of $181,000 and $430,000, respectively, were included in the determination of income tax benefit for the six month periods ended June 30, 2011 and 2010. 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 are expected to vest, which was then amortized over the vesting period. The forfeiture rate for options is estimated to be approximately 3% per year. No options were exercised during the first six months of 2011 or 2010.

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The table below presents the activity in restricted stock awards for the first six months of 2011.

Restricted Stock	September 30, Shares	September 30, Weighted-Average Grant-Date Fair Value
Outstanding at December 31, 2010	23,214	$ 59.67
Granted	375,532	10.25
Vested	(7,799)	51.86
Outstanding at June 30, 2011	390,947	12.35

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, 2011 and 2010, compensation expense of $293,000 and $325,000, respectively, was recognized related to restricted stock awards. The total intrinsic value of the restricted stock was $4.12 million at June 30, 2011.

As of June 30, 2011, there was $5.18 million of unrecognized compensation cost related to non-vested stock options and restricted stock awards granted under the plan. That cost is expected to be recognized over a weighted-average period of 2.51 years. The aggregate grant date fair value of options and restricted stock awards that vested during the six months ended June 30, 2011, was $1.99 million.

Note 11 Common and Preferred Stock Issued / Common Stock Issuable

United sponsors a Dividend Reinvestment and Share Purchase Plan (DRIP) that allows participants who already own United s common stock to purchase additional shares directly from the company. The DRIP also allows participants to automatically reinvest their quarterly dividends in additional shares of common stock without a commission. 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, 2011 and 2010, United issued 78,584 and 41,818 shares, respectively, and increased capital by $744,000 and $940,000, respectively, through these programs. The DRIP program has been suspended until 2012 when United expects to regain its S-3 filing status.

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, 2011 and 2010, 83,575 and 56,954 shares, respectively, were issuable under the deferred compensation plan.

On February 22, 2011, United entered into a share exchange agreement (the Share Exchange Agreement) with Elm Ridge Offshore Master Fund, Ltd. and Elm Ridge Value Partners, L.P. (collectively referred to as Elm Ridge Parties). Under the Share Exchange Agreement, the Elm Ridge Parties agreed to transfer to the Company 1,551,126 shares of the Company s common stock in exchange for 16,613 shares of the Company s cumulative perpetual preferred stock, Series D, and warrants to purchase 1,551,126 common shares with an exercise price of $12.50 per share that expires on August 22, 2013. This exchange transaction did not result in a net increase or decrease to total shareholder s equity for the six months ended June 30, 2011.

During the first quarter of 2011, United entered into investment agreements (the Investment Agreements) with Corsair Georgia, L.P. (Corsair) and a group of institutional investors (the Additional Investors). United issued 3,467,699 of the Company s common stock for $9.50 per share, 195,872 shares of mandatorily convertible cumulative non-voting perpetual preferred stock, Series F (the Series F Preferred Stock), and 151,185 shares of mandatorily convertible cumulative non-voting perpetual preferred stock, Series G (the Series G Preferred Stock). Under the terms of the Investment Agreements and following receipt of required shareholder approvals which were received on June 16, 2011, at United s annual shareholders meeting, the Series F Preferred Stock converted into 20,618,090 shares of voting common stock and the Series G Preferred Stock converted into 15,914,209 shares of non-voting common stock. This private placement transaction resulted in an increase to shareholders equity of $362 million, net of $18.4 million in issuance costs. Following conversion of the convertible preferred stock, Corsair owned approximately 22.5% of United s total outstanding common stock. The Additional Investors owned approximately 47.2% of United s outstanding common stock.

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Note 12 Reclassifications and Reverse Stock Split

Certain 2010 amounts have been reclassified to conform to the 2011 presentation.

Note 13 Discontinued Operations

On March 31, 2010, United completed the sale of its consulting subsidiary, Brintech, Inc. (Brintech). The sales price was $2.9 million with United covering certain costs related to the sale transaction resulting in a net, pre-tax gain of $2.1 million. As a result of the sale, Brintech is presented in the consolidated financial statements as a discontinued operation with all revenue and expenses related to the sold operations deconsolidated from the consolidated statement of operations for all periods presented. The net results of operations from Brintech are reported on a separate line on the consolidated statement of operations titled Loss from discontinued operations, net of income taxes. The gain from the sale, net of income taxes and selling costs, is presented on a separate line titled Gain from sale of subsidiary, net of income taxes and selling costs.

Note 14 Transaction with Fletcher International

On April 1, 2010, United entered into a securities purchase agreement with Fletcher International, Ltd. and the Bank entered into an asset purchase and sale agreement with Fletcher International, Inc. and certain affiliates thereof. Under the terms of the agreements, the Bank sold $103 million in nonperforming commercial and residential mortgage loans and foreclosed properties to Fletcher s affiliates with a nominal aggregate sales price equal to the Bank s carrying amount. The nonperforming assets sale transaction closed on April 30, 2010. The consideration for the sale consisted of $20.6 million in cash and a loan for $82.4 million. Fletcher formed six affiliated LLCs to purchase the nonperforming assets from United. A separate loan was made to each of the affiliated LLCs with the assets of each LLC cross pledged as collateral to each of the six loans. The loans each have a five year term with principal and interest payments required according to a 20-year amortization table. Interest accrues at a fixed rate of 3.5%. Additional principal payments are required prior to the release of properties serving as collateral for the loans as those properties are sold. The loans have paid according to their contractual terms since their inception.

As part of the agreement, Fletcher received a warrant to acquire 1,411,765 shares of United s common stock at a price of $21.25 per share. The warrant has a nine year term and expires on May 26, 2019. To date, the warrant has not been exercised. In accordance with the terms of the securities purchase agreement, Fletcher has the right during the next two years to purchase up to $65 million in United s Series C Convertible Preferred Stock. The Series C Convertible Preferred Stock pays a dividend equal to the lesser of 8% or LIBOR plus 4%. The Series C Convertible Preferred Stock is convertible by Fletcher into common stock at $26.25 per share (2,476,191 shares). If Fletcher had not purchased all of the Series C Convertible Preferred Stock by May 29, 2011, it was required to pay United 5% of the commitment amount not purchased by such date, and it must pay United an additional 5% of the commitment amount not purchased by May 29, 2012. Fletcher has paid United $3.25 million as it had not purchased the Series C Convertible Preferred Stock as of May 29, 2011. The payment was recorded directly in shareholders equity, net of applicable income tax effects. Fletcher will receive an additional warrant to purchase $35 million in common stock at $30.10 per share (1,162,791 shares) when it purchases the last $35 million of Series C Convertible Preferred Stock. All of the warrants settle on a cashless exercise basis and the net shares to be delivered upon cashless exercise will be less than what would have been issuable if the warrant had been exercised for cash.

All of the components of the transaction, including all equity instruments issued under the securities purchase agreement and the notes receivable received as consideration from the sale of nonperforming assets were recorded at fair value. Because the value of the equity instruments and assets exchanged in the transaction exceeded the value of the cash and notes receivable received, United recorded a loss of $45.3 million on the transaction with Fletcher in the second quarter of 2010.

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The table below presents a summary of the assets and equity instruments transferred and received at their respective fair values *($ in thousands, except per share amounts).*

	September 30, Valuation Approach	September 30, Fair Value Heirarchy	September 30, Fair Value
Warrants Issued / Assets Transferred to Fletcher at Fair Value:			
Warrant to purchase $30 million in common stock at $21.25 per share	Black-Scholes	Level 3	$ 17,577
Option to purchase convertible preferred stock and warrant	Monte-Carlo Simulation	Level 3	22,236
Fair value of equity instruments recognized in capital surplus			39,813
Foreclosed properties transferred under Asset Purchase Agreement	Appraised Value	Level 2	33,434
Nonperforming loans transferred under Asset Purchase Agreement	Collateral Appraised Value	Level 2	69,655
Total nonperforming assets transferred			103,089
Total value of assets and equity instruments transferred			142,902
Less Cash and Notes Receivable Received in Exchange at Fair Value:			
Cash down payment received from asset sale	NA	NA	20,618
Notes receivable (par value $82,471, net of $4,531 discount)	Discounted Cash Flows	Level 3	77,940
Total value of cash and notes receivable received			98,558
Fair value of assets and equity instruments transferred in excess of cash and notes received			44,344
Transaction fees			1,005
Loss recognized on Fletcher transaction			$ 45,349

The $17.6 million value of the warrant to purchase $30 million in common stock was determined as of April 1, 2010, the date the terms were agreed to. The following modeling assumptions were used: dividend yield 0%; risk-free interest rate 3.89%; current stock price $23.85; term 9 years; and volatility 33%. Although most of the modeling assumptions were based on observable data, because of the subjectivity involved in estimating expected volatility, the valuation is considered Level 3.

The $22.2 million value of the option to purchase convertible preferred stock and warrant was determined by an independent valuation firm using a Monte Carlo Simulation method appropriate for valuing complex securities with derivatives. The model uses 50,000 simulations of daily stock price paths using geometric Brownian motion and incorporates in a unified way all conversion, exercise and contingency conditions. Because of the significant assumptions involved in the valuation process, not all of which were based on observable data, the valuation is considered to be Level 3.

The $103 million of nonperforming assets sold were transferred at United s carrying amount which had previously been written down to appraised value. Because the appraisals were based on sales of similar assets (observable data), the valuation is considered to be Level 2.

The $82.5 million of notes receivable were recorded at their estimated fair value of $77.9 million, net of a $4.5 million interest discount, which was determined based on discounted expected cash flows over the term at a rate commensurate with the credit risk inherent in the notes. The contractual rate on the notes is fixed at 3.5% for five years. The discount rate used for purposes of determining the fair value of the notes was 5.48% based on the terms, structure and risk profile of the notes. Note prepayments were estimated based on the expected marketing time for the underlying collateral since the notes require that principal be reduced as the underlying assets are sold. The valuation is considered Level 3 due to estimated prepayments which have a significant impact on the value and are not based on observable data.

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Note 15 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, 2011, December 31, 2010 and June, 2010, aggregated by the level in the fair value hierarchy within which those measurements fall (in thousands).

June 30, 2011	**September 30, Level 1**	**September 30, Level 2**	**September 30, Level 3**	**September 30, Total**
Assets				
Securities available for sale:				
U.S. Government agencies	$	$ 77,477	$	$ 77,477
State and political subdivisions		26,772		26,772
Mortgage-backed securities		1,588,489	4,129	1,592,618
Other		119,396	350	119,746
Deferred compensation plan assets	3,025			3,025
Total	$ 3,025	$ 1,812,134	$ 4,479	$ 1,819,638
Liabilities				
Deferred compensation plan liability	$ 3,025	$	$	$ 3,025
Total liabilities	$ 3,025	$	$	$ 3,025

December 31, 2010	**September 30, Level 1**	**September 30, Level 2**	**September 30, Level 3**	**September 30, Total**
Assets				
Securities available for sale:				
U.S. Government agencies	$	$ 98,480	$	$ 98,480
State and political subdivisions		28,442		28,442
Mortgage-backed securities		986,074	4,934	991,008
Other		106,137	350	106,487
Deferred compensation plan assets	3,252			3,252
Total	$ 3,252	$ 1,219,133	$ 5,284	$ 1,227,669
Liabilities				
Deferred compensation plan liability	$ 3,252	$	$	$ 3,252
Total liabilities	$ 3,252	$	$	$ 3,252

June 30, 2010	**September 30, Level 1**	**September 30, Level 2**	**September 30, Level 3**	**September 30, Total**

Assets				
Securities available for sale:				
U.S. Government agencies	$	$ 179,172	$ 38,523	$ 217,695
State and political subdivisions		33,985		33,985
Mortgage-backed securities		884,514	16,254	900,768
Other		12,278	1,050	13,328
Deferred compensation plan assets	2,701			2,701
Derivative financial instruments		1,167		1,167
Total	$ 2,701	$ 1,111,116	$ 55,827	$ 1,169,644
Liabilities				
Deferred compensation plan liability	$ 2,701	$	$	$ 2,701
Total liabilities	$ 2,701	$	$	$ 2,701

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The following table shows a reconciliation of the beginning and ending balances for assets measured at fair value on a recurring basis using significant unobservable inputs that are classified as Level 3 values (in thousands).

	September 30, Securities Available for Sale
Balance at December 31, 2010	$ 5,284
Amounts included in earnings	(13)
Paydowns	(792)
Balance at June 30, 2011	$ 4,479

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. 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, 2011, December 31, 2010 and June 30, 2010, aggregated by the level in the fair value hierarchy within which those measurements fall (in thousands).

June 30, 2011	September 30, Level 1	September 30, Level 2	September 30, Level 3	September 30, Total
Assets				
Loans	$	$	$ 27,810	$ 27,810
Foreclosed properties			41,922	41,922
Total	$	$	$ 69,732	$ 69,732
December 31, 2010				
Assets				
Loans	$	$	$ 106,904	$ 106,904
Foreclosed properties			85,072	85,072
Total	$	$	$ 191,976	$ 191,976
June 30, 2010				
Assets				
Loans	$	$	$ 140,807	$ 140,807
Foreclosed properties			70,686	70,686
Total	$	$	$ 211,493	$ 211,493

Assets and Liabilities Not Measured at Fair Value

For financial instruments that have quoted market prices, those quotes are used to determine fair value. Financial instruments that have no defined maturity, have a remaining maturity of 180 days or less, or reprice frequently to a market rate, are assumed to have a fair value that approximates reported book value, after taking into consideration any applicable credit risk. If no market quotes are available, financial instruments are valued by discounting the expected cash flows using an estimated current market interest rate for the financial instrument. For off-balance sheet derivative instruments, fair value is estimated as the amount that United would receive or pay to terminate the contracts at the reporting date, taking into account the current unrealized gains or losses on open contracts.

The short maturity of United s assets and liabilities results in having a significant number of financial instruments whose fair value equals or closely approximates carrying value. Such financial instruments are reported in the following balance sheet captions: cash and cash equivalents, mortgage loans held for sale, federal funds purchased, repurchase agreements and other short-term borrowings. The fair value of securities available for sale equals the balance sheet value. As of June 30, 2010 the fair value of interest rate contracts used for balance sheet management was an asset of approximately $1.17 million. United did not have any active derivative contracts outstanding at June 30, 2011 or December 31, 2010.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect the premium or discount on any particular financial instrument that could result from the sale of United s entire holdings. Because no ready market exists for a significant portion of United s financial instruments, fair value estimates are based on many judgments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on existing on and off-balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Significant assets and liabilities that are not considered financial instruments include the mortgage banking operation, brokerage network, deferred income taxes, premises and equipment and goodwill. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have significant effect on fair value estimates and have not been considered in the estimates.

Off-balance sheet instruments (commitments to extend credit and standby letters of credit) are generally short-term and at variable rates. Therefore, both the carrying amount and the estimated fair value associated with these instruments are immaterial.

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, 2011, December 31, 2010, and June 30, 2010 are as follows (in thousands).

	September 30, June 30, 2011	September 30,	September 30, December 31, 2010	September 30,	September 30, June 30, 2010	September 30,
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:						
Securities held to maturity	$ 371,578	$ 379,231	$ 265,807	$ 267,988	$ 322,148	$ 327,497
Loans, net	4,035,809	3,889,669	4,429,431	4,196,142	4,698,919	4,407,376
Liabilities:						
Deposits	6,183,215	6,174,117	6,469,172	6,481,867	6,329,512	6,350,449
Federal Home Loan Bank advances	40,625	43,763	55,125	59,498	104,138	110,964
Long-term debt	150,186	140,771	150,146	93,536	150,106	122,949

Note 16 Bulk Sale of Loans

On April 18, 2011, United completed the bulk sale of $80.6 million of loans that were reported as held for sale at March 31, 2011. The proceeds from the bulk sale were $87.9 million which resulted in a reduction of charge-offs in the second quarter of 2011.

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 within the meaning of Section 27A of the Securities Act of 1933, as amended, (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended, (the Exchange Act), about United and its subsidiaries. These forward-looking statements are intended to be covered by the safe harbor for forward-looking statements provided by the Private Securities Litigation Reform Act of 1995. Forward-looking statements are not statements of historical fact, and can be identified by the use of forward-looking terminology such as believes , expects , may , will , could , should , projects , plans , goal , targets , potential seeks , intends , or anticipates or the negative thereof or comparable terminology. Forward-looking statements include discussions of strategy, financial projections, guidance and estimates (including their underlying assumptions), statements regarding plans, objectives, expectations or consequences of various transactions, and statements about the future performance, operations, products and services of United and its subsidiaries. We caution our shareholders and other readers not to place undue reliance on such statements.

Our businesses and operations are and will be subject to a variety of risks, uncertainties and other factors. Consequently, actual results and experience may materially differ from those contained in any forward-looking statements. Such risks, uncertainties and other factors that could cause actual results and experience to differ from those projected include, but are not limited to, the risk factors set forth in our Annual Report on Form 10-K for the year ended December 31, 2010, as well as the following:

- our ability to maintain profitability;
- our ability to fully realize our deferred tax asset balances, including net operating loss carryforwards;
- the condition of the banking system and financial markets;
- the results of our most recent internal credit stress test may not accurately predict the impact on our financial condition if the economy was to continue to deteriorate;
- our ability to raise capital as may be necessary;
- our ability to maintain liquidity or access other sources of funding;
- changes in the cost and availability of funding;
- the success of the local economies in which we operate;
- our concentrations of residential and commercial construction and development loans and commercial real estate loans are subject to unique risks that could adversely affect our earnings;
- changes in prevailing interest rates may negatively affect our net income and the value of our assets;
- the accounting and reporting policies of United;

if our allowance for loan losses is not sufficient to cover actual loan losses;

we may be subject to losses due to fraudulent and negligent conduct of our loan customers, third party service providers or employees;

competition from financial institutions and other financial service providers;

the United States Department of Treasury may change the terms of our Series B Preferred Stock;

risks with respect to future expansion and acquisitions;

conditions in the stock market, the public debt market and other capital markets deteriorate;

the impact of the Dodd-Frank Act and related regulations and other changes in financial services laws and regulations;

the failure of other financial institutions;

a special assessment that may be imposed by the Federal Deposit Insurance Corporation (FDIC) on all FDIC-insured institutions in the future, similar to the assessment in 2009 that decreased our earnings; and

regulatory or judicial proceedings, board resolutions, informal memorandums of understanding or formal enforcement actions imposed by regulators that occur, or any such proceedings or enforcement actions that is more severe than we anticipate.

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.

Overview

The following discussion is intended to provide insight into the results of operations and financial condition of United Community Bank, Inc. (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, 2011 United had total consolidated assets of $7.15 billion, total loans of $4.16 billion, excluding the loans acquired from Southern Community Bank (SCB) that are covered by loss sharing agreements and therefore have a different risk profile. United also had total deposits of $6.18 billion and stockholders equity of $603 million.

United s activities are primarily conducted by its wholly owned Georgia banking subsidiary (the Bank). 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-Sandy Springs-Marietta, Georgia metropolitan statistical area (the Atlanta MSA), the Gainesville, Georgia metropolitan statistical area (the Gainesville MSA), coastal Georgia, western North Carolina, and east Tennessee.

On March 31, 2010, United sold Brintech, Inc., (Brintech) a consulting services firm for the financial services industry, resulting in a pre-tax gain of $2.1 million, net of selling costs. The income statements for all periods presented reflect Brintech as a discontinued operation with revenue, expenses and income taxes related to Brintech removed from revenue, expenses, income taxes and loss from continuing operations. The balance sheet and cash flow statement have not been adjusted to reflect Brintech as a discontinued operation as Brintech s assets and contribution to cash flows were not material.

On June 17, 2011, United completed a 1-for-5 reverse stock split, whereby each 5 shares of United s common stock was reclassified into one share of common stock, and each 5 shares of United s non-voting common stock was reclassified into one share of non-voting common stock. All prior periods presented have been adjusted to reflect the reclassification.

Operating income (loss) from continuing operations and operating income (loss) from continuing operations per diluted share are non-GAAP performance measures. United s management believes that operating performance is useful in analyzing United s financial performance trends since it excludes items that are non-recurring in nature and therefore most of the discussion in this section will refer to operating performance measures. A reconciliation of these operating performance measures to GAAP performance measures is included in the table on page 38.

United reported net operating income from continuing operations of $12.0 million for the second quarter of 2011. This compared to a net operating loss from continuing operations of $59.5 million for the second quarter of 2010. Diluted operating income from continuing operations per common share was $.16 for the second quarter of 2011, compared to a diluted operating loss from continuing operations per common share of $3.29 for the second quarter of 2010. The loss on sale of nonperforming assets to Fletcher added approximately $1.59 per share to the diluted operating loss from continuing operations for the second quarter of 2010.

For the six months ended June 30, 2011, United reported a net operating loss from continuing operations of $225 million. This compared to a net operating loss from continuing operations of $94.0 million for the first six months of 2010, which included the $30.0 million after-tax loss from the Fletcher transaction. Net loss for the six months ended June 30, 2010, which includes discontinued operations, totaled $92.8 million. Diluted operating loss from continuing operations per common share was $10.52 for the six months ended June 30, 2011, compared with diluted operating loss from continuing operations per common share of $5.25 for the same period in 2010.

United s operating provision for loan losses was $11.0 million for the three months ended June 30, 2011, compared to $61.5 million for the same period in 2010. Net charge-offs for the second quarter of 2011 were $16.5 million, compared to $61.3 million for the second quarter of 2010. For the six months ended June 30, 2011, United s operating provision for loan losses was $201 million, compared to $137 million for the same period of 2010. Net charge-offs for the first six months of 2011 were $248 million, compared to $118 million for the first six months of 2010. During the first quarter of 2011, performing substandard loans with a pre-charge down carrying amount of $166 million and nonperforming loans with a pre-charge down carrying amount of $101 million were collectively written down to the expected sales proceeds of $80.6 million, in conjunction with a bulk transaction (the Bulk Loan Sale). United recognized net charge-offs of $186 million related to the transfer of loans to the held for sale classification in the first quarter. The Bulk Loan Sale was completed on April 18, 2011. Proceeds from the sale were greater than originally estimated, resulting in a reduction of second quarter charge-offs of $7.27 million. As of June 30, 2011, United s allowance for loan losses was $128 million, or 3.07% of loans, compared to $174 million, or 3.57% of loans, at June 30, 2010. Nonperforming assets of $119 million, which excludes assets of SCB that are covered by loss sharing agreements with the FDIC, decreased to 1.66% of total assets at June 30, 2011, compared to 4.42% as of December 31, 2010 and 4.55% as of June 30, 2010. The decrease in this ratio was due to the execution of a plan to sell approximately $293 million in substandard and nonperforming loans, and to accelerate the disposition of approximately $142 million in foreclosed properties (the Problem Asset Disposition Plan) as well as a general improving trend in credit quality indicators.

Taxable equivalent net interest revenue was $58.9 million for the second quarter of 2011, compared to $61.6 million for the same period of 2010. The decrease in net interest revenue was primarily the result of a 19 basis point decrease in the net interest margin offset by a $69.3 million increase in average interest earning assets. Average loans for the quarter declined $745 million from the second quarter of 2010. Net interest margin decreased from 3.60% for the three months ended June 30, 2010 to 3.41% for the same period in 2011. For the six months ended June 30, 2011, taxable equivalent net interest revenue was $115 million, compared to $123 million for the same period of 2010. Net interest margin decreased from 3.55% for the six months ended June 30, 2010 to 3.36% for the same period in 2011. Interest reversals on performing loans that were moved to held for sale accounted for 6 basis points of the 19 basis points decrease. Over the past year, United has maintained above normal levels of liquidity. The level of excess liquidity peaked in the first six months of 2011 and lowered the margin by approximately 49 basis points in the first quarter and 76 basis points in the second quarter. In order to reduce the amount of excess liquidity, United has called its callable brokered deposits and does not plan to replace any maturing brokered deposits. Additionally, United has lowered rates on retail certificates of deposit and other deposit products which is expected to result in some balance attrition.

Operating fee revenue increased $2.33 million, or 20%, and $2.50 million, or 11% from the second quarter and first six months of 2010, respectively. The increase was primarily attributable to the acceleration of deferred gains related to the ineffectiveness of terminated cash flow hedges. This helped to offset a decline in service charges and fees, which were down $385,000 and $1.11 million, respectively, for the three and six month periods, due to regulatory changes.

For the second quarter of 2011, operating expenses of $48.7 million were down $54.9 million from the second quarter of 2010. The loss on sale of nonperforming assets in 2010 represented $45.3 million of the decrease. Lower foreclosed property costs accounted for $12.6 million of the decrease. For the six months ended June 30, 2011, operating expenses of $164 million were up $5.52 million from the same period of 2010. The increase was primarily due to an increase in foreclosed property costs, in anticipation of the Bulk Loan Sale and other accelerated asset dispositions. Foreclosed property costs were up $41.4 million from the first six months of 2010.

Recent Developments

On June 16, 2011 shareholders approved the conversion of $195.9 million of Series F and $151.2 million of Series G Mandatorily Convertible Perpetual Preferred Stock into 20,618,090 shares of United s common stock and 15,914,209 shares of United s non-voting common stock, respectively. The conversion occurred as of the close of business on June 20, 2011 pursuant to the March 30, 2011 private placement agreements with a group of institutional investors.

On February 22, 2011, the Company entered into a share exchange agreement with Elm Ridge Offshore Master Fund, Ltd. and Elm Ridge Value Partners, L.P. (collectively, the Elm Ridge Parties). Under the share exchange agreement, the Elm Ridge Parties agreed to transfer to the Company 1,551,126 shares of the Company s common stock in exchange for 16,613 shares of the Company s cumulative perpetual preferred stock, Series D and warrants to purchase 1,551,126 common shares. See Note 10 to the consolidated financial statements for further details of the share exchange agreement.

Also during the first quarter of 2011, the Board of Directors approved the Problem Asset Disposition Plan. Accordingly, substandard and nonperforming loans were sold by the Bank for an aggregate purchase price of approximately $87.9 million in the Bulk Loan Sale on April 18, 2011 pursuant to an asset purchase and sale agreement (the Asset Purchase Agreement) entered into by the Bank, CF Southeast LLC (CF Southeast) and CF Southeast Trust 2011-1 (CF Trust and together with CF Southeast, the Purchasers).

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, fair value measurements, and income taxes. In particular, United s accounting policies related to allowance for loan losses, fair value measurements 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 for loan losses.

GAAP Reconciliation and Explanation

This Form 10-Q contains non-GAAP financial measures, which are performance measures determined by methods other than in accordance with GAAP. Such non-GAAP financial measures include, among others the following: operating provision for loan losses, operating fee revenue, operating revenue, operating expense, operating (loss) income from continuing operations, operating (loss) income, operating earnings (loss) from continuing operations per share, operating earnings (loss) per share, operating earnings (loss) from continuing operations per diluted share and operating earnings (loss) per diluted share. Management uses these non-GAAP financial measures because it believes they are useful for evaluating our operations and performance over periods of time, as well as in managing and evaluating our business and in discussions about our operations and performance. Management believes these non-GAAP financial measures provide users of our financial information with a meaningful measure for assessing our financial results and credit trends, as well as comparison to financial results for prior periods. These non-GAAP financial measures should not be considered as a substitute for operating results determined in accordance with GAAP and may not be comparable to other similarly titled financial measures used by other companies. A reconciliation of these operating performance measures to GAAP performance measures is included in on the table on page 38.

Discontinued Operations

Effective March 31, 2010, United sold its Brintech subsidiary. As a result, the operations of Brintech are being accounted for as a discontinued operation. All revenue, including the gain from the sale, expenses and income taxes relating to Brintech have been deconsolidated from the consolidated statement of operations and are presented on one line titled Loss from discontinued operations for all periods presented. Because Brintech s assets, liabilities and cash flows were not material to the consolidated balance sheet and statement of cash flows, no such adjustments have been made to those financial statements.

Transaction with Fletcher International

Description of Transaction

On April 1, 2010, the Bank entered into an asset purchase and sale agreement (the Asset Purchase Agreement) with Fletcher International Inc. (Fletcher Inc.) and five separate limited liability companies (LLCs) affiliates of Fletcher Inc. for the purpose of acquiring nonperforming assets under the Asset Purchase Agreement. United has no ownership interest in the LLCs. The asset sale transaction was completed on April 30, 2010 with the Bank transferring nonperforming commercial and residential construction loans and foreclosed properties having a carrying value of $103 million in exchange for cash of $20.6 million and notes receivable for $82.5 million.

The loans made to the LLCs in connection with their respective purchases are the same for all six loans. The loans have an initial term of five years and principal and interest payments are based on a 20-year amortization schedule. The assets in the LLCs are all cross-pledged as collateral on all six loans. Correspondingly, prepayments on the loans are required as properties are sold in order for the collateral to be released upon sale. The interest rate during the loan term is fixed at 3.50% for all loans and, accordingly, each loan was recorded at a discount as the interest rate was considered below market. At the time the LLCs were formed, they were capitalized with sufficient cash to make the required 20% down payment on the purchase and 17.5% of the purchase price in cash and securities to cover the first three years of required cash flows. According to the terms of the agreements, at least one year of estimated cash flow requirements must be held in cash. These funds are held in escrow as additional collateral on the loans and cannot be removed by Fletcher Inc. without United s consent. The securities that can be held by the LLCs are marketable equity securities and funds managed by Fletcher affiliates. Carrying costs include debt service payments, servicing fees and other direct costs associated with holding and managing the underlying properties. Cash flow from expected sales of underlying assets (loans/foreclosed real estate) is expected to provide sufficient cash flow to service the loans beyond the first three years and through the remainder of the loan terms. While recent news articles and other sources have questioned the financial health of Fletcher and its affiliates, the loans to the LCCs have performed according to their contractual terms since inception and there have been no delinquencies to date. As a result, even though these loans represent our largest loan relationship, we consider these loans performing and have not established specific reserves related to them. Should our assessment of this loan relationship change, we would then take appropriate action.

Also on April 1, 2010, United and Fletcher International Ltd (Fletcher Ltd , together with Fletcher Inc. and their affiliates, Fletcher), entered into a securities purchase agreement (the Securities Purchase Agreement) pursuant to which Fletcher Ltd. agreed to purchase from United, and United agreed to issue and sell to Fletcher Ltd., 65,000 shares of United s Series C convertible preferred stock, par value $1.00 per share (the Convertible Preferred Stock), at a purchase price of $1,000 per share, for an aggregate purchase price of $65 million. The Convertible Preferred Stock will bear interest at an annual rate equal to the lesser of 8% or LIBOR + 4%. If all conditions precedent to Fletcher Ltd. s obligations to purchase the Convertible Preferred Stock have been satisfied and Fletcher Ltd. had not purchased all of the Convertible Preferred Stock by May 29, 2011, it was required to pay United 5% of the commitment amount not purchased by such date, and it must pay United an additional 5% of any commitment amount not purchased by May 29, 2012. Fletcher has paid United $3.25 million as it had not purchased the Series C Convertible Preferred Stock as of May 29, 2011. As such penalty payment is associated with Fletcher s option to purchase preferred stock and is therefore considered an equity transaction, it was recorded as an increase to capital surplus in shareholders equity.

The Convertible Preferred Stock is redeemable by Fletcher Ltd. at any time into common stock or non-voting Common Stock Equivalent Junior Preferred Stock (Junior Preferred Stock) of United, at an equivalent price of $26.25 per share of common stock (equal to 2,476,190 shares of common stock), subject to certain adjustments. After May 26, 2015, if the closing stock price for United s common stock is above $60.20, United has the right to require conversion and it is United s intent to convert all of the then outstanding Convertible Preferred Stock into an equivalent amount of common stock or Junior Preferred Stock.

Concurrently with the payment of the $10 million deposit under the Asset Purchase Agreement by Fletcher, United granted a warrant to Fletcher to purchase Junior Preferred Stock. The warrant was initially equal to $15 million and was increased to $30 million upon the completion of the asset sale pursuant to the Asset Purchase Agreement. An additional $35 million warrant will be issued on a dollar for dollar basis by the aggregate dollar amount of the Convertible Preferred Stock purchased under the Securities Purchase Agreement in excess of $30 million. The $30 million warrant price is equivalent to $21.25 per common share (cash exercise equal to 1,411,765 shares of common stock). The warrant has a nine year term and expires on May 26, 2019. To date, the warrant has not been exercised. The $35 million warrant price is equivalent to $30.10 per common share (cash exercise equal to 1,162,791 shares of common stock). The warrants may only be exercised by net share settlement (cashless exercise) and are exercisable for nine years from May 26, 2010, subject to limited extension upon certain events specified in the warrant agreement. All of the warrants settle on a cashless basis and the net shares to be issued to Fletcher Ltd. upon exercise of the warrants will be less than the total shares that would have been issuable if the warrants had been exercised for cash payments.

Also, as part of the transaction, United and Fletcher entered into a servicing agreement whereby United will act as servicer of the nonperforming assets for Fletcher in exchange for a servicing fee of 20 basis points. Because the servicing arrangement is considered a normal servicing arrangement and the fee is appropriate for the services provided, United did not recognize a servicing asset or liability related to the servicing agreement.

Accounting Treatment

Although the Asset Purchase Agreement and the Securities Purchase Agreement are two separate agreements, they were accounted for as part of one transaction because they were entered into simultaneously and the Securities Purchase Agreement was dependent upon the sale of nonperforming assets. United evaluated this transaction to determine whether the transfer should be accounted for as a sale or a secured borrowing and whether the Fletcher LLCs should be consolidated with United. When evaluating whether the transfer should be accounted for as a sale, United primarily evaluated whether control had been surrendered, the rights of Fletcher to exchange and pledge the assets, and whether United retains effective control, which included evaluating any continuing involvement in the assets. Based on the evaluation, the transfer of assets under the Asset Purchase Agreement meets the definition as a sale under current accounting standards and was accounted for as such. United further evaluated whether the Fletcher LLCs should be consolidated which included evaluating whether United has a controlling financial interest and is therefore the primary beneficiary. This evaluation principally included determining whether United directs the activities that have the most significant impact on the LLCs economic performance and whether United has an obligation to absorb losses or the right to receive benefits that could be significant to the LLCs. Based on that evaluation, the LLCs have not been included as part of the consolidated group of subsidiaries in United s consolidated financial statements.

In addition to evaluating the accounting for the transfer of assets, United considered whether the warrant and the option to purchase convertible preferred stock with an additional warrant should be accounted for as liabilities or equity instruments. In making this evaluation, United considered whether Fletcher or any subsequent holders of the instruments could require settlement of the instruments in cash or other assets rather than common or preferred stock. Because the transaction was structured so that the warrants and option to purchase convertible preferred stock and the additional warrant can only be settled through the issuance of common or preferred stock, United concluded that the warrant and option to purchase convertible preferred stock with an additional warrant should be accounted for as equity instruments.

All of the components of the transaction, including all equity instruments issued under the Securities Purchase Agreement and the notes receivable received as consideration from the sale of nonperforming assets were recorded at fair value. Because the value of the equity instruments and assets exchanged in the transaction exceeded the value of the cash and notes receivable received, United recorded a loss of $45.3 million on the transaction with Fletcher.

The table below presents a summary of the assets and equity instruments transferred and received at their respective fair values *($ in thousands, except per share amounts).*

	September 30, Valuation Approach	September 30, Fair Value Heirarchy		September 30, Fair Value
Warrants Issued / Assets Transferred to Fletcher at Fair Value:				
Warrant to purchase $30 million in common stock at $21.25 per share	Black-Scholes	Level 3	$	17,577(1)
Option to purchase convertible preferred stock and warrant	Monte-Carlo Simulation	Level 3		22,236(2)
Fair value of equity instruments recognized in capital surplus				39,813
Foreclosed properties transferred under Asset Purchase Agreement	Appraised Value	Level 2		33,434(3)
Nonperforming loans transferred under Asset Purchase Agreement	Collateral Appraised Value	Level 2		69,655(3)
Total nonperforming assets transferred				103,089
Total value of assets and equity instruments transferred				142,902
Cash and Notes Receivable Received in Exchange at Fair Value:				
Cash down payment received from asset sale	NA	NA		20,618
Notes receivable (par value $82,471, net of $4,531 discount)	Discounted Cash Flows	Level 3		77,940(4)
Total value of cash and notes receivable received				98,558
Fair value of assets and equity instruments transferred in excess of cash and notes received				44,344
Transaction fees				1,005
Loss recognized on Fletcher transaction			$	45,349

Notes

(1) The $17.6 million value of the $30 million warrant was determined as of April 1, 2010, the date the terms were agreed to and signed. The following modeling assumptions were used: dividend yield 0%; risk-free interest rate 3.89%; current stock price $23.85; term 9 years; and volatility 33%. Although most of the modeling assumptions were based on observable data, because of the subjectivity involved in estimating expected volatility, the valuation is considered Level 3.

(2) The $22.2 million value of the option to purchase convertible preferred stock and warrant was determined by an independent valuation firm using a Monte Carlo Simulation method appropriate for valuing complex securities with derivatives. The model uses 50,000 simulations of daily stock price paths using geometric Brownian motion and incorporates in a unified way all conversion, exercise and contingency conditions. Because of the significant assumptions involved in the valuation process, not all of which were based on observable data, the valuation is considered to be Level 3.

(3) The $103 million of nonperforming assets sold were transferred at United s carrying value which had been written down to appraised value. Because the appraisals were based on sales of similar assets (observable data), the valuation is considered to be Level 2.

(4)

The $82.5 million of notes receivable were recorded at their estimated fair value of $77.9 million, net of a $4.5 million interest discount, which was determined based on discounted expected cash flows over the term at a rate commensurate with the credit risk inherent in the notes. The contractual rate on the notes is fixed at 3.5% for five years. The discount rate used for purposes of determining the fair value of the notes was 5.48% based on the terms, structure and risk profile of the notes. Note prepayments were estimated based on the expected marketing times for the underlying collateral since the notes require that principal be reduced as the underlying assets are sold. The valuation is considered Level 3 due to estimated prepayments which have a significant impact on the value and are not based on observable data.

Table 1 Financial Highlights

Selected Financial Information

	September 30,	September 30,	September 30,	September 30,	September 30,	September 30,	September 30,	September 30,
	2011			2010		Second	For the Six Months Ended	
	(As restated)	(As restated)	(As restated)			Quarter		
r share	Second	First	Fourth	Third	Second	2011-2010	(As restated)	
	Quarter	Quarter	Quarter	Quarter	Quarter	Change	2011	2010
Y								
	$ 76,931	$ 75,965	$ 81,215	$ 84,360	$ 87,699		$ 152,896	$ 177,548
	17,985	19,573	21,083	24,346	26,072		37,558	54,642
	58,946	56,392	60,132	60,014	61,627	(4)%	115,338	122,906
r loan	11,000	190,000	47,750	50,500	61,500		201,000	136,500
	13,905	11,838	12,442	12,861	11,579	20	25,743	23,245
ue								
	61,851	(121,770)	24,824	22,375	11,706		(59,919)	9,651
	48,728	115,271	64,918	64,906	58,308	(16)	163,999	113,128
					45,349			45,349
) from efore	13,123	(237,041)	(40,094)	(42,531)	(91,951)		(223,918)	(148,826
	1,095	295	144,760	(16,706)	(32,419)		1,390	(54,836
(loss) ations	12,028	(237,336)	(184,854)	(25,825)	(59,532)		(225,308)	(93,990
				(210,590)				
loss			11,750					
ne tax								(101
diary,								1,266
	12,028	(237,336)	(173,104)	(236,415)	(59,532)		(225,308)	(92,825
l	3,016	2,778	2,586	2,581	2,577		5,794	5,149
able s	$ 9,012	$ (240,114)	$ (175,690)	$ (238,996)	$ (62,109)		$ (231,102)	$ (97,974
ne	$ .16	$ (13.00)	$ (9.87)	$ (1.50)	$ (3.29)		$ (10.52)	$ (5.25

rom								
	.16	(13.00)	(9.25)	(12.62)	(3.29)		(10.52)	(5.25
	.16	(13.00)	(9.25)	(12.62)	(3.29)		(10.52)	(5.19
	7.11	2.20	15.40	25.70	38.55	(82)	7.11	38.55
	6.94	1.69	14.80	25.26	26.96	(74)	6.94	26.96
:								
	42.60%	(526.54)%	(196.10)%	(148.04)%	(35.89)%		(345.86)%	(27.87
	.66	(13.04)	(9.47)	(12.47)	(3.10)		(6.16)	(2.39
	3.41	3.30	3.58	3.57	3.60		3.36	3.55
tio ons								
	66.88	169.08	89.45	89.38	141.60		116.28	108.48
	8.06	6.15	7.80	11.37	11.84		7.11	11.87
ts [5]	7.93	6.01	7.64	9.19	9.26		7.00	9.32
ty to	1.37	2.70	5.22	6.78	6.91		2.05	7.02
ty to	8.69	0.75	5.64	9.60	9.97		8.69	9.97
	$ 71,065	$ 83,769	$ 179,094	$ 217,766	$ 224,335		$ 71,065	$ 224,335
	47,584	54,378	142,208	129,964	123,910		47,584	123,910
ssets	118,649	138,147	321,302	347,730	348,245		118,649	348,245
ses	127,638	133,121	174,695	174,613	174,111		127,638	174,111
ffs [1]	16,483	231,574	47,668	49,998	61,323		248,057	117,991
ses to	3.07%	3.17%	3.79%	3.67%	3.57%		3.07%	3.57
ffs to	1.58	20.71	4.03	4.12	4.98		11.46	4.75
closed	2.82	3.25	6.77	7.11	6.97		2.82	6.97
	1.66	1.79	4.42	4.96	4.55		1.66	4.55
ES *($*								
	$ 4,266	$ 4,599	$ 4,768	$ 4,896	$ 5,011	(15)	$ 4,432	$ 5,091
	2,074	1,625	1,354	1,411	1,532	35	1,851	1,525
	6,924	6,902	6,680	6,676	6,854	1	6,913	6,969
	7,363	7,379	7,254	7,522	7,704	(4)	7,371	7,825
	6,372	6,560	6,294	6,257	6,375		6,465	6,472
	594	454	566	855	912	(35)	524	929
	25,427	18,466	18,984	18,936	18,905		21,965	18,891
d	57,543	18,466	18,984	18,936	18,905		21,965	18,891
in								
	$ 4,163	$ 4,194	$ 4,604	$ 4,760	$ 4,873	(15)	$ 4,163	$ 4,873
	2,188	1,884	1,490	1,310	1,488	47	2,188	1,488
	7,152	7,709	7,276	7,013	7,652	(7)	7,152	7,652
	6,183	6,598	6,469	5,999	6,330	(2)	6,183	6,330
	603	586	469	662	904	(33)	603	904
nding	57,469	20,903	18,937	18,887	18,856		57,469	18,856

(1) Excludes the partial reversal of a previously established provision for fraud-related loan losses of $11.8 million in the fourth quarter of 2010. Operating charge-offs also exclude the $11.8 million related partial recovery of the previously charged off amount. (2) Excludes revenue generated by discontinued operations in the first quarter of 2010. (3) Excludes the goodwill impairment charge of $211 million in the third quarter of 2010 and expenses relating to

discontinued operations in the first quarter of 2010. (4) Net loss available to common shareholders, which is net of preferred stock dividends, divided by average realized common equity, which excludes accumulated other comprehensive income (loss). (5) Excludes effect of acquisition related intangibles and associated amortization. (6) Annualized.

* Excludes loans and foreclosed properties covered by loss sharing agreements with the FDIC.

Table 1 Continued Operating Earnings to GAAP Earnings Reconciliation

Selected Financial Information

(in thousands, except per share data; taxable equivalent)	September 30, 2011 (As restated) Second Quarter	September 30, (As restated) First Quarter	September 30, (As restated) Fourth Quarter	September 30, 2010 Third Quarter	September 30, Second Quarter	September 30, For the Six Months Ended (As restated) 2011	September 30, 2010
Interest revenue reconciliation							
Interest revenue taxable equivalent	$ 76,931	$ 75,965	$ 81,215	$ 84,360	$ 87,699	$ 152,896	$ 177,548
Taxable equivalent adjustment	(429)	(435)	(497)	(511)	(500)	(864)	(993)
Interest revenue (GAAP)	$ 76,502	$ 75,530	$ 80,718	$ 83,849	$ 87,199	$ 152,032	$ 176,555
Net interest revenue reconciliation							
Net interest revenue taxable equivalent	$ 58,946	$ 56,392	$ 60,132	$ 60,014	$ 61,627	$ 115,338	$ 122,906
Taxable equivalent adjustment	(429)	(435)	(497)	(511)	(500)	(864)	(993)
Net interest revenue (GAAP)	$ 58,517	$ 55,957	$ 59,635	$ 59,503	$ 61,127	$ 114,474	$ 121,913
Provision for loan losses reconciliation							
Operating provision for loan losses	$ 11,000	$ 190,000	$ 47,750	$ 50,500	$ 61,500	$ 201,000	$ 136,500
Partial reversal of special fraud-related provision for loan loss			(11,750)				
Provision for loan losses (GAAP)	$ 11,000	$ 190,000	$ 36,000	$ 50,500	$ 61,500	$ 201,000	$ 136,500
Total revenue reconciliation							
Total operating revenue	$ 61,851	$ (121,770)	$ 24,824	$ 22,375	$ 11,706	$ (59,919)	$ 9,651
Taxable equivalent adjustment	(429)	(435)	(497)	(511)	(500)	(864)	(993)
Partial reversal of special fraud-related provision for loan loss			11,750				
Total revenue (GAAP)	$ 61,422	$ (122,205)	$ 36,077	$ 21,864	$ 11,206	$ (60,783)	$ 8,658
Expense reconciliation							
Operating expense	$ 48,728	$ 115,271	$ 64,918	$ 64,906	$ 103,657	$ 163,999	$ 158,477
Noncash goodwill impairment charge				210,590			
Operating expense (GAAP)	$ 48,728	$ 115,271	$ 64,918	$ 275,496	$ 103,657	$ 163,999	$ 158,477
Income (loss) from continuing operations							

before taxes reconciliation														
Operating income (loss) from continuing operations before taxes	$	13,123	$	(237,041)	$	(40,094)	$	(42,531)	$	(91,951)	$	(223,918)	$	(148,826)
Taxable equivalent adjustment		(429)		(435)		(497)		(511)		(500)		(864)		(993)
Noncash goodwill impairment charge								(210,590)						
Partial reversal of special fraud-related provision for loan loss						11,750								
Income (loss) from continuing operations before taxes (GAAP)	$	12,694	$	(237,476)	$	(28,841)	$	(253,632)	$	(92,451)	$	(224,782)	$	(149,819)
Income tax expense (benefit) reconciliation														
Operating income tax expense (benefit)	$	1,095	$	295	$	144,760	$	(16,706)	$	(32,419)	$	1,390	$	(54,836)
Taxable equivalent adjustment		(429)		(435)		(497)		(511)		(500)		(864)		(993)
Income tax expense (benefit) (GAAP)	$	666	$	(140)	$	144,263	$	(17,217)	$	(32,919)	$	526	$	(55,829)
Diluted earnings (loss) from continuing operations per common share reconciliation														
Diluted operating earnings (loss) from continuing operations per common share	$	.16	$	(13.00)	$	(9.87)	$	(1.50)	$	(3.29)	$	(10.52)	$	(5.25)
Noncash goodwill impairment charge								(11.12)						
Partial reversal of special fraud-related provision for loan loss						.62								
Diluted earnings (loss) from continuing operations per common share (GAAP)	$	.16	$	(13.00)	$	(9.25)	$	(12.62)	$	(3.29)	$	(10.52)	$	(5.25)
Book value per common share reconciliation														
Tangible book value per common share	$	6.94	$	1.69	$	14.80	$	25.26	$	26.96	$	6.94	$	26.96
Effect of goodwill and other intangibles		.17		.51		.60		.44		11.59		.17		11.59
Book value per common share (GAAP)	$	7.11	$	2.20	$	15.40	$	25.70	$	38.55	$	7.11	$	38.55
Efficiency ratio from continuing operations reconciliation														
Operating efficiency ratio from continuing operations		66.88%		169.08%		89.45%		89.38%		141.60%		116.28%		108.48%
Noncash goodwill impairment charge								290.00						
Efficiency ratio from continuing operations (GAAP)		66.88%		169.08%		89.45%		379.38%		141.60%		116.28%		108.48%

Average equity to assets reconciliation							
Tangible common equity to assets	1.37%	2.70%	5.22%	6.78%	6.91	2.05%	7.02%
Effect of preferred equity	6.56	3.31	2.42	2.41	2.35	4.95	2.30
Tangible equity to assets	7.93	6.01	7.64	9.19	9.26	7.00	9.32
Effect of goodwill and other intangibles	.13	.14	.16	2.18	2.58	.11	2.55
Equity to assets (GAAP)	8.06%	6.15%					