

FIRST UNITED CORP/MD/
Form 10-Q
August 07, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For quarterly period ended June 30, 2007

Commission file number 0-14237

First United Corporation
(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction
of incorporation or organization)

52-1380770
(I. R. S. Employer Identification No.)

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

(800) 470-4356
(Registrant's telephone number, including area code)

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 6,151,451 shares of common stock, par value \$.01 per share, as of July 31, 2007.

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PART I. FINANCIAL INFORMATION**Item 1. Financial Statements**

FIRST UNITED CORPORATION
Consolidated Statements of Financial Condition
(In thousands, except per share amounts)

	June 30 2007	December 31 2006
	(Unaudited)	
Assets		
Cash and due from banks	\$ 23,731	\$ 23,325
Interest-bearing deposits in banks	720	2,463
Investment securities available-for-sale (at fair value)	297,114	263,272
Federal Home Loan Bank stock, at cost	9,564	9,620
Loans	1,010,745	963,656
Allowance for loan losses	(6,448)	(6,530)
Net loans	1,004,297	957,126
Premises and equipment, net	31,057	29,852
Goodwill and other intangible assets, net	14,821	14,536
Bank owned life insurance	28,469	27,926
Accrued interest receivable and other assets	22,679	21,197
Total Assets	\$ 1,432,452	\$ 1,349,317
Liabilities and Shareholders' Equity		
Liabilities:		
Non-interest bearing deposits	\$ 110,662	\$ 106,579
Interest-bearing deposits	953,800	864,802
Total deposits	1,064,462	971,381
Short-term borrowings	70,858	99,379
Long-term borrowings	182,807	166,330
Accrued interest payable and other liabilities	15,295	14,202
Dividends payable	1,202	1,169
Total Liabilities	1,334,624	1,252,461
Shareholders' Equity		
Preferred stock --no par value; Authorized and unissued 2,000 shares		
Capital Stock -- par value \$.01 per share; Authorized 25,000 shares; issued and outstanding 6,151 shares at June 30, 2007 and 6,141 shares at December 31, 2006	62	61
Surplus	21,683	21,448
Retained earnings	83,763	80,927
Accumulated other comprehensive loss	(7,680)	(5,580)
Total Shareholders' Equity	97,828	96,856
Total Liabilities and Shareholders' Equity	\$ 1,432,452	\$ 1,349,317

FIRST UNITED CORPORATION

Consolidated Statements of Income

(in thousands, except per share data)

Three Months Ended June 30
2007 2006

(Unaudited)

Interest income

Loans, including fees	\$	18,834	\$	16,949
Investment securities:				
Taxable		2,982		1,696
Exempt from federal income tax		775		749
Total investment income		3,757		2,445
Dividends on FHLB stock		134		126
Federal funds sold and interest bearing deposits		116		19
Total interest income		22,841		19,539

Interest expense

Deposits		9,025		6,367
Short-term borrowings		833		951
Long-term borrowings		2,089		1,907
Total interest expense		11,947		9,225
Net interest income		10,894		10,314
Provision for loan losses		367		157
Net interest income after provision for loan losses		10,527		10,157

Other operating income

Service charges		1,503		1,355
Trust department		996		846
Securities (losses)		(99)		-
Insurance commissions		483		392
Earnings on Bank owned life insurance		284		205
Other		851		506
Total other operating income		4,018		3,304

Other operating expenses

Salaries and employee benefits		5,129		4,862
Occupancy, equipment and data processing		1,816		1,587
Other		2,891		2,487
Total other operating expenses		9,836		8,936
Income before income taxes		4,709		4,525
Applicable income taxes		1,504		1,481
Net income	\$	3,205	\$	3,044

Earnings per share	\$.52	\$.50
Dividends per share	\$.195	\$.190
Weighted average number of shares outstanding		6,150		6,125

FIRST UNITED CORPORATION
Consolidated Statement of Cash Flows
(in thousands)

	Six Months Ended June 30,	
	2007	2006
	(Unaudited)	
Operating activities		
Net income	\$ 5,266	\$ 5,849
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	530	80
Depreciation	1,251	1,256
Amortization of intangible assets	279	322
Net accretion and amortization of investment securities discounts and premiums	88	90
Loss/(gain) on sale of investment securities	1,610	(4)
Increase in accrued interest receivable and other assets	(72)	(1,579)
Increase/(decrease) in accrued interest payable and other liabilities	1,093	(1,342)
Earnings on bank owned life insurance	(543)	(411)
Net cash provided by operating activities	9,502	4,261
Investing activities		
Net decrease in interest-bearing deposits in banks	1,743	2,416
Investment securities available-for-sale:		
Proceeds from maturities	32,562	22,190
Proceeds from sales	-	548
Purchases of investments	(143,187)	(29,058)
Proceeds from sales of investment securities held for trading	71,611	-
Net (increase)/decrease in loans	(22,746)	6,403
Purchase of mortgage loans	(24,955)	-
Net decrease/(increase) in FHLB stock	56	(896)
Acquisition of insurance business	(600)	-
Purchases of premises and equipment	(2,456)	(138)
Net cash (used in)/provided by investing activities	(87,972)	1,465
Financing activities		
Net decrease in short-term borrowings	(28,521)	(21,553)
Repayments of long-term borrowings	(33,523)	(28,521)
New issues of long-term borrowings	50,000	55,000
Net increase/(decrease) in deposits	93,081	(10,552)
Cash dividends paid	(2,397)	(2,327)
Proceeds from issuance of common stock	236	250
Net cash provided by/(used in) financing activities	78,876	(7,703)
Increase/(decrease) in cash	406	(1,977)
Cash at beginning of the year	23,325	24,610

Cash at end of period	\$	23,731	\$	22,633
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FIRST UNITED CORPORATION

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2007

Note A - Basis of Presentation

The accompanying unaudited consolidated financial statements of First United Corporation (the "Corporation") and its consolidated subsidiaries have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all the information and footnotes required for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation, consisting of normal recurring items, have been included. Operating results for the six-month and the three-month periods ended June 30, 2007 are not necessarily indicative of the results that may be expected for the full year or for any other interim period. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the footnotes thereto included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2006.

Note B - Reclassifications

Certain amounts reported in the prior year have been reclassified to conform with the 2007 presentation. These reclassifications did not impact the Corporation's financial condition or results of operations.

Note C - Earnings per Share

Earnings per share is computed by dividing net income by the weighted average number of shares of common stock outstanding. The Corporation does not have any common stock equivalents.

Note D - Investments

Securities available-for-sale: Securities available-for-sale are stated at fair value, with the unrealized gains and losses, net of tax, reported as a separate component of accumulated other comprehensive income/(loss) in shareholders' equity.

The amortized cost of debt securities classified as available-for-sale is adjusted for amortization of premiums to the first call date, if applicable, or to maturity, and for accretion of discounts to maturity, or in the case of mortgage-backed securities, over the estimated life of the security. Such amortization and accretion, plus interest and dividends, are included in interest income from investments.

Management systematically evaluates available for sale securities for impairment on a quarterly basis. Declines in the fair value of available-for-sale securities below their cost that are considered other-than-temporary declines are recognized in earnings as realized losses in the period in which the impairment determination is made. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Corporation to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded using the specific identification method.

Note E - Comprehensive Income

Unrealized gains and losses on investment securities available-for-sale and on pension obligations are included in accumulated other comprehensive income/(loss). Total comprehensive income (which consists of net income plus the change in unrealized gains/(losses) on investment securities available-for-sale, net of taxes and pension obligations, was \$3.2 million and \$4.1 million for the six months ended June 30, 2007 and 2006, respectively, and \$.02 million and \$1.7 million for the three months ended June 30, 2007 and 2006, respectively.

Note F - Junior Subordinated Debentures

In March 2004, the Corporation formed two Connecticut statutory business trusts, First United Statutory Trust I (“FUST I”) and First United Statutory Trust II (collectively with FUST I, the “Trusts”), for the purpose of selling \$30.9 million of mandatorily redeemable preferred securities to third party investors. The Trusts used the proceeds of their sales of preferred securities to purchase an equal amount of junior subordinated debentures from the Corporation, as follows:

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\$20.6 million--6.02% fixed rate for five years payable quarterly, converting to floating rate based on three-month LIBOR plus 275 basis points, maturing in 2034, redeemable five years after issuance at the Corporation's option.

\$10.3 million--floating rate payable quarterly based on three-month LIBOR plus 275 basis points (8.11% at June 30, 2007) maturing in 2034, redeemable five years after issuance at the Corporation's option.

The debentures represent the sole assets of the Trusts, and the Corporation's payments under the debentures are the only sources of cash flow for the Trusts. The preferred securities qualify as Tier 1 capital of the Corporation.

The Corporation issued an additional \$5.0 million of junior subordinated debentures in a private placement in December 2004. These debentures have a fixed rate of 5.88% for the first five years and then convert to a floating rate based on the three-month LIBOR plus 185 basis points. Interest is payable on a quarterly basis. Although these debentures mature in 2014, they are redeemable five years after issuance at the Corporation's option. The entire \$5.0 million qualifies as Tier II capital.

Note G - Borrowed Funds

The following is a summary of short-term borrowings with original maturities of less than one year (dollars in thousands):

	June 30, 2007	December 31, 2006
Short-term FHLB advance, Daily borrowings, interest rate at end of Period of 5.56% and 5.50%, respectively	\$ 11,000	\$ 4,500
Short-term FHLB advance, One year advance, interest rate of 5.44%	-	20,000
Securities sold under agreements to repurchase, with weighted average interest rate at end of period of 3.79% and 3.96%, respectively	59,858	74,879
	\$ 70,858	\$ 99,379

The following is a summary of long-term borrowings with original maturities exceeding one year (dollars in thousands):

FHLB advances, bearing interest at rates ranging from 3.15% to 5.39% at June 30, 2007	\$ 146,878	\$ 130,401
Junior subordinated debentures, bearing interest at rates ranging from 5.88% to 8.11% at June 30, 2007	35,929	35,929
	\$ 182,807	\$ 166,330

Note H - Pension and SERP Plans

The following table presents the net periodic pension plan cost for the Corporation's Defined Benefit Pension Plan and the related components:

Pension	For the six months ended		For the three months ended	
	June 30		June 30	
(In thousands)	2007	2006	2007	2006
Service cost	\$ 404	\$ 404	\$ 202	\$ 202
Interest cost	578	536	289	268
Expected return on assets	(884)	(804)	(436)	(402)
Amortization of transition asset	(20)	(20)	(10)	(10)
Recognized loss	85	86	43	43
Prior service cost	5	6	2	3
Net pension expense included in employee benefits	\$ 168	\$ 208	\$ 90	\$ 104

SERP	For the six months ended		For the three months ended	
	June 30		June 30	
(In thousands)	2007	2006	2007	2006
Service cost	\$ 90	\$ 70	\$ 45	\$ 35
Interest cost	128	100	64	50
Recognized loss	102	60	51	30
Prior service cost	56	56	28	28
Net pension expense included in employee benefits	\$ 376	\$ 286	\$ 188	\$ 143

The Corporation intends to contribute a minimum of \$1.0 million to its pension plan in 2007 and is currently evaluating additional contributions. As of June 30, 2007, the Corporation has not made any contributions to the plan.

Note I - Letters of Credit and Off Balance Sheet Liabilities

First United Bank & Trust, the Corporation's wholly-owned trust company subsidiary (the "Bank"), does not issue any guarantees that would require liability recognition or disclosure other than its standby letters of credit. Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Generally, the Bank's letters of credit are issued with expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank generally holds collateral and/or personal guarantees supporting these commitments. The Bank had \$6.9 million of outstanding standby letters of credit at June 30, 2007 and \$7.2 million at December 31, 2006. Management believes that the proceeds obtained through a liquidation of collateral and the enforcement of guarantees would be sufficient to cover the potential amount of future payment required by the letters of credit. Management does not believe that the amount of the liability associated with guarantees under standby letters of credit issued at June 30, 2007 and December 31, 2006 is material.

Note J - Adoption of New Accounting Standards and Recently Issued Standards

In May 2007, the FASB issued FASB Staff Position ("FSP") FIN 48-1 "Definition of Settlement in FASB Interpretation No. 48" (FSP FIN 48-1). FSP FIN 48-1 provides guidance on how to determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. FSP FIN 48-1 is effective retroactively to January 1, 2007. The implementation of this standard did not have a material impact on our consolidated financial

position or results of operations.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities-Including an amendment of FASB Statement No. 115." SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be recognized in earnings at each subsequent reporting date. SFAS No. 159 is effective for fiscal years beginning on or after January 1, 2008 (although early-adoption was permitted under certain circumstances). Refer to page 17 for further discussion.

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In February 2007, the FASB issued FASB Staff Position (FSP) FAS 158-1, "Conforming Amendments to the Illustrations in FASB Statements No. 87, No. 88, and No 106 and to the Related Staff Implementation Guides." This FSP makes conforming amendments to other FASB statements and staff implementation guides and provides technical corrections to SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans." The conforming amendments in this FSP shall be applied upon adoption of SFAS No. 158. We believe our adoption of FSP FAS 158-1 will not have a material impact on our consolidated financial statements or disclosures.

In September 2006, the FASB issued FASB Statement No. 157, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. FASB Statement No. 157 applies to other accounting pronouncements that require or permit fair value measurements. The new guidance is effective for financial statements issued for fiscal years beginning after November 15, 2007, and for interim periods within those fiscal years. We are currently evaluating the potential impact, if any, of the adoption of FASB Statement No. 157 on our consolidated financial position, results of operations and cash flows. See discussion on page 17.

In June 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN No. 48") to clarify the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes." FIN No. 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and provides guidance on derecognition, classification, interest and penalties, interim period accounting, and disclosures. FIN No. 48 requires companies to determine whether it is *more likely than not* that a tax position will be sustained upon examination (including appeals and litigation) based upon its technical merits. If a tax position meets the more likely than not recognition threshold, it is measured to determine the benefit amount to recognize in the financial statements. The tax position is measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. FIN No. 48 was adopted by the Corporation on January 1, 2007. The adoption of FIN No. 48 did not have a material impact on the Corporation's consolidated financial statements.

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

INTRODUCTION

The following discussion and analysis is intended as a review of material changes in and significant factors affecting the financial condition and results of operations of the Corporation and its consolidated subsidiaries for the periods indicated. This discussion and analysis should be read in conjunction with the unaudited consolidated financial statements and the notes thereto contained in Item 1 of Part I of this report. Unless the context clearly suggests otherwise, references in this report to "us", "we", "our", and "the Corporation" are to First United Corporation and its consolidated subsidiaries.

FORWARD-LOOKING STATEMENTS

This report may contain forward-looking statements within the meaning of The Private Securities Litigation Reform Act of 1995. Readers of this report should be aware of the speculative nature of "forward-looking statements." Statements that are not historical in nature, including those that include the words "anticipate," "estimate," "should," "expect," "believe," "intend," and similar expressions, are based on current expectations, estimates and projections about, among other things, the industry and the markets in which we operate, and they are not guarantees of future performance. Whether actual results will conform to expectations and predictions is subject to known and unknown risks and uncertainties, including risks and uncertainties discussed in this report; general economic, market, or business conditions; changes in interest rates, deposit flow, the cost of funds, and demand for loan products and financial services; changes in our competitive position or competitive actions by other companies; changes in the quality or

composition of our loan and investment portfolios; our ability to manage growth; changes in laws or regulations or policies of federal and state regulators and agencies; and other circumstances beyond our control. Consequently, all of the forward-looking statements made in this report are qualified by these cautionary statements, and there can be no assurance that the actual results anticipated will be realized, or if substantially realized, will have the expected consequences on our business or operations. These and other risk factors are discussed in detail in the periodic reports that we file with the Securities and Exchange Commission (such as this Quarterly Report on Form 10-Q—see Item 1A of Part II of this report). Except as required by applicable laws, we do not intend to publish updates or revisions of any forward-looking statements we make to reflect new information, future events or otherwise.

THE COMPANY

First United Corporation is a Maryland corporation that was incorporated in 1985 and is a registered financial holding company under the federal Bank Holding Company Act of 1956, as amended. The Corporation's primary business activity is acting as the parent company of First United Bank & Trust, a Maryland trust company (the "Bank"), OakFirst Loan Center, Inc., a West Virginia finance company, OakFirst Loan Center, LLC, a Maryland finance company, the Trusts, and First United Insurance Group, LLC, a full service insurance producer organized under Maryland law (the "Insurance Group"). OakFirst Loan Center, Inc. has one subsidiary, First United Insurance Agency, Inc., which is a Maryland insurance agency. The Bank provides a complete range of retail and commercial banking services to a customer base serviced by a network of 25 offices and 34 automated teller machines.

We maintain an Internet site at www.mybankfirstunited.com on which we make available, free of charge, our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and all amendments to the foregoing as soon as reasonably practicable after these reports are electronically filed with, or furnished to, the SEC.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

This discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent liabilities. On an on-going basis, management evaluates these estimates, including those related to loan losses and intangible assets. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We believe that our most critical accounting policy relates to the allowance for credit losses, which is an estimate of the losses that may be sustained in our loan portfolio. Management described this and our other critical accounting policies and estimates in the section of First United Corporation's Annual Report on Form 10-K for the year ended December 31, 2006 entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations (Item 7 of Part II). There have been no significant changes since December 31, 2006.

SELECTED FINANCIAL DATA

The following table sets forth certain selected financial data for the six months ended June 30, 2007 and 2006 and is qualified in its entirety by the detailed information and unaudited consolidated financial statements and the notes thereto included elsewhere in this quarterly report.

	As of or For the Six Months Ended June 30	
	2007	2006
Per Share Data		
Net Income	\$.86	\$.96
Dividends Declared	.39	.38
Book Value	15.90	15.34
Significant Ratios		
Return on Average Assets (a)	.77%	.90%
Return on Average Equity (a)	10.72	12.54
Dividend Payout Ratio	45.52	39.78

Average Equity to Average Assets	7.59	7.21
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Note: (a) Annualized

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RESULTS OF OPERATIONS

Overview

Consolidated net income for the first six months of 2007 totaled \$5.3 million or \$.86 per share, compared to \$5.8 million or \$.96 per share for the same period of 2006. The decrease in net income resulted primarily from a non-recurring pre-tax charge of approximately \$1.6 million (\$1.0 million or \$.18 per share, net of tax) associated with the transfer of certain investment securities from the available-for-sale category to the trading category during the first quarter of 2007 and the subsequent sale of those securities during the second quarter. The loss was partially offset by increases in other operating income, particularly, trust department income, insurance commissions, secondary market fees, and debit card income. The Corporation experienced increased earnings on interest-earning assets, which was a direct result of the increases in the general level of interest rates that occurred during 2006 and continued into 2007, a restructuring of the investment portfolio as well as increased average balances of our interest-earning assets. However, this increase in interest income was substantially offset by increased interest expense paid on our interest-bearing liabilities due to rising interest rates and an increase in our average balances. Net interest income for the first six months of 2007 increased \$.5 million when compared to the same period of 2006. Our net interest margin declined from 3.59% in the first six months of 2006 to 3.46% in the first six months of 2007. The provision for loan losses was \$.5 million for the six months ended June 30, 2007, compared to \$.1 million for the same period of 2006. The increase in the provision in 2007 is due to increased net charge offs and loan growth during the first six months of 2007. Other operating income decreased \$.4 million during the first six months of 2007 when compared to the same period of 2006 resulting from the recognition of a \$1.6 million loss related to the above-mentioned transfer and sale of investment securities. Trust department earnings, insurance commissions, service charges, and other mortgage related fees were strong for the period, partially offsetting the loss. Operating expenses increased \$.6 million in the first six months of 2007 when compared to the first six months of 2006 due primarily to increased occupancy and equipment expenses and other expenses such as marketing, consulting, and miscellaneous expenses.

Consolidated net income for the second quarter of 2007 totaled \$3.2 million or \$.52 per share, compared to \$3.0 million or \$.50 per share for the same period of 2006. The net interest margin for the second quarter of 2007 reflects the effects of the same factors discussed above as affecting the first six months of 2007. Second quarter 2007 results improved over second quarter 2006 results due to increased net interest income and a 22% increase in other operating income. There were \$.1 million in securities losses during the second quarter of 2007, compared to no securities gains or losses in the second quarter of 2006. Second quarter 2007 operating expenses increased by 9% when compared to operating expenses for the second quarter of 2006, due to increased personnel costs, occupancy and equipment and other expenses.

Comparing the first six months of 2006 and 2007, our performance ratios declined during the first six months of 2007 due to the recognition of the \$1.6 million pre-tax loss on the transfer and sale of investment securities. Our year-to-date 2007 performance results, exclusive of the impact of the non-recurring securities losses, are presented in the following table:

	For the six months ended		
	June 30, 2007		June 30, 2006
	Actual	Excluding Losses	Actual
Net Income	\$ 5,266	\$ 6,318	\$ 5,849
Earnings Per Share	\$.86	\$ 1.04	\$.96
Return on Average Equity	10.72%	12.86%	12.54%
Return on Average Assets	.77%	.93%	.90%

Net Interest Income

Net interest income is the largest source of operating revenue and is the difference between the interest earned on interest-earning assets and the interest expense incurred on interest-bearing liabilities. For analytical and discussion purposes, net interest income is adjusted to a fully taxable equivalent basis to facilitate performance comparisons between taxable and tax-exempt assets by increasing tax-exempt income by an amount equal to the federal income taxes that would have been paid if this income were taxable at the statutorily applicable rate. The following table sets forth the average balances, net interest income and expense, and average yields and rates of our interest-earning assets and interest-bearing liabilities for the six months ended June 30, 2007 and 2006.

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(Dollars in thousands)	For the Six Months Ended June 30					
	Average Balance	2007 Interest	Average Rate	Average Balance	2006 Interest	Average Rate
Interest-Earning Assets:						
Loans	\$ 967,335	\$ 36,733	7.59%	\$ 941,862	\$ 33,404	7.09%
Investment securities	275,896	7,887	5.72	227,350	5,557	4.89
Other interest earning assets	17,446	461	5.29	11,978	317	5.31
Total earning assets	\$ 1,260,677	45,081	7.15%	\$ 1,181,190	39,278	6.65%
Interest-bearing liabilities						
Interest-bearing deposits	\$ 857,259	17,350	4.05%	\$ 840,896	12,403	2.95%
Short-term borrowings	84,464	1,796	4.26	102,017	1,971	3.86
Long-term borrowings	167,540	4,154	4.96	152,043	3,691	4.85
Total interest-bearing liabilities	\$ 1,109,263	23,300	4.20%	\$ 1,094,956	18,065	3.30%
Net interest income and spread		\$ 21,781	2.95%		\$ 21,213	3.35%