

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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FILER

UNITED COMMUNITY BANKS INC

CIK: **857855** | IRS No.: **581807304** | State of Incorpor.: **GA** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **000-21656** | Film No.: **10991840**
SIC: **6022** State commercial banks

Mailing Address

*P O BOX 398
HIGHWAY 515
BLAIRSVILLE GA 30512*

Business Address

*P O BOX 398, 59 HIGHWAY
515
BLAIRSVILLE GA 30512
5818073041*

**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 the Quarterly Period Ended June 30, 2010

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 0-21656

UNITED COMMUNITY BANKS, INC.

(Exact name of registrant as specified in its charter)

Georgia

(State of Incorporation)

58-1807304

(I.R.S. Employer Identification No.)

125 Highway 515
Blairsville, Georgia

Address of Principal
Executive Offices

30512

(Zip Code)

(706) 781-2265

(Telephone Number)

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

YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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 Non-accelerated filer Smaller Reporting Company
(Do not check if a 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

Common stock, par value \$1 per share 94,323,569 shares
outstanding as of July 31, 2010

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Part I – Financial Information
Item 1 – Financial Statements
UNITED COMMUNITY BANKS, INC.
Consolidated Statement of Income (Unaudited)

<i>(in thousands, except per share data)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Interest revenue:				
Loans, including fees	\$70,611	\$81,691	\$142,826	\$163,571
Investment securities, including tax exempt of \$295, \$309, \$606 and \$628	15,829	20,485	32,032	41,237
Federal funds sold, commercial paper and deposits in banks	759	98	1,697	540
Total interest revenue	<u>87,199</u>	<u>102,274</u>	<u>176,555</u>	<u>205,348</u>
Interest expense:				
Deposits:				
NOW	1,745	2,843	3,599	6,180
Money market	1,829	2,269	3,586	4,506
Savings	83	121	167	248
Time	17,718	32,064	37,916	68,117
Total deposit interest expense	<u>21,375</u>	<u>37,297</u>	<u>45,268</u>	<u>79,051</u>
Federal funds purchased, repurchase agreements and other short-term borrowings	1,056	595	2,094	1,148
Federal Home Loan Bank advances	974	1,203	1,951	2,277
Long-term debt	2,667	2,760	5,329	5,529
Total interest expense	<u>26,072</u>	<u>41,855</u>	<u>54,642</u>	<u>88,005</u>
Net interest revenue	61,127	60,419	121,913	117,343
Provision for loan losses	61,500	60,000	136,500	125,000
Net interest revenue after provision for loan losses	<u>(373)</u>	<u>419</u>	<u>(14,587)</u>	<u>(7,657)</u>
Fee revenue:				
Service charges and fees	7,993	7,557	15,440	14,591
Mortgage loan and other related fees	1,601	2,825	3,080	5,476
Brokerage fees	586	497	1,153	1,186
Securities gains (losses), net	–	(711)	61	(408)
Gain from acquisition	–	11,390	–	11,390
Other	1,399	1,137	3,511	2,283
Total fee revenue	<u>11,579</u>	<u>22,695</u>	<u>23,245</u>	<u>34,518</u>
Total revenue	<u>11,206</u>	<u>23,114</u>	<u>8,658</u>	<u>26,861</u>
Operating expenses:				
Salaries and employee benefits	23,590	26,305	47,950	53,618
Communications and equipment	3,511	3,571	6,784	7,217
Occupancy	3,836	3,818	7,650	7,587
Advertising and public relations	1,352	1,125	2,395	2,169
Postage, printing and supplies	765	1,288	1,990	2,463
Professional fees	2,178	3,195	4,121	6,476
Foreclosed property	14,540	5,737	25,353	10,056
FDIC assessments and other regulatory charges	3,566	6,810	7,192	9,492

Amortization of intangibles	794	739	1,596	1,478
Other	4,176	1,122	8,097	4,942
Loss on sale of nonperforming assets	45,349	–	45,349	–
Goodwill impairment	–	–	–	70,000
Severance costs	–	–	–	2,898
Total operating expenses	103,657	53,710	158,477	178,396
Loss from continuing operations before income taxes	(92,451)	(30,596)	(149,819)	(151,535)
Income tax benefit	(32,919)	(14,529)	(55,829)	(31,539)
Net loss from continuing operations	(59,532)	(16,067)	(93,990)	(119,996)
(Loss) income from discontinued operations, net of income taxes	–	66	(101)	222
Gain from sale of subsidiary, net of income taxes and selling costs	–	–	1,266	–
Net loss	(59,532)	(16,001)	(92,825)	(119,774)
Preferred stock dividends and discount accretion	2,577	2,559	5,149	5,113
Net loss available to common shareholders	<u>\$(62,109)</u>	<u>\$(18,560)</u>	<u>\$(97,974)</u>	<u>\$(124,887)</u>
Loss from continuing operations per common share – Basic / Diluted	\$(.66)	\$(.38)	\$(1.05)	\$(2.58)
Loss per common share – Basic / Diluted	(.66)	(.38)	(1.04)	(2.57)
Weighted average common shares outstanding – Basic / Diluted	94,524	48,794	94,453	48,560

See accompanying notes to consolidated financial statements

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UNITED COMMUNITY BANKS, INC.

Consolidated Balance Sheet

<i>(in thousands, except share and per share data)</i>	June 30, 2010 <i>(unaudited)</i>	December 31, 2009 <i>(audited)</i>	June 30, 2009 <i>(unaudited)</i>
ASSETS			
Cash and due from banks	\$115,088	\$126,265	\$110,943
Interest-bearing deposits in banks	105,183	120,382	70,474
Federal funds sold, commercial paper and short-term investments	148,227	129,720	–
Cash and cash equivalents	368,498	376,367	181,417
Securities available for sale	1,165,776	1,530,047	1,816,787
Securities held to maturity (fair value \$327,497)	322,148	–	–
Mortgage loans held for sale	22,705	30,226	42,185
Loans, net of unearned income	4,873,030	5,151,476	5,513,087
Less allowance for loan losses	174,111	155,602	145,678
Loans, net	4,698,919	4,995,874	5,367,409
Assets covered by loss sharing agreements with the FDIC	156,611	185,938	230,125
Premises and equipment, net	180,125	182,038	178,983
Accrued interest receivable	29,650	33,867	41,405
Goodwill and other intangible assets	223,600	225,196	251,821
Foreclosed property	123,910	120,770	104,754
Other assets	360,542	319,591	262,469
Total assets	\$7,652,484	\$7,999,914	\$8,477,355
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities:			
Deposits:			
Demand	\$779,934	\$707,826	\$714,630
NOW	1,326,861	1,335,790	1,273,368
Money market	756,370	713,901	573,463
Savings	185,176	177,427	180,368
Time:			
Less than \$100,000	1,575,211	1,746,511	1,992,056
Greater than \$100,000	1,093,975	1,187,499	1,351,527
Brokered	611,985	758,880	763,348
Total deposits	6,329,512	6,627,834	6,848,760
Federal funds purchased, repurchase agreements, and other short-term borrowings	104,127	101,389	252,493
Federal Home Loan Bank advances	104,138	114,501	283,292
Long-term debt	150,106	150,066	150,026
Accrued expenses and other liabilities	60,184	43,803	87,512
Total liabilities	6,748,067	7,037,593	7,622,083
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	175,050	174,408	173,785
Common stock, \$1 par value; 200,000,000 shares authorized;			
94,280,925, 94,045,603 and 48,933,383 shares issued and outstanding	94,281	94,046	48,933
Common stock issuable; 284,771, 221,906 and 182,041 shares	3,898	3,597	3,383

Capital surplus	663,836	622,034	450,514
(Accumulated deficit) retained earnings	(77,590)	20,384	136,624
Accumulated other comprehensive income	44,725	47,635	41,816
Total shareholders' equity	<u>904,417</u>	<u>962,321</u>	<u>855,272</u>
Total liabilities and shareholders' equity	<u>\$7,652,484</u>	<u>\$7,999,914</u>	<u>\$8,477,355</u>

See accompanying notes to consolidated financial statements

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UNITED COMMUNITY BANKS, INC.

**Consolidated Statement of Changes in Shareholders' Equity (Unaudited)
For the Six Months Ended June 30,**

<i>(in thousands, except share and per share data)</i>	Series A Preferred Stock	Series B Preferred Stock	Common Stock	Common Stock Issuable	Capital Surplus	(Accumulated Deficit) Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Total
Balance, December 31, 2008	\$ 258	\$ 173,180	\$ 48,809	\$ 2,908	\$ 460,708	\$ 265,405	\$ (16,465)	\$ 54,579	\$ 989,382
Comprehensive income:									
Net loss						(119,774)			(119,774)
Other comprehensive loss:									
Unrealized holding gains on available for sale securities, net of deferred tax expense and reclassification adjustment								1,582	1,582
Unrealized losses on derivative financial instruments qualifying as cash flow hedges, net of deferred tax benefit								(14,345)	(14,345)
Comprehensive loss						(119,774)		(12,763)	(132,537)
Retirement of preferred stock (4,100 shares)	(41)								(41)
Stock dividends declared on common stock (737,530 shares)			108		(8,893)	(3,894)	12,649		(30)
Exercise of stock options (437 shares)					(6)		8		2
Common stock issued to dividend reinvestment plan and employee benefit plans (167,873 shares)			14		(2,474)		3,434		974
Amortization of stock option and restricted stock					1,846				1,846
Vesting of restricted stock (12,447 shares issued, 16,162 shares deferred)			2	416	(658)		240		-
Deferred compensation plan, net, including dividend equivalents				214					214
Shares issued from deferred compensation plan (5,687 shares)				(155)	21		134		-
Tax on option exercise and restricted stock vesting					(30)				(30)
Dividends on Series A preferred stock (\$.30 per share)						(8)			(8)
Dividends on Series B preferred stock (5%)		605				(5,105)			(4,500)
Balance, June 30, 2009	<u>\$ 217</u>	<u>\$ 173,785</u>	<u>\$ 48,933</u>	<u>\$ 3,383</u>	<u>\$ 450,514</u>	<u>\$ 136,624</u>	<u>\$ -</u>	<u>\$ 41,816</u>	<u>\$ 855,272</u>
Balance, December 31, 2009	\$ 217	\$ 174,408	\$ 94,046	\$ 3,597	\$ 622,034	\$ 20,384	\$ -	\$ 47,635	\$ 962,321
Comprehensive loss:									
Net loss						(92,825)			(92,825)
Other comprehensive loss:									
Unrealized holding gains on available for sale securities, net of deferred tax expense and reclassification adjustment								2,750	2,750
Unrealized losses on derivative financial instruments qualifying as cash flow hedges, net of deferred tax benefit								(5,660)	(5,660)
Comprehensive loss						(92,825)		(2,910)	(95,735)
Issuance of equity instruments in private equity transaction					39,813				39,813
Common stock issued to dividend reinvestment plan and employee benefit plans (209,091 shares)			209		730				939
Amortization of stock options and restricted stock awards					1,428				1,428
Vesting of restricted stock (10,560 shares issued, 41,522 shares deferred)			10	607	(617)				-
Deferred compensation plan, net, including dividend equivalents				162					162
Shares issued from deferred compensation plan (15,671 shares)			16	(468)	448				(4)
Dividends on Series A preferred stock (\$.30 per share)						(7)			(7)

Dividends on Series B preferred stock (5%)		<u>642</u>				<u>(5,142)</u>			<u>(4,500)</u>
Balance, June 30, 2010	<u>\$ 217</u>	<u>\$ 175,050</u>	<u>\$ 94,281</u>	<u>\$ 3,898</u>	<u>\$ 663,836</u>	<u>\$ (77,590)</u>	<u>\$ -</u>	<u>\$ 44,725</u>	<u>\$ 904,417</u>

Comprehensive loss for the second quarter of 2010 and 2009 was \$60,133,000 and \$32,735,000, respectively.

See accompanying notes to consolidated financial statements

UNITED COMMUNITY BANKS, INC.

Consolidated Statement of Cash Flows (Unaudited)

<i>(in thousands)</i>	Six Months Ended June 30,	
	2010	2009
Operating activities:		
Net loss	\$(92,825)	\$(119,774)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation, amortization and accretion	7,747	7,215
Provision for loan losses	136,500	125,000
Goodwill impairment charge	–	70,000
Stock based compensation	1,428	1,846
Securities (gains) losses, net	(61)	408
(Gains) losses on sale of other assets	(11)	90
Losses and write downs on sales other real estate owned	19,289	4,198
Gain from sale of subsidiary	(2,110)	–
Gain from acquisition	–	(11,390)
Loss on sale of nonperforming assets	45,349	–
Changes in assets and liabilities:		
Other assets and accrued interest receivable	(55,238)	(20,721)
Accrued expenses and other liabilities	(6,888)	50,868
Mortgage loans held for sale	7,521	(21,851)
Net cash provided by operating activities	60,701	85,889
Investing activities:		
Investment securities held to maturity:		
Proceeds from maturities and calls of securities held to maturity:	12,059	–
Purchases of securities held to maturity	(19,617)	–
Investment securities available for sale:		
Proceeds from sales of securities available for sale	40,817	15,017
Proceeds from maturities and calls of securities available for sale	432,436	399,401
Purchases of securities available for sale	(398,877)	(584,100)
Net decrease (increase) in loans	72,931	(12,617)
Proceeds from sales of premises and equipment	39	547
Purchases of premises and equipment	(3,601)	(6,237)
Net cash received from sale of subsidiary	290	–
Net cash received from acquisition	–	63,618
Net cash received from sale of nonperforming assets	20,618	–
Proceeds from sale of other real estate	80,898	56,060
Net cash provided by (used in) investing activities	237,993	(68,311)
Financing activities:		
Net change in deposits	(295,729)	(462,921)
Net change in federal funds purchased, repurchase agreements, and other short-term borrowings	2,738	141,412
Proceeds from FHLB advances	–	130,000
Repayments of FHLB advances	(10,000)	(135,000)
Proceeds from exercise of stock options	–	2
Proceeds from issuance of common stock for dividend reinvestment and employee benefit plans	935	974
Redemption of preferred stock	–	(41)
Cash dividends on preferred stock	(4,507)	(4,008)
Net cash used in financing activities	(306,563)	(329,582)
Net change in cash and cash equivalents	(7,869)	(312,004)

Cash and cash equivalents at beginning of period	<u>376,367</u>	<u>493,421</u>
Cash and cash equivalents at end of period	<u>\$368,498</u>	<u>\$181,417</u>
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$60,083	\$91,865
Income taxes	819	(23,850)

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 2009 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.

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

Foreclosed property is initially recorded at fair value, less cost to sell. If the fair value, less cost to sell at the time of foreclosure, is less than the loan balance, the deficiency is charged against the allowance for loan losses. If the fair value, less cost to sell, of the foreclosed property decreases during the holding period, a valuation allowance is established with a charge to operating expenses. When the foreclosed property is sold, a gain or loss is recognized on the sale for the difference between the sales proceeds and the carrying amount of the property. Financed sales of foreclosed property are accounted for in accordance with the Financial Accounting Standards Board’s (“FASB”) Accounting Standards Codification Topic 360, Subtopic 20, *Real Estate Sales*.

Note 2 – Accounting Standards Updates

In May 2010, the FASB issued Accounting Standards Update No. 2010-19, *Foreign Currency Issues: Multiple Foreign Currency Exchange Rates* (“ASU No. 2010-19”). ASU No. 2010-19 codifies the SEC Staff Announcement on May 18, 2010, regarding the SEC’s view on certain foreign currency issues related to investments in Venezuela. This guidance was effective May 18, 2010 and is not applicable to United.

In July 2010, the FASB issued Accounting Standards Update No. 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses* (“ASU No. 2010-20”). ASU No. 2010-20 requires disclosures regarding loans and the allowance for loan losses that are disaggregated by portfolio segment and class of financing receivable. Existing disclosures were amended to require a rollforward of the allowance for loan losses by portfolio segment, with the ending balance broken out by basis of impairment method, as well as the recorded investment in the respective loans. Nonaccrual and impaired loans by class must also be shown. ASU No. 2010-20 also requires disclosures regarding: 1) credit quality indicators by class, 2) aging of past due loans by class, 3) troubled debt restructurings (“TDRs”) by class and their effect on the allowance for loan losses, 4) defaults on TDRs by class and their effect on the allowance for loan losses, and 5) significant purchases and sales of loans disaggregated by portfolio segment. This guidance is effective for interim and annual reporting periods ending on or after December 15, 2010, for end of period type disclosures. Activity related disclosures are effective for interim and annual reporting periods beginning on or after December 15, 2010. ASU No. 2010-20 will have an impact on United’s disclosures, but not its financial position or results of operations.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

Note 3 – 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. SCB operated five commercial banking branches on the south side of Atlanta in Fayetteville, Peachtree City, Locust Grove and Newnan, Georgia. The FDIC took SCB under receivership upon SCB’s closure by the Georgia Department of Banking and Finance at the close of business June 19, 2009. UCB submitted a bid for the acquisition of SCB with the FDIC and the FDIC accepted the bid on June 16, 2009. The transaction resulted in a cash payment of \$31 million from the FDIC to UCB. Further, UCB and the FDIC entered loss sharing agreements regarding future losses incurred on loans and foreclosed loan collateral existing at June 19, 2009. Under the terms of the loss sharing agreements, the FDIC will absorb 80 percent of losses and share 80 percent of loss recoveries on the first \$109 million of losses and, absorb 95 percent of losses and share in 95 percent of loss recoveries on losses exceeding \$109 million. The term for loss sharing on 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. 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 share 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, 2010 (*in thousands*).

<i>(in thousands)</i>	Purchased Impaired Loans	Other Purchased Loans	Other	Total
Commercial (secured by real estate)	\$–	\$40,469	\$–	\$40,469
Commercial (commercial and industrial)	–	6,260	–	6,260
Construction and land development	6,432	16,905	–	23,337
Residential mortgage	183	9,954	–	10,137
Installment	19	533	–	552
Total covered loans	6,634	74,121	–	80,755
Covered foreclosed property	–	–	32,730	32,730
Estimated loss reimbursement from the FDIC	–	–	43,126	43,126
Total covered assets	<u>\$6,634</u>	<u>\$74,121</u>	<u>\$75,856</u>	<u>\$156,611</u>

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

On the acquisition date, the preliminary estimate of the contractually required payments receivable for all ASC 310-30 loans acquired was \$70.8 million, the cash flows expected to be collected were \$24.5 million including interest, and the estimated fair value of the loans was \$23.6 million. These amounts were determined based upon the estimated remaining life of the underlying loans, which include the effects of estimated prepayments. A majority of these loans were valued based on the liquidation value of the underlying collateral, because the expected cash flows are primarily based on the liquidation of the underlying collateral and the timing and amount of the cash flows could not be reasonably estimated.

Note 4 – 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.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
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	<u>\$322,148</u>	<u>\$5,374</u>	<u>\$25</u>	<u>\$327,497</u>

(1) All are residential type mortgage-backed securities

There were no securities classified as held to maturity at December 31, 2009 or June 30, 2009.

The cost basis, unrealized gains and losses, and fair value of securities available for sale at June 30, 2010, December 31, 2009 and June 30, 2009 are presented below (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
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	<u>\$1,127,058</u>	<u>\$39,835</u>	<u>\$1,117</u>	<u>\$1,165,776</u>
As of December 31, 2009				
U.S. Government agencies	\$248,425	\$214	\$2,173	\$246,466
State and political subdivisions	62,046	1,371	124	63,293
Mortgage-backed securities (1)	1,156,035	43,007	1,820	1,197,222
Other	22,701	382	17	23,066
Total	<u>\$1,489,207</u>	<u>\$44,974</u>	<u>\$4,134</u>	<u>\$1,530,047</u>
As of June 30, 2009				
U.S. Treasuries	\$39,979	\$-	\$4	\$39,975
U.S. Government agencies	209,662	1,015	3,364	207,313
State and political subdivisions	55,194	619	310	55,503
Mortgage-backed securities (1)	1,462,695	32,318	9,916	1,485,097
Other	28,645	311	57	28,899
Total	<u>\$1,796,175</u>	<u>\$34,263</u>	<u>\$13,651</u>	<u>\$1,816,787</u>

(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, 2010 (in thousands):

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
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	<u>\$3,108</u>	<u>\$25</u>	<u>\$-</u>	<u>\$-</u>	<u>\$3,108</u>	<u>\$25</u>

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The following table summarizes available for sale securities in an unrealized loss position as of June 30, 2010, December 31, 2009 and June 30, 2009 (*in thousands*):

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
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	<u>\$19,799</u>	<u>\$458</u>	<u>\$26,040</u>	<u>\$659</u>	<u>\$45,839</u>	<u>\$1,117</u>
As of December 31, 2009						
U.S. Government agencies	\$151,838	\$2,173	\$-	\$-	\$151,838	\$2,173
State and political subdivisions	2,348	47	2,792	77	5,140	124
Mortgage-backed securities	84,024	838	22,358	982	106,382	1,820
Other	-	-	493	17	493	17
Total unrealized loss position	<u>\$238,210</u>	<u>\$3,058</u>	<u>\$25,643</u>	<u>\$1,076</u>	<u>\$263,853</u>	<u>\$4,134</u>
As of June 30, 2009						
U.S. Treasuries	\$39,975	\$4	\$-	\$-	\$39,975	\$4
U.S. Government agencies	142,256	3,364	-	-	142,256	3,364
State and political subdivisions	4,524	106	4,317	204	8,841	310
Mortgage-backed securities	240,979	3,146	150,071	6,770	391,050	9,916
Other	479	22	479	35	958	57
Total unrealized loss position	<u>\$428,213</u>	<u>\$6,642</u>	<u>\$154,867</u>	<u>\$7,009</u>	<u>\$583,080</u>	<u>\$13,651</u>

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. During the second quarter and six months ended June 30, 2009, United recognized an impairment loss of \$744,000 on an equity investment in a financial institution that failed during the quarter.

At June 30, 2010, there were 21 available for sale securities totaling \$45.8 million in that were in an unrealized loss position. There were 3 held to maturity securities totaling \$3.1 million in that were in an unrealized loss position at June 30, 2010. 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 its amortized cost basis. Unrealized losses at June 30, 2010 and 2009 were primarily attributable to changes in interest rates.

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 month and six month periods ended June 30, 2010 and 2009 (*in thousands*):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Proceeds from sales	<u>\$-</u>	<u>\$798</u>	<u>\$40,817</u>	<u>\$15,017</u>
Gross gains on sales	\$-	\$33	\$1,260	\$336
Gross losses on sales	-	-	249	-
Impairment losses	-	744	950	744
Net gains on sales of securities	<u>\$-</u>	<u>\$(711)</u>	<u>\$61</u>	<u>\$(408)</u>

Income tax expense attributable to sales

\$-

\$(277)

\$24

\$(159)

Securities with a carrying value of \$1.4 billion, \$1.5 billion, and \$1.7 billion were pledged to secure public deposits, FHLB advances and other secured borrowings at June 30, 2010, December 31, 2009 and June 30, 2009.

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The amortized cost and fair value of held to maturity and available for sale securities at June 30, 2010, by contractual maturity, are presented in the following table (*in thousands*).

	<u>Available for Sale</u>		<u>Held to Maturity</u>	
	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>Amortized Cost</u>	<u>Fair Value</u>
U.S. Government agencies:				
Within 1 year	\$ 7,366	\$7,424	\$-	\$-
1 to 5 years	15,000	15,038	-	-
5 to 10 years	194,393	195,233	-	-
More than 10 years	-	-	-	-
	<u>216,759</u>	<u>217,695</u>	<u>-</u>	<u>-</u>
State and political subdivisions:				
Within 1 year	4,441	4,484	-	-
1 to 5 years	17,000	17,543	-	-
5 to 10 years	10,209	10,575	50,669	51,357
More than 10 years	1,348	1,383	19,615	20,003
	<u>32,998</u>	<u>33,985</u>	<u>70,284</u>	<u>71,360</u>
Other:				
Within 1 year	7,613	7,715	-	-
1 to 5 years	2,045	2,111	-	-
5 to 10 years	50	50	16,677	16,836
More than 10 years	3,452	3,452	9,569	9,655
	<u>13,160</u>	<u>13,328</u>	<u>26,246</u>	<u>26,491</u>
Total securities other than mortgage-backed securities:				
Within 1 year	19,420	19,623	-	-
1 to 5 years	34,045	34,692	-	-
5 to 10 years	204,652	205,858	67,346	68,193
More than 10 years	4,800	4,835	29,184	29,658
Mortgage-backed securities	<u>864,141</u>	<u>900,768</u>	<u>225,618</u>	<u>229,646</u>
	<u>\$ 1,127,058</u>	<u>\$1,165,776</u>	<u>\$ 322,148</u>	<u>\$327,497</u>

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.

Note 5 – Loans and Allowance for Loan Losses

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.

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Major classifications of loans as of June 30, 2010, December 31, 2009 and June 30, 2009, are summarized as follows (*in thousands*):

	June 30, 2010	December 31, 2009	June 30, 2009
Commercial (secured by real estate)	\$1,780,142	\$1,779,398	\$1,796,560
Commercial construction	342,140	362,566	378,779
Commercial (commercial and industrial)	441,097	390,520	399,564
Total commercial	2,563,379	2,532,484	2,574,903
Residential construction	819,930	1,050,065	1,315,353
Residential mortgage	1,355,582	1,427,198	1,469,754
Installment	134,139	141,729	153,077
Total loans	4,873,030	5,151,476	5,513,087
Less allowance for loan losses	174,111	155,602	145,678
Loans, net	<u>\$4,698,919</u>	<u>\$4,995,874</u>	<u>\$5,367,409</u>

At June 30, 2010, United had \$163 million of loans classified as impaired. Of that amount, \$12.5 million had specific reserves of \$1.1 million allocated and the remaining \$150 million did not have specific reserves allocated because they had either been written down to net realizable value (\$100 million in charge-offs) or had sufficient collateral so that no allowance was required. At December 31, 2009, United had \$198 million of loans classified as impaired. Of that amount, \$16.1 million had specific reserves of \$3 million allocated and the remaining \$182 million did not have specific reserves allocated because they had either been written down to net realizable value (\$115 million in charge-offs) or had sufficient collateral so that no allowance was required. At June 30, 2009, United had \$224 million of loans classified as impaired. Of that amount, \$113 million had specific reserves allocated of \$24.9 million and \$110 million did not have specific reserves allocated. The average recorded investment in impaired loans for the quarters ended June 30, 2010 and 2009 was \$171 million and \$248 million, respectively. There was no interest revenue recognized on loans while they were impaired for the three or six months ended June 30, 2010 or 2009.

Changes in the allowance for loan losses are summarized as follows (*in thousands*):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Balance beginning of period	\$173,934	\$143,990	\$155,602	\$122,271
Provision for loan losses	61,500	60,000	136,500	125,000
Charge-offs:				
Commercial (secured by real estate)	9,791	5,989	12,727	6,854
Commercial construction	1,460	757	3,671	811
Commercial (commercial and industrial)	1,764	4,977	6,318	6,185
Residential construction	41,781	44,645	85,971	82,612
Residential mortgage	6,752	3,589	11,392	6,700
Installment	1,417	981	2,546	1,907
Total loans charged-off	62,965	60,938	122,625	105,069
Recoveries:				
Commercial (secured by real estate)	34	3	1,006	42
Commercial construction	-	1	5	1
Commercial (commercial and industrial)	897	1,870	1,341	2,205
Residential construction	266	405	1,356	610
Residential mortgage	235	64	324	191
Installment	210	283	602	427
Total recoveries	1,642	2,626	4,634	3,476
Net charge-offs	61,323	58,312	117,991	101,593
Balance end of period	<u>\$174,111</u>	<u>\$145,678</u>	<u>\$174,111</u>	<u>\$145,678</u>

At June 30, 2010, December 31, 2009 and June 30, 2009, loans with a carrying value of \$1.5 billion, \$1.5 billion and \$1.6 billion were pledged as collateral to secure FHLB advances and other contingent funding sources.

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Note 6 – Goodwill

A summary of the changes in goodwill for the three and six months ended June 30, 2010 and 2009 is presented below, *(in thousands)*.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Beginning balance	\$210,590	\$235,590	\$210,590	\$305,590
Impairment	–	–	–	(70,000)
Ending balance	<u>\$210,590</u>	<u>\$235,590</u>	<u>\$210,590</u>	<u>\$235,590</u>

United performs its annual goodwill impairment assessment during the fourth quarter of each year, or more often if events warrant an interim assessment. During the second quarter of 2010 and 2009, no events occurred that would lead management to believe that goodwill impairment might exist. During the first quarter of 2009, United updated its 2008 annual goodwill impairment assessment as a result of its stock price falling significantly below tangible book value. As a result of the updated assessment, goodwill was found to be impaired and was written down to its estimated fair value. The impairment charge of \$70 million was recognized as an expense in the first quarter 2009 consolidated statement of income.

Note 7 – Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share for the three and six months ended June 30, 2010 and 2009 *(in thousands, except per share data)*:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Net loss available to common shareholders	<u>\$(62,109)</u>	<u>\$(18,560)</u>	<u>\$(97,974)</u>	<u>\$(124,887)</u>

Weighted average shares outstanding:

Basic	94,524	48,794	94,453	48,560
Effect of dilutive securities				
Stock options	–	–	–	–
Warrants	–	–	–	–
Diluted	<u>94,524</u>	<u>48,794</u>	<u>94,453</u>	<u>48,560</u>

Loss per common share:

Basic	<u>\$(.66)</u>	<u>\$(.38)</u>	<u>\$(1.04)</u>	<u>\$(2.57)</u>
Diluted	<u>\$(.66)</u>	<u>\$(.38)</u>	<u>\$(1.04)</u>	<u>\$(2.57)</u>

There is no dilution from dilutive securities for the three and six months ended June 30, 2010 and 2009, due to the anti-dilutive effect of the net loss for those periods.

Note 8 – 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 interest rate derivatives. 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.

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The table below presents the fair value of United' s derivative financial instruments as well as their classification on the balance sheet as of June 30, 2010, December 31, 2009 and June 30, 2009.

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

Interest Rate Products	Balance Sheet Location	Fair Value		
		June 30, 2010	December 31, 2009	June 30, 2009
Asset derivatives	Other assets	<u>\$1,167</u>	<u>\$10,692</u>	<u>\$30,815</u>

As of June 30, 2010, December 31, 2009 and June 30, 2009, 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. As of June 30, 2010, United had no active derivatives designated as cash flow hedges of interest rate risk.

The effective portion of changes in the fair value of derivatives designated and qualifying 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 and 2009, such derivatives were used to hedge the variable cash flows associated with existing prime-based, variable-rate loans. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. During the three and six months ended June 30, 2010 \$120,000 and \$642,000, respectively, in hedge ineffectiveness was recognized in other fee revenue, respectively, and during the three and six months ended June 30, 2009 no hedge ineffectiveness was recognized on derivative financial instruments designated as cash flow hedges.

Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest revenue as interest payments are received on United' s prime-based, variable-rate loans. During the next twelve months, United estimates that an additional \$12.6 million will be reclassified as an increase to interest revenue.

Fair Value Hedges of Interest Rate Risk

United is exposed to changes in the fair value of certain of its fixed rate obligations due to changes in LIBOR, a benchmark interest rate. United uses interest rate swaps to manage its exposure to changes in fair value on these instruments attributable to changes in the benchmark interest rate. Interest rate swaps designated as fair value hedges involve the receipt of fixed-rate amounts from a counterparty in exchange for United making variable rate payments over the life of the agreements without the exchange of the underlying notional amount. As of June 30, 2010, United had three interest rate swaps with an aggregate notional amount of \$195.0 million that were designated as fair value hedges of interest rate risk.

For derivatives designated and that qualify as fair value hedges, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in earnings. United includes the gain or loss on the hedged items in the same line item as the offsetting loss or gain on the related derivatives. During the three and six months ended June 30, 2010, United recognized net gains of \$119,000 and \$207,000, respectively, related to ineffectiveness of the fair value hedging relationships. During the three and six months ended June 30, 2009, United recognized net losses of \$382,000 and \$282,000, respectively, related to ineffectiveness of the fair value hedging relationships. United also recognized a net reduction of interest expense of \$1.38 million and \$1.32 million for the three months ended June 30, 2010 and 2009, respectively, related to United' s fair value hedges, which includes net settlements on the derivatives. For the six months ended June 30, 2010 and 2009, United recognized a net reduction of interest expense of \$2.77 million and \$3.16 million, related to United' s fair value hedges.

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

The tables below present the effect of United's derivative financial instruments on the Consolidated Statement of Income for the three and six months ended June 30, 2010 and 2009.

Derivatives in Fair Value Hedging Relationships (in thousands).

Location of Gain (Loss) Recognized in Income on Derivative	Amount of Gain (Loss) Recognized in Income on Derivative		Amount of Gain (Loss) Recognized in Income on Hedged Item	
	2010	2009	2010	2009
Three Months Ended June 30,				
Other fee revenue	\$(1,397)	\$(176)	\$1,516	\$140
Other expense	-	(636)	-	290
Six Months Ended June 30,				
Other fee revenue	\$(2,592)	\$(259)	\$2,799	\$431
Other expense	-	(1,566)	-	1,112

Derivatives in Cash Flow Hedging Relationships (in thousands).

	Amount of Gain (Loss) Recognized in Other Comprehensive Income on Derivative (Effective Portion)		Gain (Loss) Reclassified from Accumulated Other Comprehensive Income into Income (Effective Portion) Location	2010		2009	
	2010	2009		2010	2009		
Three Months Ended June 30,							
Interest rate products	<u>\$840</u>	<u>\$(8,334)</u>	Interest revenue	<u>\$5,042</u>	<u>\$10,188</u>		
Six Months Ended June 30,							
Interest rate products	<u>\$2,314</u>	<u>\$(5,216)</u>	Interest revenue	<u>\$11,577</u>	<u>\$21,178</u>		

Credit-risk-related Contingent Features

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

United's agreements with each of its derivative counterparties contain a provision where if either party defaults on any of its indebtedness, then it could also be declared in default on its derivative obligations. The agreements with derivatives counterparties also include provisions that if not met, could result in United being declared in default. United has agreements with certain of its derivative counterparties that contain a provision where if United fails to maintain its status as a well-capitalized institution, the counterparty could terminate the derivative positions and United would be required to settle its obligations under the agreements. United has an agreement with one counterparty that contains a provision where if United fails to maintain a minimum shareholders' equity of \$300 million, it could be declared in default on its derivative obligations. An agreement with another counterparty contains a provision where if United fails to maintain a minimum Tier I leverage ratio of 5.0%, a minimum Tier I risk-based capital ratio of 6.0%, and a minimum total risk-based capital ratio of 10%, it could be declared in default on its derivative obligations. In addition, United has agreements with its derivative counterparties that require United's debt to maintain an investment grade credit rating from each of the major credit rating agencies. If United's credit rating is reduced below investment grade, then a termination event is deemed to have occurred and the non-affected counterparty shall have the right, but not the obligation, to terminate all affected transactions under the agreement.

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Note 9 – 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, 2010, approximately 1,172,000 additional awards could be granted under the plan. Through June 30, 2010, only incentive stock options, nonqualified stock options and restricted stock awards and units had been granted under the plan.

The following table shows stock option activity for the first six months of 2010.

<u>Options</u>	<u>Shares</u>	<u>Weighted- Average Exercise Price</u>	<u>Weighted- Average Remaining Contractual Term (Years)</u>	<u>Aggregate Intrinsic Value (\$000)</u>
Outstanding at December 31, 2009	3,663,453	\$ 18.30		
Granted	11,000	5.12		
Exercised	–	–		
Forfeited	(40,105)	13.99		
Expired	(177,127)	13.17		
Outstanding at June 30, 2010	<u>3,457,221</u>	18.57	5.1	\$–
Exercisable at June 30, 2010	<u>2,778,835</u>	19.63	4.4	–

The weighted average fair value of stock options granted in the second quarter of 2010 and 2009 was \$3.34 and \$2.88, respectively. The fair value of each option granted was estimated on the date of grant using the Black-Scholes model. Because United’s option plan has not been in place long enough to gather sufficient information about exercise patterns to establish an expected life, United uses the formula provided by the Securities and Exchange Commission in Staff Accounting Bulletin No. 107 to determine the expected life of options.

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

	Six Months Ended			
	June 30,			
	<u>2010</u>		<u>2009</u>	
Expected volatility	55.00	%	40.68	%
Expected dividend yield	0.00	%	0.00	%
Expected life (in years)	6.14		6.25	
Risk-free rate	3.19	%	3.35	%

United’s stock trading history began in March of 2002 when United listed on the Nasdaq National Market. For 2010 and 2009 expected volatility was determined using United’s historical monthly volatility for the seventy five months ended December 31, 2009. Seventy five months was chosen to correspond to the expected life of 6.25 years. Compensation expense for stock options was \$1.1 million and \$1.4 million for the six months ended June 30, 2010 and 2009, respectively. Deferred tax benefits of \$430,000 and \$498,000, respectively, were included in the determination of income tax benefit for the six-month periods ended June 30, 2010 and 2009. The amount of compensation expense for both periods was determined based on the fair value of the options at the time of grant, multiplied by the number of options granted that were expected to vest, which was then amortized over the vesting period. The forfeiture rate for options is estimated to be approximately 3% per year. The total intrinsic value of options exercised during the six months ended June 30, 2009 was \$840. No options were exercised during the first six months of 2010.

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The table below presents the activity in restricted stock awards for the first six months of 2010.

Restricted Stock	Shares	Weighted- Average Grant- Date Fair Value
Outstanding at December 31, 2009	167,559	\$ 12.86
Granted	425	5.05
Vested	(51,902)	14.85
Cancelled	—	—
Outstanding at June 30, 2010	<u>116,082</u>	11.94

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, 2010 and 2009, compensation expense of \$325,000 and \$433,000, respectively, was recognized related to restricted stock awards. The total intrinsic value of the restricted stock was \$459,000 at June 30, 2010.

As of June 30, 2010, there was \$3.5 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 1.9 years. The aggregate grant date fair value of options and restricted stock awards that vested during the six months ended June 30, 2010, was \$3.5 million.

Note 10 – Common 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, 2010 and 2009, United issued 209,091 and 167,873 shares, respectively, and increased capital by \$939,000 and \$974,000, respectively, through these programs.

United offers its common stock as an investment option in its deferred compensation plan. The common stock component of the deferred compensation plan is accounted for as an equity instrument and is reflected in the consolidated financial statements as common stock issuable. At June 30, 2010 and 2009, 284,771 and 182,041 shares, respectively, were issuable under the deferred compensation plan.

Late in the third quarter of 2009, United completed a sale of 44,505,000 shares of its common stock at a price of \$5.00 per share. The net proceeds of \$211 million, after deducting the underwriters' fees and expenses will be used for general corporate purposes. As a result of the stock sale, and pursuant to the terms of the warrant issued to the U.S. Treasury in connection with United' s participation in the U.S. Treasury' s Capital Purchase Program (“CPP”), the number of shares issuable upon exercise of the warrant issued to the U.S. Treasury in connection with the CPP was reduced by 50%, or 1,099,542 shares. The warrant has an exercise price of \$12.28 and expires on the tenth anniversary of the date of issuance.

Note 11 – Stock Dividend

During the first and second quarters of 2009, United declared quarterly stock dividends at a rate of 1 new share for every 130 shares owned. The stock dividends have been reflected in the financial statements as an issuance of stock with no proceeds rather than a stock split and therefore prior period numbers of shares outstanding have not been adjusted. For the six months ended June 30, 2009, the amount of \$30,000 shown in the equity statement as a reduction of capital related to the stock dividend is the amount of cash paid to shareholders for fractional shares. No stock dividends were declared or paid during the first six months of 2010.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

Note 12 – 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, 2010, December 31, 2009 and June 30, 2009, aggregated by the level in the fair value hierarchy within which those measurements fall (in thousands).

June 30, 2010	Level 1	Level 2	Level 3	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	<u>\$2,701</u>	<u>\$1,111,116</u>	<u>\$55,827</u>	<u>\$1,169,644</u>

Liabilities				
Deferred compensation plan liability	\$2,701	\$–	\$–	\$2,701
Total liabilities	<u>\$2,701</u>	<u>\$–</u>	<u>\$–</u>	<u>\$2,701</u>

December 31, 2009	Level 1	Level 2	Level 3	Total
Assets				
Securities available for sale:				
U.S. Government agencies	\$–	\$226,466	\$20,000	\$246,466
State and political subdivisions	–	63,293	–	63,293
Mortgage-backed securities	–	1,180,330	16,892	1,197,222
Other	–	21,066	2,000	23,066
Deferred compensation plan assets	4,818	–	–	4,818
Derivative financial instruments	–	10,692	–	10,692
Total	<u>\$4,818</u>	<u>\$1,501,847</u>	<u>\$38,892</u>	<u>\$1,545,557</u>

Liabilities				
Deferred compensation plan liability	\$4,818	\$–	\$–	\$4,818
Total liabilities	<u>\$4,818</u>	<u>\$–</u>	<u>\$–</u>	<u>\$4,818</u>

June 30, 2009	Level 1	Level 2	Level 3	Total
Assets				
Securities available for sale:				
U.S. Treasuries	\$–	\$39,975	\$–	\$39,975
U.S. Government agencies	–	207,313	–	207,313
State and political subdivisions	–	55,503	–	55,503
Mortgage-backed securities	–	1,485,097	–	1,485,097
Other	–	28,899	–	28,899
Deferred compensation plan assets	3,976	–	–	3,976
Derivative financial instruments	–	30,815	–	30,815
Total	<u>\$3,976</u>	<u>\$1,847,602</u>	<u>\$–</u>	<u>\$1,851,578</u>

Liabilities				
Deferred compensation plan liability	\$3,976	\$–	\$–	\$3,976
Total liabilities	<u>\$3,976</u>	<u>\$–</u>	<u>\$–</u>	<u>\$3,976</u>

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*):

	Securities Available for Sale
Balance at December 31, 2009	\$ 38,892
Amounts included in earnings	(18)
Impairment charges	(950)
Purchases, sales, issuances, settlements, maturities, paydowns, net	38,511
Transfers between valuation levels, net	(20,608)
Balance at June 30, 2010	<u>\$ 55,827</u>

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, 2010, December 31, 2009 and June 30, 2009, aggregated by the level in the fair value hierarchy within which those measurements fall (*in thousands*):

June 30, 2010	Level 1	Level 2	Level 3	Total
Assets				
Loans	\$-	\$-	\$140,807	\$140,807
Foreclosed properties	-	-	70,686	70,686
Total	<u>\$-</u>	<u>\$-</u>	<u>\$211,493</u>	<u>\$211,493</u>
December 31, 2009				
Assets				
Loans	\$-	\$-	\$153,038	\$153,038
Foreclosed properties	-	-	81,213	81,213
Total	<u>\$-</u>	<u>\$-</u>	<u>\$234,251</u>	<u>\$234,251</u>
June 30, 2009				
Assets				
Loans	\$-	\$-	\$174,005	\$174,005
Foreclosed properties	-	-	86,730	86,730
Goodwill	-	-	235,590	235,590
Total	<u>\$-</u>	<u>\$-</u>	<u>\$496,325</u>	<u>\$496,325</u>

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, December 31, 2009 and June 30, 2009 the fair value of interest rate contracts used for balance sheet management was an asset of approximately \$1.2 million, \$10.7 million and \$30.8 million, respectively.

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, 2010, December 31, 2009 June 30, 2009 are as follows (*in thousands*):

	June 30, 2010		December 31, 2009		June 30, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:						
Loans, net	\$4,698,919	\$4,407,376	\$4,995,874	\$4,529,755	\$5,367,409	\$5,369,542
Securities held to maturity	322,148	327,497	–	–	–	–
Liabilities:						
Deposits	6,329,512	6,350,449	6,627,834	6,660,196	6,848,760	6,893,851
Federal Home Loan Bank advances	104,138	110,964	114,501	119,945	283,292	290,908
Long-term debt	150,106	122,949	150,066	111,561	150,026	87,907

Note 13 – Reclassifications

Certain 2009 amounts have been reclassified to conform to the 2010 presentation.

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 non-performing commercial and residential mortgage loans and foreclosed properties to Fletcher' s affiliates with a nominal aggregate sales price equal to the Bank' s carrying value. The non-performing 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. As part of the agreement, Fletcher received a warrant to acquire 7,058,824 shares of United' s common stock at a price of \$4.25 per share. 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 \$5.25 per share (12,380,952 shares). If Fletcher has not purchased all of the Series C Convertible Preferred Stock by May 26, 2011, it must 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 26, 2012. In addition, Fletcher will receive an additional warrant to purchase \$35 million in common stock at \$6.02 per share (5,813,953 shares) when it purchases the last \$35 million of Series C Convertible Preferred Stock. 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.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

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).

	Valuation Approach	Fair Value Hierarchy	Fair Value
Warrants Issued / Assets Transferred to Fletcher at Fair Value:			
Warrant to purchase \$30 million in common stock at \$4.25 per share	Black-Scholes	Level 3	\$17,577
Option to purchase convertible preferred stock and warrant	Monte-Carlo Simulation	Level 3	<u>22,236</u>
Fair value of equity instruments recognized in capital surplus			<u>39,813</u>
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			<u>103,089</u>
Total value of assets and equity instruments transferred			<u>142,902</u>
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	<u>77,940</u>
Total value of cash and notes receivable received			<u>98,558</u>
Fair value of assets and equity instruments transferred in excess of cash and notes received			<u>44,344</u>
Transaction fees			<u>1,005</u>
Loss recognized on Fletcher transaction			<u>\$45,349</u>

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 – \$4.77; 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 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.

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.

Note 15 – 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 Income for all periods presented. The net results of operations from Brintech are reported on a separate line on the Consolidated Statement of Income titled “(Loss) income 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.”

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, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or 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", "estimates", "pro forma", "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 contained in this Form 10-Q and set forth in our Annual Report on Form 10-K for the year ended December 31, 2009, as well as the following:

- the condition of the banking system and financial markets;
- our ability to become profitable;
- 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 consistent with our capital plan;
- 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;
- the adverse effects on future earnings resulting from non-cash charges for goodwill impairment;
- our ability to fully realize our deferred tax asset balances;
- 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;

financial services laws and regulations change;

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

unanticipated 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.

All written or oral forward-looking statements attributable to us or any person acting on our behalf made after the date of this prospectus supplement are expressly qualified in their entirety by the risk factors and cautionary statements contained in this Form 10-Q and set forth in our Annual Report on Form 10-K for the year ended December 31, 2009.

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, 2010, United had total consolidated assets of \$7.7 billion, total loans of \$4.9 billion, excluding the loans acquired from Southern Community Bank (“SCB”) that are covered by loss sharing agreements and therefore have a different risk profile, total deposits of \$6.3 billion and stockholders’ equity of \$904 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, Georgia MSA”), the Gainesville, Georgia 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.

Operating loss from continuing operations and operating 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 29.

United reported a net operating loss from continuing operations of \$59.5 million for the second quarter of 2010. This compared to a net operating loss from continuing operations of \$23.1 million for the second quarter of 2009. The increase in the net operating loss from continuing operations was primarily due to an after-tax loss of \$30.0 million related to a transaction with Fletcher International to dispose of nonperforming assets in the second quarter of 2010. The net operating loss from continuing operations in the second quarter of 2009 excluded a non-recurring bargain purchase gain of \$7.1 million, net of tax, for the acquisition of SCB. Diluted operating loss from continuing operations per common share was \$.66 for the second quarter of 2010, compared to a diluted operating loss from continuing operations per common share of \$.53 for the second quarter of 2009. The loss on sale of nonperforming assets to Fletcher added approximately \$.32 to the diluted operating loss from continuing operations for the second quarter of 2010. The gain on acquisition of SCB, which has been excluded from operating earnings, represented \$.15 of earnings per share for the second quarter of 2009, reducing the diluted loss from continuing operations per share to \$.38. The second quarter of 2010 loss reflects the continuing recessionary economic environment and elevated credit and foreclosed property losses primarily resulting from the weak residential construction and housing market.

For the six months ended June 30, 2010, United reported a net operating loss from continuing operations of \$94.0 million, which includes the \$30.0 million after-tax loss from the Fletcher transaction. This compared to a net operating loss from continuing operations of \$55.3 million for the six months ended June 30, 2009. Net loss for the six months ended June 30, 2010, which includes discontinued operations, totaled \$92.8 million. For the same period of 2009, the net loss of \$120 million included the \$7.1 million gain on acquisition, net of tax, a \$70 million charge for goodwill impairment and a \$1.8 million charge for a reduction in workforce, net of tax. Diluted operating loss from continuing operations per common share was \$1.05 for the six months ended June 30, 2010, compared with diluted operating loss from continuing operations per common share of \$1.24 for the same period in 2009. The loss on sale of nonperforming assets in 2010 represented \$.32 of loss per share. The diluted loss per share, which includes discontinued operations was \$1.04 for the first six months of 2010. The gain on acquisition, goodwill impairment and severance costs represented \$.15 of earnings per share, \$1.45 of loss per share and \$.04 of loss per share, respectively, for the six months ended June 30, 2009, bringing the diluted loss per share to \$2.57.

United’s approach to managing through the challenging economic cycle has been to aggressively deal with its credit problems and dispose of troubled assets quickly, taking losses as necessary. As a result, United’s provision for loan losses was \$61.5 million for the three months ended June 30, 2010, compared to \$60 million for the same period in 2009. Net charge-offs for the second quarter of 2010 were \$61.3 million, compared to \$58.3 million for the second quarter of 2009. For the six months ended June 30, 2010, United’s provision for loan losses was \$136 million, compared to \$125 million for the same period in 2009. Net charge-offs for the first six months of 2010 were \$118 million, compared to \$102 million for the first six months of 2009. As of June 30, 2010, United’s allowance for loan losses of \$174.1 million was 3.57% of loans, compared to \$146 million, or 2.64% of total loans at

June 30, 2009. Nonperforming assets of \$348 million, which excludes assets of SCB that are covered by loss sharing agreements with the FDIC, decreased to 4.55% of total assets at June 30, 2010, compared to 4.81% as of December 31, 2009, and 4.63% as of June 30, 2009. This decrease was the result of the sale of \$103 million in non-performing assets to Fletcher International.

Taxable equivalent net interest revenue was \$61.6 million for the second quarter of 2010, compared to \$60.9 million for the same period of 2009. The increase in net interest revenue was the result of the 32 basis point increase in the net interest margin, which increased from 3.28% for the second quarter of 2009 to 3.60% for the second quarter of 2010. For the six months ended June 30, 2010, taxable equivalent net interest revenue was \$123 million, compared to \$118 million for the same period of 2009. Net interest margin increased from 3.18% for the six months ended June 30, 2009 to 3.55% for the same period in 2010. The margin improvement resulted from management's ongoing efforts to manage loan and deposit pricing. The increase in the net interest margin more than offset the effect on net interest revenue of the \$586 million decrease in average loan balances, due primarily to the run-off of the residential construction portfolio.

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Operating fee revenue, increased \$274,000, or 2%, and \$117,000, or 1%, from the second quarter and first six months of 2009, respectively. The increase was primarily attributable to securities losses in 2009 and higher service charges and fees that were offset by lower mortgage fees, as refinancing activity continued to slow from the record levels of 2009. Included in the net securities gains for 2010, was a \$950,000 impairment loss on a bank trust preferred securities investment, recognized in the first quarter that was more than offset by securities gains. Included in the net securities losses for 2009, was a \$744,000 impairment loss on an equity investment in a failed financial institution, which was recognized in the second quarter.

For the second quarter of 2010, operating expenses of \$58.3 million, excluding the \$45.3 million loss from the sale of nonperforming assets, were up \$4.6 million from the second quarter of 2009. Although United's expense savings initiatives have been successful in lowering controllable expenses, foreclosed property costs were up \$8.8 million from the second quarter of 2009. Other expense was up \$3.1 million from the second quarter of 2009 mostly due to a \$2.4 million recovery of a disputed charge related to United's bank owned life insurance policies that had been expensed in a prior period. For the first six months of 2010, operating expenses of \$113 million, excluding the \$45.3 million loss from the sale of nonperforming assets, were up \$7.6 million from the same period of 2009. Foreclosed property expense, which was up \$15.3 million, was primarily responsible for the increase from 2009. The increase in foreclosed property expense was partially offset by a \$5.7 million decrease in salaries and benefits expense reflecting the 10% staff reduction that began at the end of the first quarter of 2009. Operating expenses for 2009 exclude a \$70 million goodwill impairment charge and \$2.9 million in severance costs in the first quarter.

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, intangible assets and income taxes. In particular, United's accounting policies related to allowance for loan losses, fair value measurements, intangibles and income taxes involve the use of estimates and require significant judgment to be made by management. Different assumptions in the application of these policies could result in material changes in United's consolidated financial position or consolidated results of operations. See "Asset Quality and Risk Elements" herein for additional discussion of United's accounting methodologies related to the allowance.

Mergers and Acquisitions

On June 19, 2009, the Bank acquired the banking operations of SCB from the FDIC. The Bank acquired \$378 million of assets and assumed \$367 million of liabilities. The Bank and the FDIC entered loss sharing agreements regarding future losses incurred on loans and foreclosed loan collateral existing at June 19, 2009. Under the terms of the loss sharing agreements, the FDIC will absorb 80% of losses and share in 80% of loss recoveries on the first \$109 million of losses, and absorb 95% of losses and share in 95% of loss recoveries on losses exceeding \$109 million. The term for loss sharing on 1 to 4 family loans is ten years, while the term for loss sharing on all other loans is five years. The SCB acquisition was accounted for under the purchase method of accounting in accordance with the Financial Accounting Standards Board's Accounting Standards Codification, Topic 805, *Business Combinations* ("ASC 805"). United recorded a gain totaling \$11.4 million in the second quarter of 2009 resulting from the acquisition, which is a component of fee revenue in the consolidated statement of income. The amount of the gain is equal to the amount by which the fair value of assets purchased exceeded the fair value of liabilities assumed. See Note 3 of the Notes to the unaudited consolidated financial statements for additional information regarding the acquisition.

The results of operations of SCB are included in the consolidated statement of income from the acquisition date of June 19, 2009.

GAAP Reconciliation and Explanation

This Form 10-Q contains non-GAAP financial measures determined by methods other than in accordance with GAAP. Such non-GAAP financial measures include, among others the following: 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 29.

Discontinued Operations

Effective March 31, 2010, United sold its investment in Brintech. 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 income and are presented on one line titled “(Loss) income 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

The current banking environment, particularly within the Southeast and United’s footprint, has left many financial institutions with a surplus of foreclosed real estate and nonperforming loans, particularly residential construction. Disposing of these nonperforming assets has become increasingly challenging in this environment as those involved in the business of buying, developing and selling real estate – the typical purchasers of foreclosed properties – have themselves been negatively impacted by the housing market and therefore lack the ability to purchase surplus real estate. The build-up of residential construction inventory and lack of buyers, especially in the non-Atlanta markets, has created an imbalance between supply and demand that has sent prices spiraling downward. As a result, most dispositions of problem assets have occurred only by pricing properties at substantial discounts and incurring significant losses which results in a reduction of capital.

The challenge in this environment is to find ways to sell a large quantity of non-performing assets without significantly reducing capital. The transaction with Fletcher International Inc. (“Fletcher Inc.”) and Fletcher International Ltd (“Fletcher Ltd”, together with Fletcher Inc. and their affiliates, “Fletcher”) accomplishes that objective by combining the sale of nonperforming assets with the issuance of equity instruments. Although the transaction with Fletcher is described in more detail below, in essence, Fletcher agreed to acquire certain of United’s more illiquid nonperforming assets and received equity instruments that include a warrant to purchase common stock and the right to purchase convertible preferred stock with an additional warrant to purchase common stock. All of the assets and equity instruments transferred in the transaction were transferred at fair value, which resulted in the recognition of a loss in the consolidated financial statements. The transaction had a slight positive impact on total capital, since the equity instruments exchanged in the transaction increased shareholders’ equity which more than offset the after-tax loss on the transaction.

Description of Transaction

On April 1, 2010, the Bank entered into an asset purchase and sale agreement (the “Asset Purchase Agreement”) with Fletcher Inc. and five affiliated limited liability companies (“LLCs”) formed by 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 accrue interest at a fixed rate of 3.5% and mature in five years. Principal and interest payments will be made quarterly based on a 30-year amortization schedule. Fletcher Inc. also contributed cash and securities to the LLCs equal to 17.5% of the purchase price to pre-fund the estimated carrying costs of the assets for approximately three years. These funds are held in escrow as additional collateral on the loans and cannot be removed by Fletcher 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.

Also on April 1, 2010, United and Fletcher Ltd. 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. has not purchased all of the Convertible Preferred Stock by May 26, 2011, it must pay United 5% of the commitment amount not purchased by that date, and it must also pay United an additional 5% of any commitment amount not purchased by May 26, 2012.

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 \$5.25 per share of common stock (equal to 12,380,952 shares of common stock), subject to certain adjustments. After May 26, 2015, if the closing stock price for United’s common stock is above \$12.04, 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.

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The Securities Purchase Agreement provides that United shall not effect any conversion or redemption of the Convertible Preferred Stock, and Fletcher Ltd. shall not have the right to convert or redeem any portion of the Convertible Preferred Stock, into common stock to the extent such conversion or redemption would result in aggregate issuances to Fletcher Ltd. in excess of 9.75% of the number of shares of common stock that would be outstanding after giving effect to such conversion or redemption. In the event that United cannot effect a conversion or redemption of the Convertible Preferred Stock into common stock due to this limit, the conversion or redemption shall be effected into an equal number of shares of 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 \$4.25 per common share (cash exercise equal to 7,058,824 shares of common stock). The \$35 million warrant price is equivalent to \$6.02 per common share (cash exercise equal to 5,813,953 shares of common stock). The warrants may only be exercised by net share settlement (cashless exercise) and are exercisable for nine years from April 1, 2010, subject to limited extension upon certain events specified in the warrant agreement. 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 (noted above) if the warrants had been exercised for cash payments.

The issuance of the securities described above and the increase in United's authorized common stock in connection with such issuances required shareholder approval pursuant to the listing requirements of the Nasdaq Global Select Market, which was received at United's annual meeting of shareholders on May 26, 2010.

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. The LLCs will pay all direct costs associated with the nonperforming loans and foreclosed properties. 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. Also as part of the servicing agreement, Fletcher maintains decision making authority with regard to the nonperforming loans and foreclosed properties except for minor, routine matters.

Accounting Treatment

The transaction with Fletcher encompasses the sale of nonperforming assets under the Asset Purchase Agreement and the issuance of equity instruments under the Securities Purchase Agreement. 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.

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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).

	<u>Valuation Approach</u>	<u>Fair Value Hierarchy</u>	<u>Fair Value</u>
Warrants Issued / Assets Transferred to Fletcher at Fair Value:			
Warrant to purchase \$30 million in common stock at \$4.25 per share	Black-Scholes	Level 3	\$17,577 (1)
Option to purchase convertible preferred stock and warrant	Monte-Carlo Simulation	Level 3	<u>22,236 (2)</u>
Fair value of equity instruments recognized in capital surplus			<u>39,813</u>
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			<u>103,089</u>
Total value of assets and equity instruments transferred			<u>142,902</u>
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	<u>77,940 (4)</u>
Total value of cash and notes receivable received			<u>98,558</u>
Fair value of assets and equity instruments transferred in excess of cash and notes received			44,344
Transaction fees			<u>1,005</u>
Loss recognized on Fletcher transaction			45,349
Tax benefit			<u>(15,367)</u>
After tax loss			<u>\$29,982</u>

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 – \$4.77; 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.

Results of Operations

United reported a net operating loss from continuing operations of \$59.5 million for the second quarter of 2010, which included an after-tax loss of \$30 million resulting from the sale of nonperforming assets to Fletcher International. This compared to a net operating loss from continuing operations of \$23.1 million for the same period in 2009. The 2009 net operating loss from continuing operations excluded a gain on the acquisition of SCB of \$7.1 million, net of tax expense. Including the \$7.1 million gain on acquisition, the net loss from continuing operations for the second quarter of 2009 was \$16.0 million. For the second quarter of 2010, diluted operating loss from continuing operations per share was \$.66. This compared to diluted operating loss from continuing operations per share of \$.53 for the second quarter of 2009. The diluted operating loss from continuing operations per share for the second quarter of 2010 included \$.32 in loss per share related to the sale of nonperforming assets. The diluted operating loss from continuing operations per share for the second quarter of 2009 excluded \$.15 in earnings related to the gain on acquisition.

For the first six months of 2010, United reported a net operating loss from continuing operations of \$94.0 million, which included the \$30.0 million after-tax loss related to the Fletcher transaction. This compared to a net operating loss from continuing operations of \$55.3 million for the first six months of 2009, which excluded the \$7.1 million gain on acquisition net of tax, a non-recurring, non-cash goodwill impairment charge of \$70 million and non-recurring severance costs of \$1.8 million. The net loss for the six months ended June 30, 2010, which includes discontinued operations was \$92.8 million. Including discontinued operations, the gain on acquisition, goodwill impairment charge and severance costs, net loss was \$120 million for the six months ended June 30, 2009. Diluted operating loss from continuing operations per share for the six months ended June 30, 2010 was \$1.05 of which the loss on the sale of nonperforming assets to Fletcher represented \$.32. This compared to diluted operating loss from continuing operations of \$1.24 for the same period in 2009. The diluted operating loss per share for the first six months of 2009 excluded \$.15 in earnings per share related to the gain on acquisition and \$1.45 and \$.04 in loss per share related to the goodwill impairment charge and severance costs, respectively. The net operating losses from continuing operations in the second quarter and first six months of 2010 reflect a higher provision for loan losses, the loss on the sale of nonperforming assets to Fletcher and foreclosed property costs related to the continuing effect of the economic recession and the weak residential construction and housing markets.

Table 1 – Financial Highlights
Selected Financial Information

<i>(in thousands, except per share data; taxable equivalent)</i>	2010		2009			Second Quarter 2010-2009 Change	For the Six Months Ended		YTD 2010-2009 Change
	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter		2010	2009	
INCOME SUMMARY									
Interest revenue	\$ 87,699	\$ 89,849	\$ 97,481	\$ 101,181	\$ 102,737		\$177,548	\$206,299	
Interest expense	26,072	28,570	33,552	38,177	41,855		54,642	88,005	
Net interest revenue	61,627	61,279	63,929	63,004	60,882	1 %	122,906	118,294	4 %
Provision for loan losses	61,500	75,000	90,000	95,000	60,000		136,500	125,000	
Operating fee revenue (1)	11,579	11,666	14,447	13,389	11,305	2	23,245	23,128	1
Total operating revenue (1)	11,706	(2,055)	(11,624)	(18,607)	12,187	(4)	9,651	16,422	(41)
Operating expenses (2)	58,308	54,820	60,126	51,426	53,710	9	113,128	105,498	7
Loss on sale of nonperforming assets	45,349	–	–	–	–		45,349	–	
Operating loss from continuing operations before taxes	(91,951)	(56,875)	(71,750)	(70,033)	(41,523)		(148,826)	(89,076)	
Operating income tax benefit	(32,419)	(22,417)	(31,687)	(26,252)	(18,394)		(54,836)	(33,815)	
Net operating loss from continuing operations (1)(2)	(59,532)	(34,458)	(40,063)	(43,781)	(23,129)		(93,990)	(55,261)	
Gain from acquisition, net of tax expense	–	–	–	–	7,062		–	7,062	
Noncash goodwill impairment charges	–	–	–	(25,000)	–		–	(70,000)	
Severance costs, net of tax benefit	–	–	–	–	–		–	(1,797)	
(Loss) income from discontinued operations	–	(101)	228	63	66		(101)	222	
Gain from sale of subsidiary, net of income taxes and selling costs	–	1,266	–	–	–		1,266	–	
Net loss	(59,532)	(33,293)	(39,835)	(68,718)	(16,001)		(92,825)	(119,774)	
Preferred dividends and discount accretion	2,577	2,572	2,567	2,562	2,559		5,149	5,113	
Net loss available to common shareholders	<u>\$ (62,109)</u>	<u>\$ (35,865)</u>	<u>\$ (42,402)</u>	<u>\$ (71,280)</u>	<u>\$ (18,560)</u>		<u>\$ (97,974)</u>	<u>\$ (124,887)</u>	
PERFORMANCE MEASURES									
Per common share:									
Diluted operating loss from continuing operations (1)(2)	\$(.66)	\$(.39)	\$(.45)	\$(.93)	\$(.53)		\$(1.05)	\$(1.24)	
Diluted loss from continuing operations	(.66)	(.39)	(.45)	(1.43)	(.38)		(1.05)	(2.58)	
Diluted loss	(.66)	(.38)	(.45)	(1.43)	(.38)		(1.04)	(2.57)	
Stock dividends declared (6)	–	–	–	1 for 130	1 for 130		–	2 for 130	
Book value	7.71	7.95	8.36	8.85	13.87		7.71	13.87	
Tangible book value (4)	5.39	5.62	6.02	6.50	8.85		5.39	8.85	
Key performance ratios:									
Return on equity (3)(5)	(35.89)%	(20.10)%	(22.08)%	(45.52)%	(11.42)%		(27.87)%	(36.20)%	
Return on assets (5)	(3.10)	(1.70)	(1.91)	(3.32)	(.78)		(2.39)	(2.93)	
Net interest margin (5)	3.60	3.49	3.40	3.39	3.28		3.55	3.18	
Operating efficiency ratio from continuing operations (1)(2)	141.60	75.22	78.74	68.35	73.68		108.48	74.38	
Equity to assets	11.84	11.90	11.94	10.27	10.71		11.87	11.20	
Tangible equity to assets (4)	9.26	9.39	9.53	7.55	7.96		9.32	8.10	
Tangible common equity to assets (4)	6.91	7.13	7.37	5.36	5.77		7.02	5.93	

Tangible common equity to risk-weighted assets (4)	9.97	10.03	10.39	10.67	7.49		9.97	7.49
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ASSET QUALITY *

Non-performing loans	\$ 224,335	\$ 280,802	\$ 264,092	\$ 304,381	\$ 287,848		\$224,335	\$287,848
Foreclosed properties	123,910	136,275	120,770	110,610	104,754		123,910	104,754
Total non-performing assets (NPAs)	348,245	417,077	384,862	414,991	392,602		348,245	392,602
Allowance for loan losses	174,111	173,934	155,602	150,187	145,678		174,111	145,678
Net charge-offs	61,323	56,668	84,585	90,491	58,312		117,991	101,593
Allowance for loan losses to loans	3.57 %	3.48 %	3.02 %	2.80 %	2.64 %		3.57 %	2.64 %
Net charge-offs to average loans (5)	4.98	4.51	6.37	6.57	4.18		4.75	3.64
NPAs to loans and foreclosed properties	6.97	8.13	7.30	7.58	6.99		6.97	6.99
NPAs to total assets	4.55	5.32	4.81	4.91	4.63		4.55	4.63

AVERAGE BALANCES (\$

in millions)

Loans	\$ 5,011	\$ 5,173	\$ 5,357	\$ 5,565	\$ 5,597	(10)	\$5,091	\$5,636	(10)
Investment securities	1,532	1,518	1,529	1,615	1,771	(13)	1,525	1,742	(12)
Earning assets	6,854	7,085	7,487	7,401	7,442	(8)	6,969	7,486	(7)
Total assets	7,704	7,946	8,287	8,208	8,212	(6)	7,825	8,291	(6)
Deposits	6,375	6,570	6,835	6,690	6,545	(3)	6,472	6,662	(3)
Shareholders' equity	912	945	989	843	879	4	929	923	1
Common shares – basic (thousands)	94,524	94,390	94,219	49,771	48,794	94	94,453	48,560	95
Common shares – diluted (thousands)	94,524	94,390	94,219	49,771	48,794	94	94,453	48,560	95

AT PERIOD END (\$ in

millions)

Loans *	\$ 4,873	\$ 4,992	\$ 5,151	\$ 5,363	\$ 5,513	(12)	\$4,873	\$5,513	(12)
Investment securities	1,488	1,527	1,530	1,533	1,817	(18)	1,488	1,817	(18)
Total assets	7,652	7,837	8,000	8,444	8,477	(10)	7,652	8,477	(10)
Deposits	6,330	6,488	6,628	6,821	6,849	(8)	6,330	6,849	(8)
Shareholders' equity	904	926	962	1,007	855	6	904	855	6
Common shares outstanding (thousands)	94,281	94,176	94,046	93,901	48,933	93	94,281	48,933	93

(1) Excludes the gain from acquisition of \$11.4 million, (income tax expense of \$4.3 million) in the second quarter of 2009 and revenue generated by discontinued operations in all periods presented.

(2) Excludes goodwill impairment charges of \$25 million and \$70 million in the third and first quarters of 2009, respectively, severance costs of \$2.9 million, (income tax benefit of \$1.1 million) in the first quarter of 2009 and expenses relating to discontinued operations for all periods presented.

(3) 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).

(4) Excludes effect of acquisition related intangibles and associated amortization.

(5) Annualized.

(6) Number of new shares issued for shares currently held.

* 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**

<i>(in thousands, except per share data; taxable equivalent)</i>	2010		2009			For the Six Months Ended	
	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	2010	2009
Interest revenue reconciliation							
Interest revenue – taxable equivalent	\$87,699	\$89,849	\$97,481	\$101,181	\$102,737	\$177,548	\$206,299
Taxable equivalent adjustment	(500)	(493)	(601)	(580)	(463)	(993)	(951)
Interest revenue (GAAP)	<u>\$87,199</u>	<u>\$89,356</u>	<u>\$96,880</u>	<u>\$100,601</u>	<u>\$102,274</u>	<u>\$176,555</u>	<u>\$205,348</u>
Net interest revenue reconciliation							
Net interest revenue – taxable equivalent	\$61,627	\$61,279	\$63,929	\$63,004	\$60,882	\$122,906	\$118,294
Taxable equivalent adjustment	(500)	(493)	(601)	(580)	(463)	(993)	(951)
Net interest revenue (GAAP)	<u>\$61,127</u>	<u>\$60,786</u>	<u>\$63,328</u>	<u>\$62,424</u>	<u>\$60,419</u>	<u>\$121,913</u>	<u>\$117,343</u>
Fee revenue reconciliation							
Operating fee revenue	\$11,579	\$11,666	\$14,447	\$13,389	\$11,305	\$23,245	\$23,128
Gain from acquisition	–	–	–	–	11,390	–	11,390
Fee revenue (GAAP)	<u>\$11,579</u>	<u>\$11,666</u>	<u>\$14,447</u>	<u>\$13,389</u>	<u>\$22,695</u>	<u>\$23,245</u>	<u>\$34,518</u>
Total revenue reconciliation							
Total operating revenue	\$11,706	\$(2,055)	\$(11,624)	\$(18,607)	\$12,187	\$9,651	\$16,422
Taxable equivalent adjustment	(500)	(493)	(601)	(580)	(463)	(993)	(951)
Gain from acquisition	–	–	–	–	11,390	–	11,390
Total revenue (GAAP)	<u>\$11,206</u>	<u>\$(2,548)</u>	<u>\$(12,225)</u>	<u>\$(19,187)</u>	<u>\$23,114</u>	<u>\$8,658</u>	<u>\$26,861</u>
Expense reconciliation							
Operating expense	\$103,657	\$54,820	\$60,126	\$51,426	\$53,710	\$158,477	\$105,498
Noncash goodwill impairment charge	–	–	–	25,000	–	–	70,000
Severance costs	–	–	–	–	–	–	2,898
Operating expense (GAAP)	<u>\$103,657</u>	<u>\$54,820</u>	<u>\$60,126</u>	<u>\$76,426</u>	<u>\$53,710</u>	<u>\$158,477</u>	<u>\$178,396</u>
Loss from continuing operations before taxes reconciliation							
Operating loss from continuing operations before taxes	\$(91,951)	\$(56,875)	\$(71,750)	\$(70,033)	\$(41,523)	\$(148,826)	\$(89,076)
Taxable equivalent adjustment	(500)	(493)	(601)	(580)	(463)	(993)	(951)
Gain from acquisition	–	–	–	–	11,390	–	11,390
Noncash goodwill impairment charge	–	–	–	(25,000)	–	–	(70,000)
Severance costs	–	–	–	–	–	–	(2,898)
Loss from continuing operations before taxes (GAAP)	<u>\$(92,451)</u>	<u>\$(57,368)</u>	<u>\$(72,351)</u>	<u>\$(95,613)</u>	<u>\$(30,596)</u>	<u>\$(149,819)</u>	<u>\$(151,535)</u>
Income tax benefit reconciliation							
Operating income tax benefit	\$(32,419)	\$(22,417)	\$(31,687)	\$(26,252)	\$(18,394)	\$(54,836)	\$(33,815)
Taxable equivalent adjustment	(500)	(493)	(601)	(580)	(463)	(993)	(951)
Gain from acquisition, tax expense	–	–	–	–	4,328	–	4,328
Severance costs, tax benefit	–	–	–	–	–	–	(1,101)
Income tax benefit (GAAP)	<u>\$(32,919)</u>	<u>\$(22,910)</u>	<u>\$(32,288)</u>	<u>\$(26,832)</u>	<u>\$(14,529)</u>	<u>\$(55,829)</u>	<u>\$(31,539)</u>
Diluted loss from continuing operations per common share reconciliation							
Diluted operating loss from continuing operations per common share	\$(.66)	\$(.39)	\$(.45)	\$(.93)	\$(.53)	\$(1.05)	\$(1.24)
Gain from acquisition	–	–	–	–	.15	–	.15
Noncash goodwill impairment charge	–	–	–	(.50)	–	–	(1.45)
Severance costs	–	–	–	–	–	–	(.04)
Diluted loss from continuing operations per common share (GAAP)	<u>\$(.66)</u>	<u>\$(.39)</u>	<u>\$(.45)</u>	<u>\$(1.43)</u>	<u>\$(.38)</u>	<u>\$(1.05)</u>	<u>\$(2.58)</u>
Book value per common share reconciliation							
Tangible book value per common share	\$5.39	\$5.62	\$6.02	\$6.50	\$8.85	\$5.39	\$8.85
Effect of goodwill and other intangibles	2.32	2.33	2.34	2.35	5.02	2.32	5.02
Book value per common share (GAAP)	<u>\$7.71</u>	<u>\$7.95</u>	<u>\$8.36</u>	<u>\$8.85</u>	<u>\$13.87</u>	<u>\$7.71</u>	<u>\$13.87</u>

Efficiency ratio from continuing operations reconciliation

Operating efficiency ratio from continuing operations	141.60 %	75.22 %	78.74 %	68.35 %	73.68 %	108.48 %	74.38 %
Gain from acquisition	-	-	-	-	(9.96)	-	(5.53)
Noncash goodwill impairment charge	-	-	-	33.22	-	-	45.69
Severance costs	-	-	-	-	-	-	1.89
Efficiency ratio from continuing operations (GAAP)	<u>141.60 %</u>	<u>75.22 %</u>	<u>78.74 %</u>	<u>101.57 %</u>	<u>63.72 %</u>	<u>108.48 %</u>	<u>116.43 %</u>

Average equity to assets reconciliation

Tangible common equity to assets	6.91 %	7.13 %	7.37 %	5.36 %	5.77 %	7.02 %	5.93 %
Effect of preferred equity	2.35	2.26	2.16	2.19	2.19	2.30	2.17
Tangible equity to assets	9.26	9.39	9.53	7.55	7.96	9.32	8.10
Effect of goodwill and other intangibles	2.58	2.51	2.41	2.72	2.75	2.55	3.10
Equity to assets (GAAP)	<u>11.84 %</u>	<u>11.90 %</u>	<u>11.94 %</u>	<u>10.27 %</u>	<u>10.71 %</u>	<u>11.87 %</u>	<u>11.20 %</u>

Actual tangible common equity to risk-weighted assets reconciliation

Tangible common equity to risk-weighted assets	9.97 %	10.03 %	10.39 %	10.67 %	7.49 %	9.97 %	7.49 %
Effect of other comprehensive income	(.87)	(.85)	(.87)	(.90)	(.72)	(.87)	(.72)
Effect of deferred tax limitation	(2.47)	(1.75)	(1.27)	(.58)	(.22)	(2.47)	(.22)
Effect of trust preferred	1.03	1.00	.97	.92	.90	1.03	.90
Effect of preferred equity	3.41	3.29	3.19	3.04	2.99	3.41	2.99
Tier I capital ratio (Regulatory)	<u>11.07 %</u>	<u>11.72 %</u>	<u>12.41 %</u>	<u>13.15 %</u>	<u>10.44 %</u>	<u>11.07 %</u>	<u>10.44 %</u>

Net Interest Revenue (Taxable Equivalent)

Net interest revenue (the difference between the interest earned on assets and the interest paid on deposits and borrowed funds) is the single largest component of total revenue. United actively manages this revenue source to provide optimal levels of revenue while balancing interest rate, credit and liquidity risks. Net interest revenue for the three months ended June 30, 2010 was \$61.6 million, up \$745,000, or 1%, from the second quarter of 2009. The increase in net interest revenue for the second quarter of 2010 compared to the second quarter of 2009 was due to improvement in the net interest margin, resulting from management's focus on improving earnings performance. United intensified its focus on loan pricing to ensure that it was being adequately compensated for the credit risk it was taking. Most of the improvement in loan pricing was due to United's ability to negotiate floors (minimum interest rates) into its floating rate loans. This loan spread improvement, combined with the effect of eased competition on deposit pricing, led to a steady improving trend in the net interest margin from the fourth quarter of 2008 to the second quarter of 2010. In addition, the transaction with Fletcher International removed approximately \$70 million of nonperforming loans from United's portfolio. The improved net interest margin more than offset the reduction in net interest revenue caused by the \$588 million decrease in average interest-earning assets primarily due to the reduction in loan balances.

Average loans decreased \$586 million, or 10%, from the second quarter last year. The decrease in the loan portfolio was a result of the slowdown in the housing market, particularly in the Atlanta, Georgia MSA, north Georgia and coastal Georgia where period-end loans decreased \$232 million, \$170 million and \$99 million, respectively, from June 30, 2009. Weak lending conditions have also affected United's other markets. Loan charge-offs, foreclosure activity and management's efforts to rebalance the loan portfolio by reducing the concentration of residential construction loans have all contributed to declining loan balances. While loan balances have declined, United continues to make new loans. During the second quarter of 2010, United made \$101 million in new loans, primarily commercial and small business loans in the Atlanta, Georgia MSA and north Georgia.

Average interest-earning assets for the second quarter 2010 decreased \$588 million, or 8%, from the same period in 2009. Decreases of \$586 million in average loans and \$239 million in the investment securities portfolio were partially offset by a \$238 million increase in federal funds sold and other interest-earning assets. Loan demand has been weak due to the poor economy and management's efforts to reduce United's exposure to residential construction loans. The increase in federal funds sold and other interest-earning assets was due to purchases of short-term commercial paper and bank certificates of deposit in an effort to temporarily invest excess liquidity. Average interest-bearing liabilities decreased \$567 million, or 9%, from the second quarter of 2009 due to the rolling off of higher-cost certificates of deposit as funding needs decreased. The average yield on interest earning assets for the three months ended June 30, 2010, was 5.13%, down 40 basis points from 5.53% for the same period of 2009, reflecting the effect of lower short-term interest rates on United's prime-based loans as well as increased levels of non-performing loans.

The average cost of interest-bearing liabilities for the second quarter of 2010 was 1.75% compared to 2.56% for the same period of 2009, reflecting the effect of falling rates on United's floating rate liabilities and United's ability to reduce deposit pricing. Also contributing to the overall lower rate on interest-bearing liabilities was a shift in the mix of deposits away from more expensive time deposits toward lower-rate transaction deposits. United's shrinking balance sheet also permitted the reduction of more expensive wholesale borrowings.

The banking industry uses two ratios to measure relative profitability of net interest revenue. The net interest spread measures the difference between the average yield on interest-earning assets and the average rate paid on interest-bearing liabilities. The interest rate spread eliminates the effect of non-interest-bearing deposits and gives a direct perspective on the effect of market interest rate movements. The net interest margin is an indication of the profitability of a company's investments, and is defined as net interest revenue as a percent of average total interest-earning assets, which includes the positive effect of funding a portion of interest-earning assets with customers' non-interest bearing deposits and stockholders' equity.

For the three months ended June 30, 2010 and 2009, the net interest spread was 3.38% and 2.97%, respectively, while the net interest margin was 3.60% and 3.28%, respectively. The improved net interest margin for the quarter reflects management's focus on improving earnings performance. The margin had been on a downward trend leading up to the first quarter of 2009 as a result of a rise in non-performing assets and higher than normal deposit pricing resulting from competition for deposits. The intense competition occurred due to liquidity pressures affecting the banking industry as a whole in the second half of 2008. Although deposit pricing competition began to ease late in the fourth quarter of 2008, its effects continued to be felt in the second quarter of 2009. At the same time, United intensified its focus on loan pricing to ensure that it was being adequately compensated for the credit risk it was taking. The combined effect of the easing of deposit pricing competition and widening credit spreads in United's loan portfolio led to the 32 basis point increase in the net interest margin from the second quarter of 2009 to the second quarter of 2010.

For the first six months of 2010, net interest revenue was \$123 million, an increase of \$4.6 million, or 4% from the first six months of 2009. Average earning assets decreased \$517 million, or 7%, during the first six months of 2010 compared the same

period a year earlier. The yield on earning assets decreased 42 basis points from 5.55% for the six months ended June 30, 2009, to 5.13% for the six months ended June 30, 2010, primarily as the result of lower interest rates on loans and investments, as well as the continued effects of interest reversals on nonperforming loans. The cost of interest-bearing liabilities over the same period decreased 88 basis points. This resulted in the net interest margin increasing 37 basis points from the six months ended June 30, 2009 to the six months ended June 30, 2010. Factors in the year over year increase were the same as those for the increase from the second quarter of 2009 to the second quarter of 2010.

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The following table shows the relationship between interest revenue and expense, and the average amounts of interest-earning assets and interest-bearing liabilities for the three months ended June 30, 2010 and 2009.

Table 2 – Average Consolidated Balance Sheets and Net Interest Analysis

For the Three Months Ended June 30,

<i>(dollars in thousands, taxable equivalent)</i>	2010			2009		
	Average Balance	Interest	Avg. Rate	Average Balance	Interest	Avg. Rate
Assets:						
Interest-earning assets:						
Loans, net of unearned income (1)(2)	\$5,010,937	\$70,640	5.65 %	\$5,597,259	\$81,567	5.85 %
Taxable securities (3)	1,503,162	15,534	4.13	1,742,620	20,176	4.63
Tax-exempt securities (1)(3)	28,920	482	6.67	28,862	506	7.01
Federal funds sold and other interest-earning assets	311,475	1,043	1.34	73,437	488	2.66
Total interest-earning assets	6,854,494	87,699	5.13	7,442,178	102,737	5.53
Non-interest-earning assets:						
Allowance for loan losses	(193,998)			(147,691)		
Cash and due from banks	100,931			101,830		
Premises and equipment	181,064			179,446		
Other assets (3)	761,803			636,377		
Total assets	\$7,704,294			\$8,212,140		
Liabilities and Shareholders' Equity:						
Interest-bearing liabilities:						
Interest-bearing deposits:						
NOW	\$1,325,099	\$1,745	.53	\$1,258,134	\$2,843	.91
Money market	746,039	1,829	.98	521,989	2,269	1.74
Savings	186,628	83	.18	178,435	121	.27
Time less than \$100,000	1,605,308	7,887	1.97	1,894,071	15,342	3.25
Time greater than \$100,000	1,110,010	6,102	2.20	1,325,757	11,513	3.48
Brokered	642,954	3,729	2.33	686,070	5,209	3.05
Total interest-bearing deposits	5,616,038	21,375	1.53	5,864,456	37,297	2.55
Federal funds purchased and other borrowings	104,637	1,056	4.05	220,376	595	1.08
Federal Home Loan Bank advances	107,948	974	3.62	309,962	1,203	1.56
Long-term debt	150,097	2,667	7.13	151,019	2,760	7.33
Total borrowed funds	362,682	4,697	5.19	681,357	4,558	2.68
Total interest-bearing liabilities	5,978,720	26,072	1.75	6,545,813	41,855	2.56
Non-interest-bearing liabilities:						
Non-interest-bearing deposits	758,558			680,081		
Other liabilities	54,931			107,036		
Total liabilities	6,792,209			7,332,930		
Shareholders' equity	912,085			879,210		
Total liabilities and shareholders' equity	\$7,704,294			\$8,212,140		
Net interest revenue		\$61,627			\$60,882	
Net interest-rate spread			3.38 %			2.97 %
Net interest margin (4)			3.60 %			3.28 %

- Interest revenue on tax-exempt securities and loans has been increased to reflect comparable interest on taxable securities and loans. The rate used was 39%, reflecting the statutory federal income tax rate and the federal tax adjusted state income tax rate.
- (1) and loans. The rate used was 39%, reflecting the statutory federal income tax rate and the federal tax adjusted state income tax rate.
 - (2) Included in the average balance of loans outstanding are loans where the accrual of interest has been discontinued.
 - (3) Securities available for sale are shown at amortized cost. Pretax unrealized gains of \$43.6 million in 2010 and \$14.7 million in 2009 are included in other assets for purposes of this presentation.
 - (4) Net interest margin is taxable equivalent net-interest revenue divided by average interest-earning assets.

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The following table shows the relationship between interest revenue and expense, and the average amounts of interest-earning assets and interest-bearing liabilities for the six months ended June 30, 2010 and 2009.

Table 3 – Average Consolidated Balance Sheets and Net Interest Analysis

For the Six Months Ended June 30,

<i>(dollars in thousands, taxable equivalent)</i>	2010			2009		
	Average Balance	Interest	Avg. Rate	Average Balance	Interest	Avg. Rate
Assets:						
Interest-earning assets:						
Loans, net of unearned income (1)(2)	\$5,091,445	\$142,859	5.66 %	\$5,635,942	\$163,316	5.84 %
Taxable securities (3)	1,495,447	31,426	4.20	1,712,778	40,609	4.74
Tax-exempt securities (1)(3)	29,482	991	6.72	29,453	1,028	6.98
Federal funds sold and other interest-earning assets	352,683	2,272	1.29	107,788	1,346	2.50
Total interest-earning assets	6,969,057	177,548	5.13	7,485,961	206,299	5.55
Non-interest-earning assets:						
Allowance for loan losses	(190,662)			(138,297)		
Cash and due from banks	102,728			103,113		
Premises and equipment	181,493			179,470		
Other assets (3)	762,014			661,520		
Total assets	\$7,824,630			\$8,291,767		
Liabilities and Shareholders' Equity:						
Interest-bearing liabilities:						
Interest-bearing deposits:						
NOW	\$1,343,297	\$3,599	.54	\$1,307,865	\$6,180	.95
Money market	734,817	3,586	.98	499,780	4,506	1.82
Savings	183,555	167	.18	175,587	248	.28
Time less than \$100,000	1,648,739	16,778	2.05	1,918,349	32,559	3.42
Time greater than \$100,000	1,132,767	12,872	2.29	1,359,286	24,338	3.61
Brokered	689,717	8,266	2.42	735,844	11,220	3.07
Total interest-bearing deposits	5,732,892	45,268	1.59	5,996,711	79,051	2.66
Federal funds purchased and other borrowings	103,355	2,094	4.09	185,639	1,148	1.25
Federal Home Loan Bank advances	111,150	1,951	3.54	257,742	2,277	1.78
Long-term debt	150,088	5,329	7.16	151,009	5,529	7.38
Total borrowed funds	364,593	9,374	5.18	594,390	8,954	3.04
Total interest-bearing liabilities	6,097,485	54,642	1.81	6,591,101	88,005	2.69
Non-interest-bearing liabilities:						
Non-interest-bearing deposits	738,876			665,170		
Other liabilities	59,605			112,382		
Total liabilities	6,895,966			7,368,653		
Shareholders' equity	928,664			923,114		
Total liabilities and shareholders' equity	\$7,824,630			\$8,291,767		
Net interest revenue		\$122,906			\$118,294	
Net interest-rate spread			3.32 %			2.86 %
Net interest margin (4)			3.55 %			3.18 %

- Interest revenue on tax-exempt securities and loans has been increased to reflect comparable interest on taxable securities and loans. The rate used was 39%, reflecting the statutory federal income tax rate and the federal tax adjusted state income tax rate.
- (1) and loans. The rate used was 39%, reflecting the statutory federal income tax rate and the federal tax adjusted state income tax rate.
 - (2) Included in the average balance of loans outstanding are loans where the accrual of interest has been discontinued.
 - (3) Securities available for sale are shown at amortized cost. Pretax unrealized gains of \$43.4 million in 2010 and \$12.7 million in 2009 are included in other assets for purposes of this presentation.
 - (4) Net interest margin is taxable equivalent net-interest revenue divided by average interest-earning assets.

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The following table shows the relative effect on net interest revenue for changes in the average outstanding amounts (volume) of interest-earning assets and interest-bearing liabilities and the rates earned and paid on such assets and liabilities (rate). Variances resulting from a combination of changes in rate and volume are allocated in proportion to the absolute dollar amounts of the change in each category.

Table 4 – Change in Interest Revenue and Expense on a Taxable Equivalent Basis

(in thousands)

	Three Months Ended June 30, 2010 Compared to 2009 Increase (decrease) Due to Changes in			Six Months Ended June 30, 2010 Compared to 2009 Increase (decrease) Due to Changes in		
	Volume	Rate	Total	Volume	Rate	Total
Interest-earning assets:						
Loans	\$(8,332)	\$(2,595)	\$(10,927)	\$(15,401)	\$(5,056)	\$(20,457)
Taxable securities	(2,605)	(2,037)	(4,642)	(4,844)	(4,339)	(9,183)
Tax-exempt securities	1	(25)	(24)	3	(40)	(37)
Federal funds sold and other interest-earning assets	901	(346)	555	2,912	(1,986)	926
Total interest-earning assets	(10,035)	(5,003)	(15,038)	(17,330)	(11,421)	(28,751)
Interest-bearing liabilities:						
NOW accounts	144	(1,242)	(1,098)	163	(2,744)	(2,581)
Money market accounts	763	(1,203)	(440)	1,627	(2,547)	(920)
Savings deposits	6	(44)	(38)	11	(92)	(81)
Time deposits less than \$100,000	(2,082)	(5,373)	(7,455)	(4,100)	(11,681)	(15,781)
Time deposits greater than \$100,000	(1,663)	(3,748)	(5,411)	(3,592)	(7,874)	(11,466)
Brokered deposits	(311)	(1,169)	(1,480)	(669)	(2,285)	(2,954)
Total interest-bearing deposits	(3,143)	(12,779)	(15,922)	(6,560)	(27,223)	(33,783)
Federal funds purchased & other borrowings	(450)	911	461	(698)	1,644	946
Federal Home Loan Bank advances	(1,127)	898	(229)	(1,762)	1,436	(326)
Long-term debt	(17)	(76)	(93)	(34)	(166)	(200)
Total borrowed funds	(1,594)	1,733	139	(2,494)	2,914	420
Total interest-bearing liabilities	(4,737)	(11,046)	(15,783)	(9,054)	(24,309)	(33,363)
Increase in net interest revenue	\$(5,298)	\$6,043	\$745	\$(8,276)	\$12,888	\$4,612

Provision for Loan Losses

The provision for loan losses is based on management's evaluation of losses inherent in the loan portfolio and corresponding analysis of the allowance for loan losses at quarter-end. The provision for loan losses was \$61.5 million and \$136.5 million for the second quarter and the first six months of 2010, respectively, compared with \$60.0 million and \$125 million, respectively, for the same periods in 2009. The amount of provision recorded in the second quarter was the amount required such that the total allowance for loan losses reflects, in the estimation of management, the amount of inherent losses in the loan portfolio. The increases in the provision and the allowance for loan losses compared to a year ago were due to continued elevated levels of substandard loans and increased charge-offs, deterioration in the collateral values leading to an expectation of higher charge-offs upon default, further weakening of the residential construction and housing markets, and the recessionary economic environment. For the three and six months ended June 30, 2010, net loan charge-offs as an annualized percentage of average outstanding loans were 4.98% and 4.75%, respectively, compared to 4.18% and 3.64%, respectively, for the same periods in 2009.

As the residential construction and housing markets have struggled, it has been difficult for many builders and developers to obtain cash flow from selling lots and houses needed to service debt. This deterioration of the residential construction and housing market was the primary factor that resulted in higher credit losses and increases in non-performing assets over the last two years. Although a majority of the losses have been within the residential construction and development portion of the portfolio, credit quality

deterioration has migrated to other loan categories as unemployment levels have remained high throughout United' s markets. Additional discussion on credit quality and the allowance for loan losses is included in the Asset Quality and Risk Elements section of this report on page 38.

Fee Revenue

Fee revenue for the three and six months ended June 30, 2010 was \$11.6 million and \$23.2 million, respectively. Fee revenue for the three and six months ended June 30, 2009 was \$22.7 million and \$34.5 million, respectively. In 2009, fee revenue included an \$11.4 million gain on the acquisition of SCB in the second quarter. Excluding the gain on acquisition in 2009, operating fee revenue increased \$274,000, or 2%, and \$117,000, or 1%, respectively, from the second quarter and first six months of 2009.

The following table presents the components of fee revenue for the second quarters of 2010 and 2009, and the first six months of 2010 and 2009.

Table 5 – Fee Revenue*(dollars in thousands)*

	Three Months Ended June 30,			Six Months Ended June 30,		
	2010	2009	Change	2010	2009	Change
Service charges and fees	\$7,993	\$7,557	6 %	\$15,440	\$14,591	6 %
Mortgage loan and related fees	1,601	2,825	(43)	3,080	5,476	(44)
Brokerage fees	586	497	18	1,153	1,186	(3)
Securities (losses) gains, net	–	(711)		61	(408)	
Other	1,399	1,137	23	3,511	2,283	54
Operating fee revenue	11,579	11,305	2	23,245	23,128	1
Gain from acquisition	–	11,390		–	11,390	
Total fee revenue	<u>\$11,579</u>	<u>\$22,695</u>	(49)	<u>\$23,245</u>	<u>\$34,518</u>	(33)

Service charges and fees of \$8.0 million were up \$436,000, or 6%, from the second quarter of 2009. For the first six months of 2010, service charges and fees of \$15.4 million were up \$849,000, or 6%, from the same period in 2009. This increase was primarily due to an increase in new accounts and ATM and debit card usage fees.

Mortgage loans and related fees for the second quarter and first six months of 2010, were down \$1.2 million, or 43%, and \$2.4 million, or 44%, respectively, from the same periods in 2009. In 2009, refinancing activity reached record levels due to historically low mortgage interest rates. In the second quarter of 2010, United closed 475 loans totaling \$70 million compared with 1,008 loans totaling \$168 million in the second quarter of 2009. Year-to-date mortgage production in 2010 amounted to 887 loans totaling \$135 million, compared to 2,004 loans totaling \$342 million for the same period in 2009.

United incurred net securities gains of \$61,000 for the six months ended June 30, 2010, which included \$950,000 in impairment charges on trust preferred securities of a bank whose financial condition had deteriorated. The impairment charge was more than offset by gains from securities sales. The securities losses of \$711,000 and \$408,000, respectively, for the second quarter and first six months of 2009 include a charge of \$743,000 for the impairment of an equity investment in a financial institution that failed during the second quarter of 2009.

The gain from acquisition recorded in the second quarter of 2009 resulted from the SCB acquisition which was accounted for as a bargain purchase. In this bargain purchase, the fair values of the net assets and liabilities received from the acquisition exceeded the purchase price of those assets and liabilities. With the SCB acquisition, United received assets, including a cash payment from the FDIC, with an estimated fair value of \$378 million and liabilities with an estimated fair value of \$367 million. The difference between the assets received and liabilities assumed of \$11.4 million resulted in a gain from the acquisition.

For the three and six months ended June 30, 2010, other fee revenue increased \$262,000, or 23%, and \$1.2 million, or 54%, respectively, from the same periods in 2009. This increase is partially due to the ineffectiveness of United's cash flow and fair value hedges. In the second quarter of 2010, United recognized \$239,000 in income from hedge ineffectiveness compared with \$36,000 in losses in the second quarter of 2009. For the first six months of 2010, United recognized \$849,000 in income from hedge ineffectiveness compared with \$172,000 for the same period of 2009. Bank owned life insurance ("BOLI") earnings also contributed to the year-to-date increase in other fee revenue. In the second half of 2008 and through the first quarter of 2009, United's BOLI assets were held in money market funds that yielded nominal earnings on the cash surrender value due to a dispute with the carrier that was settled in the second quarter of 2009.

Operating Expenses

The following table presents the components of operating expenses for the three and six months ended June 30, 2010 and 2009. The table is presented to reflect Brintech as a discontinued operation, and accordingly, operating expenses associated with Brintech have been excluded from the table for all periods presented.

Table 6 – Operating Expenses
(dollars in thousands)

	Three Months Ended June 30,			Six Months Ended June 30,		
	2010	2009	Change	2010	2009	Change
Salaries and employee benefits	\$23,590	\$26,305	(10)%	\$47,950	\$53,618	(11)%
Communications and equipment	3,511	3,571	(2)	6,784	7,217	(6)
Occupancy	3,836	3,818	–	7,650	7,587	1
Advertising and public relations	1,352	1,125	20	2,395	2,169	10
Postage, printing and supplies	765	1,288	(41)	1,990	2,463	(19)
Professional fees	2,178	3,195	(32)	4,121	6,476	(36)
Foreclosed property	14,540	5,737	153	25,353	10,056	152
FDIC assessments and other regulatory charges	3,566	6,810	(48)	7,192	9,492	(24)
Amortization of intangibles	794	739	7	1,596	1,478	8
Other	4,176	1,122	272	8,097	4,942	64
	<u>58,308</u>	<u>53,710</u>	9	<u>113,128</u>	<u>105,498</u>	7
Loss on sale of nonperforming assets	45,349	–		45,349	–	
Operating expenses, excluding non-recurring items	103,657	53,710	93	158,477	105,498	50
Goodwill impairment	–	–		–	70,000	
Severance costs	–	–		–	2,898	
Total operating expenses	<u>\$103,657</u>	<u>\$53,710</u>	93	<u>\$158,477</u>	<u>\$178,396</u>	(11)

Operating expenses before the loss on sale of nonperforming assets and non-recurring items for the second quarter of 2010 were \$58.3 million, up \$4.6 million, or 9%, from the second quarter of 2009. The \$45.3 million loss on the sale of nonperforming assets to Fletcher is primarily responsible for the increase in operating expenses excluding non-recurring items. Although the loss from the bulk sale of nonperforming assets resulted from an isolated event, because disposition of nonperforming assets is considered an operating activity, it is not excluded from operating expenses as a non-recurring item but has been separated to make trend comparisons more meaningful. For the six months ended June 30, 2010, total operating expenses before the loss on sale of nonperforming assets and non-recurring items were \$113 million, compared to \$105 million for the same period in 2009, which excluded a \$70 million charge for goodwill impairment and \$2.9 million in severance costs relating to a reduction in force. Including the loss on sale of nonperforming assets and those non-recurring charges, operating expenses for the second quarter of 2010 and 2009 were \$104 million and \$53.7 million, respectively, and for the first six months of 2010 and 2009 were \$158 million and \$178 million, respectively.

Salaries and employee benefits for the second quarter 2010 totaled \$23.6 million, down \$2.7 million, or 10%, from the same period of 2009. For the first six months of 2010, salaries and employee benefits of \$48.0 million were down \$5.7 million, or 11%, from the first six months of 2009. The decrease is related to the reduction in force at the end of the first quarter of 2009. Headcount totaled 1,821 at June 30, 2010, down from 1,956 at December 31, 2008, reflecting the reduction in force initiated at the end of the first quarter of 2009. This reduction in workforce was partially offset by the addition of 39 employees resulting from the acquisition of SCB in the second quarter of 2009.

Communications and equipment expense of \$3.5 million and \$6.8 million, respectively, for the three and six months ended June 30, 2010, was down \$60,000, or 2% and \$433,000 or 6%, respectively, compared to the same periods in 2009. The decrease was primarily due to a reduction in depreciation and maintenance charges.

Advertising and public relations expense of \$1.4 million and \$2.4 million, respectively, for the three and six months ended June 30, 2010, was up \$227,000, or 20%, and \$226,000, or 10%, respectively, compared to the same periods in 2009. The increase was primarily related to advertising campaigns and promotions aimed at increasing core transaction deposits through United's

“Strong Bank, Strong Service” marketing initiative which has been very successful in adding \$224 million in core transaction deposits in the past twelve months.

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Postage, printing and supplies expense for the second quarter of 2010 totaled \$765,000, down \$523,000, or 41%, from the same period of 2009. For the first six months of 2010, postage, printing and supplies expense of \$2.0 million was down \$473,000, or 19%, from the first six months of 2009. United continued its efforts to encourage customers to accept electronic statements and controlled courier expense through the use of remote capture technology.

Professional fees for the second quarter of 2010 of \$2.2 million were down \$1.0 million, or 32%, from the same period in 2009. Year-to-date professional fees of \$4.1 million were down \$2.4 million, or 36%, over the same period in 2009. During the first quarter of 2009, United was engaged in a project to improve operational efficiency and to reduce operating expenses. Consulting services related to that project were performed by Brintech, a wholly-owned subsidiary at the time. Since the table above is presented with Brintech as a discontinued operation, the fees charged by Brintech for those services are no longer eliminated in this table and the Consolidated Statement of Income, and are therefore reflected in the balance of professional fees for the second quarter and first six months of 2009. Lower legal fees in 2010 for credit-related work also contributed to the decrease in professional fees.

Foreclosed property expense of \$14.5 million for the second quarter of 2010 was up \$8.8 million from the second quarter of 2009. For the six months ended June 30, 2010, foreclosed property expense totaled \$25.4 million, compared to \$10.1 million for the same period in 2009. Foreclosed property expenses have remained elevated throughout the weak economic cycle. This expense category includes legal fees, property taxes, marketing costs, utility services, maintenance and repair charges, as well as realized losses and write downs associated with foreclosed properties. Realized losses and write downs totaled \$11.2 million and \$19.3 million for the three and six months ended June 30, 2010, respectively, compared to \$2.6 million and \$4.2 million for the same period of 2009.

FDIC assessments and other regulatory charges of \$3.6 million, and \$7.2 million, respectively, for the second quarter and first six months of 2010, decreased \$3.3 million and \$2.3 million, respectively, from the second quarter and first six months of 2009. The decrease was attributable to the one-time special assessment from the FDIC charged to all depository institutions in 2009.

Other expense of \$4.2 million for the second quarter of 2010 increased \$3.1 million from the second quarter of 2009. Year-to-date, other expenses of \$8.1 million increased \$3.2 million from the first six months of 2009. The increase was the result of an accrual reversal in the second quarter of 2009 for \$2.4 million related to a disputed charge from the transfer of BOLI investments. The disputed charge was settled in United's favor during the second quarter of 2009, and reduced other expenses for the period.

Income Taxes

Income tax benefit for the second quarter 2010 was \$32.9 million as compared with income tax benefit of \$14.5 million for the second quarter of 2009, representing an effective tax rate of 35.6% and 47.5%, respectively. For the first six months of 2010, income tax benefit was \$55.8 million as compared with income tax benefit of \$31.5 million for the same period in 2009, representing an effective tax rate of 37.3% and 20.8%, respectively. The effective tax rates were different from the statutory tax rates primarily due to interest revenue on certain investment securities and loans that are exempt from income taxes, tax exempt fee revenue, tax credits received on affordable housing investments, goodwill impairment charges and the change in valuation allowance on deferred tax assets as discussed below.

The effective tax rate for the second quarter and first six months of 2010 reflects the tax treatment of the loss on the sale of nonperforming assets to Fletcher and an increase in the valuation allowance on deferred tax assets related to state tax credits with short carryforward periods that are expected to expire unused. An effective tax rate of 40% is expected for the remainder of the year.

The effective tax rate for the second quarter of 2009 reflects a decision by management to reinstate certain BOLI policies which United had surrendered in the third quarter of 2008. United notified the carrier of its intent to surrender the policies in the fourth quarter of 2008 due to a dispute with the carrier. The policies required a six month waiting period before the surrender became effective. Prior to the expiration of the six month waiting period, United and the carrier were able to reach an acceptable settlement of the dispute and the surrender transaction was terminated. The tax charge recorded in 2008 was reversed during the second quarter of 2009. The effective tax rate for the second quarter of 2009, absent the BOLI credit, would have been 38%.

The effective tax rate for the first six months of 2009 also reflects the tax treatment of the \$70 million goodwill impairment charge. Since the majority of United's goodwill originated from acquisitions that were treated as tax-free exchanges, no goodwill was recognized for tax reporting purposes and therefore no tax deduction is allowed for the impairment charge. Likewise, no tax benefit is recognized in the financial statements relating to the \$70 million charge. The year-to-date 2009 effective tax rate also reflects a valuation allowance established for deferred tax assets.

Management determined that it is more likely than not that approximately \$5.2 million at June 30, 2010 and \$2.3 million at June 30, 2009, net of Federal benefit, in state low income housing tax credits will expire unused due to their very short three to five year carry forward period. There were no unusual tax items in the second quarter or six months ended June 30, 2010, and the effective tax rate of 40% is the expected effective tax rate for the remainder of the year.

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At June 30, 2010, United had net deferred tax assets of \$127 million, including a valuation allowance of \$5.2 million related to state tax credits that are expected to expire unused. Accounting Standards Codification Topic 740, *Income Taxes*, requires that companies assess whether a valuation allowance should be established against their deferred tax assets based on the consideration of all available evidence using a “more likely than not” standard. United’s management considers both positive and negative evidence and analyzes changes in near-term market conditions as well as other factors which may impact future operating results. In making such judgments, significant weight is given to evidence that can be objectively verified. At June 30, 2010, United’s management believes that it is more likely than not that, with the exception of those state tax credits that are expected to expire unused due to a relatively short carryforward period of only three to five years, it will be able to realize its deferred tax benefits through its ability to carry losses forward to future profitable years. Despite recent losses and the challenging economic environment, United has a history of strong earnings, is well-capitalized, continues to grow its core customer deposit base while maintaining very high customer satisfaction scores, and has cautiously optimistic expectations regarding future taxable income. The deferred tax assets are analyzed quarterly for changes affecting realizability, and there can be no guarantee that a valuation allowance will not be necessary in future periods.

Additional information regarding income taxes can be found in Note 14 to the consolidated financial statements filed with United’s 2009 Form 10-K.

Balance Sheet Review

Total assets at June 30, 2010 and 2009 were \$7.7 billion and \$8.5 billion, respectively. Average total assets for the second quarter of 2010 were \$7.7 billion, down from \$8.2 billion in the second quarter of 2009.

Loans

The following table presents a summary of the loan portfolio.

Table 7 – Loans Outstanding (excludes loans covered by loss share agreement)
(dollars in thousands)

	June 30, 2010	December 31, 2009	June 30, 2009
By Loan Type			
Commercial (secured by real estate)	\$1,780,142	\$1,779,398	\$1,796,560
Commercial construction	342,140	362,566	378,779
Commercial (commercial and industrial)	441,097	390,520	399,564
Total commercial	<u>2,563,379</u>	<u>2,532,484</u>	<u>2,574,903</u>
Residential construction	819,930	1,050,065	1,315,353
Residential mortgage	1,355,582	1,427,198	1,469,754
Installment	134,139	141,729	153,077
Total loans	<u>\$4,873,030</u>	<u>\$5,151,476</u>	<u>\$5,513,087</u>

As a percentage of total loans:

Commercial (secured by real estate)	36	%	34	%	32	%
Commercial construction	7		7		7	
Commercial (commercial and industrial)	9		8		7	
Total commercial	<u>52</u>		<u>49</u>		<u>46</u>	
Residential construction	17		20		24	
Residential mortgage	28		28		27	
Installment	3		3		3	
Total	<u>100</u>	<u>%</u>	<u>100</u>	<u>%</u>	<u>100</u>	<u>%</u>

By Geographic Location

Atlanta MSA	\$1,373,631	\$1,435,223	\$1,604,501
Gainesville MSA	343,351	389,766	413,065
North Georgia	1,807,704	1,883,880	1,977,991
Western North Carolina	737,639	771,709	794,251
Coastal Georgia	355,719	405,689	455,143
East Tennessee	<u>254,986</u>	<u>265,209</u>	<u>268,136</u>

Total loans

\$4,873,030

\$5,151,476

\$5,513,087

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Substantially all of United's loans are to customers located in the immediate market areas of its community banks in Georgia, North Carolina, and Tennessee. At June 30, 2010, total loans, excluding loans acquired from SCB that are covered by loss sharing agreements with the FDIC, were \$4.9 billion, a decrease of \$640 million, or 12%, from June 30, 2009. The rate of loan growth began to decline in the first quarter of 2007 and the balances have continued to decline through 2008, 2009 and into 2010. The decrease in the loan portfolio began with deterioration in the residential construction and housing markets. This deterioration resulted in part in an oversupply of lot inventory, houses and land within United's markets, which further slowed construction activities and acquisition and development projects. To date, the decline in the housing market has been most severe in the Atlanta, Georgia MSA although there has been migration of deterioration into United's other markets, particularly north Georgia. The resulting recession that began in the housing market led to high rates of unemployment that resulted in stress in the other segments of United's loan portfolio.

Asset Quality and Risk Elements

United manages asset quality and controls credit risk through review and oversight of the loan portfolio as well as adherence to policies designed to promote sound underwriting and loan monitoring practices. United's credit administration function is responsible for monitoring asset quality, establishing credit policies and procedures and enforcing the consistent application of these policies and procedures among all of the community banks. Additional information on the credit administration function is included in Item 1 under the heading *Loan Review and Non-performing Assets* in United's Annual Report on Form 10-K.

United classifies performing loans as substandard loans when there is a well-defined weakness or weaknesses that jeopardize the repayment by the borrower and there is a distinct possibility that United could sustain some loss if the deficiency is not corrected. The table below presents performing substandard loans for the last five quarters.

Table 8 – Performing Substandard Loans

(dollars in thousands)

	<u>June 30, 2010</u>	<u>March 31, 2010</u>	<u>December 31, 2009</u>	<u>September 30, 2009</u>	<u>June 30, 2009</u>
Commercial (sec. by RE)	\$140,805	\$151,573	\$123,738	\$93,454	\$69,657
Commercial construction	78,436	75,304	51,696	50,888	36,316
Commercial & industrial	22,052	35,474	33,976	34,491	11,814
Total commercial	241,293	262,351	209,410	178,833	117,787
Residential construction	149,305	153,799	196,909	207,711	148,094
Residential mortgage	79,484	80,812	79,579	83,504	71,959
Installment	4,364	3,922	3,554	3,199	3,466
Total	<u>\$474,446</u>	<u>\$500,884</u>	<u>\$489,452</u>	<u>\$473,247</u>	<u>\$341,306</u>

At June 30, 2010, performing substandard loans totaled \$474 million and decreased \$26.4 million from the prior quarter-end, and increased \$133 million from a year ago. Residential construction loans, particularly in Atlanta, have represented the largest proportion of both performing substandard and nonperforming loans. However, the balance of performing substandard residential construction loans has been declining since the third quarter of 2009, as problems in that portfolio segment are being resolved. The year-over-year increase in substandard residential mortgages is primarily related to rising unemployment rates. The year-over-year increase in substandard commercial loans reflects the recessionary economic environment. The amount of downgrades to the substandard category declined in the second quarter of 2010 leading to a decrease in performing substandard loans from March 31, 2010.

United classifies loans as non-accrual substandard loans (or "non-performing loans") when the principal and interest on a loan is not likely to be repaid in accordance with the loan terms or when the loan becomes 90 days past due and is not well secured and in the process of collection. When a loan is classified on non-accrual status, interest previously accrued but not collected is reversed against current interest revenue. Payments received on a non-accrual loan are applied to reduce outstanding principal.

Reviews of substandard performing and non-performing loans, past due loans and larger credits, are conducted on a regular basis with management during the quarter and are designed to identify risk migration and potential charges to the allowance for loan losses. These reviews are performed by the responsible lending officers and the loan review department and also consider such factors as the financial strength of borrowers, the value of the applicable collateral, past loan loss experience, anticipated loan losses, changes in risk profile, prevailing economic conditions and other factors. United also uses external loan review in addition to United's internal loan review and to ensure the independence of the loan review process.

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The following table presents a summary of the changes in the allowance for loan losses for the three and six months ended June 30, 2010 and 2009.

Table 9 – Allowance for Loan Losses

(in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Balance beginning of period	\$173,934	\$143,990	\$155,602	\$122,271
Provision for loan losses	61,500	60,000	136,500	125,000
Charge-offs:				
Commercial (secured by real estate)	9,791	5,989	12,727	6,854
Commercial construction	1,460	757	3,671	811
Commercial (commercial and industrial)	1,764	4,977	6,318	6,185
Residential construction	41,781	44,645	85,971	82,612
Residential mortgage	6,752	3,589	11,392	6,700
Installment	1,417	981	2,546	1,907
Total loans charged-off	62,965	60,938	122,625	105,069
Recoveries:				
Commercial (secured by real estate)	34	3	1,006	42
Commercial construction	–	1	5	1
Commercial (commercial and industrial)	897	1,870	1,341	2,205
Residential construction	266	405	1,356	610
Residential mortgage	235	64	324	191
Installment	210	283	602	427
Total recoveries	1,642	2,626	4,634	3,476
Net charge-offs	61,323	58,312	117,991	101,593
Balance end of period	\$174,111	\$145,678	\$174,111	\$145,678
Total loans: *				
At period-end	\$4,873,030	\$5,513,087	\$4,873,030	\$5,513,087
Average	4,934,224	5,583,962	5,012,415	5,629,256
Allowance as a percentage of period-end loans	3.57	% 2.64	% 3.57	% 2.64
As a percentage of average loans:				
Net charge-offs	4.98	4.18	4.75	3.64
Provision for loan losses	5.00	4.31	5.49	4.48
Allowance as a percentage of non-performing loans **	78	51	78	51

* Excludes loans covered by loss sharing agreements with the FDIC

** Excluding impaired loans with no allocated reserve, the coverage ratio was 234% and 82% at June 30, 2010 and 2009.

The provision for loan losses charged to earnings was based upon management's judgment of the amount necessary to maintain the allowance at a level appropriate to absorb losses inherent in the loan portfolio at the balance sheet date. The amount each quarter is dependent upon many factors, including growth and changes in the composition of the loan portfolio, net charge-offs, delinquencies, management's assessment of loan portfolio quality, the value of collateral, and other macro-economic factors and trends. The evaluation of these factors is performed quarterly by management through an analysis of the appropriateness of the allowance for loan losses. The increases in the provision and the allowance for loan losses compared to a year ago were due to increasing trends in substandard loans, deterioration in the collateral values leading to an expectation of higher charge-offs upon default, further weakening of the residential construction and housing markets, and the recessionary economic environment.

Management believes that the allowance for loan losses at June 30, 2010 reflects the losses inherent in the loan portfolio. This assessment involves uncertainty and judgment; therefore, the adequacy of the allowance for loan losses cannot be determined with precision and may be subject to change in future periods. In addition, bank regulatory authorities, as part of their periodic examination of the Bank, may require adjustments to the provision for loan losses in future periods if, in their opinion, the results of their review warrant such additions. See the "Critical Accounting Policies" section in United's Annual Report on Form 10-K for additional information on the allowance for loan losses.

Non-performing Assets

The table below summarizes non-performing assets, excluding SCB's assets covered by the loss-sharing agreement with the FDIC. Those assets have been excluded from non-performing assets, as the loss-sharing agreement with the FDIC and purchase price adjustments to reflect credit losses effectively eliminate the likelihood of recognizing any losses on the covered assets.

Table 10 – Non-Performing Assets
(dollars in thousands)

	June 30, 2010		December 31, 2009		June 30, 2009
Non-performing loans*	\$224,335		\$264,092		\$287,848
Foreclosed properties (OREO)	123,910		120,770		104,754
Total non-performing assets	\$348,245		\$384,862		\$392,602
Non-performing loans as a percentage of total loans	4.60	%	5.13	%	5.22
Non-performing assets as a percentage of total loans and OREO	6.97		7.30		6.99
Non-performing assets as a percentage of total assets	4.55		4.81		4.63

* There were no loans 90 days or more past due that were still accruing at period end.

At June 30, 2010, non-performing loans were \$224 million, compared to \$264 million at December 31, 2009 and \$289 million at June 30, 2009. The ratio of non-performing loans to total loans decreased from December 31, 2009 and June 30, 2009 due to the sale of approximately \$70 million nonperforming loans to Fletcher. Non-performing assets, which include non-performing loans and foreclosed real estate, totaled \$348 million at June 30, 2009, compared with \$385 million at December 31, 2009 and \$393 million at June 30, 2009. The sale of approximately \$68 million of foreclosed properties in the second quarter of 2010, including \$33 million to Fletcher, was offset by the addition of approximately \$67 million of new foreclosed properties. United's position throughout the recession has been to actively and aggressively work to dispose of problem assets quickly.

The following table summarizes non-performing assets by category and market. As with Tables 7, 8 and 10, assets covered by the loss-sharing agreement with the FDIC, related to the acquisition of SCB, are excluded from this table.

Table 11 – Nonperforming Assets by Quarter
(in thousands)

	June 30, 2010 (1)			December 31, 2009 (1)			June 30, 2009 (1)		
	Nonaccrual Loans	Foreclosed Properties	Total NPAs	Nonaccrual Loans	Foreclosed Properties	Total NPAs	Nonaccrual Loans	Foreclosed Properties	Total NPAs
BY CATEGORY									
Commercial (sec. by RE)	\$ 56,013	\$ 13,297	\$69,310	\$ 37,040	\$ 15,842	\$52,882	\$ 37,755	\$ 5,395	\$43,150
Commercial construction	17,872	11,339	29,211	19,976	9,761	29,737	15,717	5,847	21,564
Commercial & industrial	7,245	-	7,245	3,946	-	3,946	11,378	-	11,378
Total commercial	81,130	24,636	105,766	60,962	25,603	86,565	64,850	11,242	76,092
Residential construction	88,375	74,444	162,819	142,332	76,519	218,851	176,400	81,648	258,048
Residential mortgage	53,175	24,830	78,005	58,767	18,648	77,415	44,256	11,864	56,120
Consumer / installment	1,655	-	1,655	2,031	-	2,031	2,342	-	2,342
Total NPAs	\$ 224,335	\$ 123,910	\$348,245	\$ 264,092	\$ 120,770	\$384,862	\$ 287,848	\$ 104,754	\$392,602
BY MARKET									
Atlanta MSA	\$ 74,031	\$ 30,605	\$104,636	\$ 106,536	\$ 41,125	\$147,661	\$ 148,155	\$ 50,450	\$198,605
Gainesville MSA	10,730	2,750	13,480	5,074	2,614	7,688	9,745	3,511	13,256
North Georgia	102,198	60,597	162,795	87,598	53,072	140,670	72,174	37,454	109,628
Western North Carolina	22,776	11,473	34,249	29,610	5,096	34,706	21,814	7,245	29,059
Coastal Georgia	8,341	16,548	24,889	26,871	17,150	44,021	30,311	3,904	34,215
East Tennessee	6,259	1,937	8,196	8,403	1,713	10,116	5,649	2,190	7,839
Total NPAs	\$ 224,335	\$ 123,910	\$348,245	\$ 264,092	\$ 120,770	\$384,862	\$ 287,848	\$ 104,754	\$392,602

- (1) Excludes non-performing loans and foreclosed properties covered by the loss-sharing agreement with the FDIC, related to the acquisition of SCB.

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Non-performing assets in the residential construction category were \$163 million at June 30, 2010, compared with \$258 million at June 30, 2009, a decrease of \$95.2 million, or 37%. While residential construction non-performing assets have begun to decrease, other categories of non-performing assets have experienced significant increases. Commercial non-performing assets of \$106 million at June 30, 2010 increased \$29.7 million over the prior year and residential mortgage non-performing assets of \$78.0 million increased \$21.9 million from June 30, 2009. As described previously, the majority of the increase in non-performing assets had been in the Atlanta, Georgia MSA, however Atlanta non-performing assets have been declining, down \$94.0 million from June 30, 2009. At the same time, credit problems have migrated beyond Atlanta and are having a greater impact in United' s other markets. United' s north Georgia and western North Carolina markets have seen significant increases. Non-performing assets in the north Georgia market at June 30, 2010 were \$163 million, compared to \$110 million at the end of the second quarter of 2009. United' s western North Carolina market' s non-performing assets increased \$5.2 million from June 30, 2009.

At June 30, 2010 and December 31, 2009, United had \$77.9 million and \$60.4 million, respectively, in loans with terms that have been modified in a troubled debt restructuring (“TDR”). Included therein were \$11.0 million and \$7.0 million of TDRs that were not performing in accordance with their modified terms and were included in non-performing loans. The remaining TDRs with an aggregate balance of \$66.9 million and \$53.4 million, respectively, were performing according to their modified terms and are therefore not considered to be non-performing assets. There were no TDRs reported as of June 30, 2009.

At June 30, 2010, December 31, 2009, and June 30, 2009, there were \$163 million, \$198 million and \$224 million, respectively, of loans classified as impaired. Included in impaired loans at June 30, 2010, December 31, 2009 and June 30, 2009, was \$150 million, \$182 million and \$110 million, respectively, that did not require specific reserves or had previously been charged down to net realizable value. The remaining balance of impaired loans at June 30, 2010, December 31, 2009 and June 30, 2009, of \$12.5 million, \$16.1 million and \$113 million, respectively had specific reserves that totaled \$1.1 million, \$3.0 million and \$24.9 million. The average recorded investment in impaired loans for the quarters ended June 30, 2010 and 2009 was \$171 million and \$248 million, respectively. There was no interest revenue recognized on loans while they were impaired for the first six months of 2010 or 2009.

The table below summarizes activity in non-performing assets by quarter. Assets covered by the loss sharing agreement with the FDIC, related to the acquisition of SCB, are not included in this table.

Table 12 – Activity in Nonperforming Assets by Quarter
(in thousands)

	Second Quarter 2010 ⁽¹⁾			Second Quarter 2009 ⁽¹⁾		
	Nonaccrual Loans	Foreclosed Properties	Total NPAs	Nonaccrual Loans	Foreclosed Properties	Total NPAs
Beginning Balance	\$ 280,802	\$ 136,275	\$ 417,077	\$ 259,155	\$ 75,383	\$ 334,538
Loans placed on non-accrual	155,007	–	155,007	169,351	–	169,351
Payments received	(12,189)	–	(12,189)	(15,597)	–	(15,597)
Loan charge-offs	(62,693)	–	(62,693)	(60,644)	–	(60,644)
Foreclosures	(66,994)	66,994	–	(64,417)	64,417	–
Capitalized costs	–	305	305	–	1,324	1,324
Note / property sales	(69,598)	(68,472)	(138,070)	–	(33,752)	(33,752)
Write downs	–	(6,094)	(6,094)	–	(2,738)	(2,738)
Net gains (losses) on sales	–	(5,098)	(5,098)	–	120	120
Ending Balance	<u>\$ 224,335</u>	<u>\$ 123,910</u>	<u>\$ 348,245</u>	<u>\$ 287,848</u>	<u>\$ 104,754</u>	<u>\$ 392,602</u>
	First Six Months 2010 ⁽¹⁾			First Six Months 2009 ⁽¹⁾		
	Nonaccrual Loans	Foreclosed Properties	Total NPAs	Nonaccrual Loans	Foreclosed Properties	Total NPAs
Beginning Balance	\$ 264,092	\$ 120,770	\$ 384,862	\$ 190,723	\$ 59,768	\$ 250,491
Loans placed on non-accrual	294,037	–	294,037	345,110	–	345,110
Payments received	(17,922)	–	(17,922)	(40,375)	–	(40,375)
Loan charge-offs	(121,590)	–	(121,590)	(104,451)	–	(104,451)
Foreclosures	(116,227)	116,227	–	(103,159)	103,159	–
Capitalized costs	–	625	625	–	2,776	2,776
Note / property sales	(78,055)	(94,423)	(172,478)	–	(56,751)	(56,751)

Write downs	-	(10,673)	(10,673)	-	(4,889)	(4,889)
Net gains (losses) on sales	-	(8,616)	(8,616)	-	691	691
Ending Balance	<u>\$224,335</u>	<u>\$123,910</u>	<u>\$348,245</u>	<u>\$287,848</u>	<u>\$104,754</u>	<u>\$392,602</u>

- (1) Excludes non-performing loans and foreclosed properties covered by the loss-sharing agreement with the FDIC, related to the acquisition of SCB.

Foreclosed property is initially recorded at fair value, less cost to sell. If the fair value, less 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 estimated costs to sell, of the foreclosed property decreases during the holding period, a valuation allowance is established with a charge to foreclosed property costs. 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 OREO are accounted for in accordance with Accounting Standards Codification, Topic 360, Subtopic 20, *Real Estate Sales*. For the second quarter and first six months of 2010, United transferred foreclosures into OREO of \$67.0 and \$116 million, respectively. During the same periods, proceeds from sales of OREO were \$68.5 million and \$94.4 million, respectively. During the second quarter of 2010, United sold approximately \$33 million in foreclosed properties to Fletcher.

Investment Securities

The composition of the investment securities portfolio reflects United' s investment strategy of maintaining an appropriate level of liquidity while providing a relatively stable source of revenue. The investment securities portfolio also provides a balance to interest rate risk and credit risk in other categories of the balance sheet while providing a vehicle for the investment of available funds, furnishing liquidity, and supplying securities to pledge as required collateral for certain deposits. Total investment securities at June 30, 2010 decreased \$329 million from a year ago. During the second quarter of 2010, United transferred securities available for sale with a fair value of \$315 million to held to maturity. At June 30, 2010, United had securities held to maturity with a carrying value of \$322 million and securities available for sale totaling \$1.2 billion. At June 30, 2010, December 31, 2009, and June 30, 2009, the securities portfolio represented approximately 19%, 19%, and 21% of total assets, respectively.

The investment securities portfolio primarily consists of U.S. Government sponsored agency mortgage-backed securities, non-agency mortgage-backed securities, U.S. Government agency securities, and municipal securities. Mortgage-backed securities rely on the underlying pools of mortgage loans to provide a cash flow of principal and interest. The actual maturities of these securities will differ from contractual maturities because loans underlying the securities can prepay. Decreases in interest rates will generally cause an acceleration of prepayment levels. In a declining interest rate environment, United may not be able to reinvest the proceeds from these prepayments in assets that have comparable yields. In a rising rate environment, the opposite occurs. Prepayments tend to slow and the weighted average life extends. This is referred to as extension risk which can lead to lower levels of liquidity due to the delay of cash receipts and can result in the holding of a below market yielding asset for a longer period of time.

Goodwill and Other Intangible Assets

United' s goodwill represents the premium paid for acquired companies above the fair value of the assets acquired and liabilities assumed, including separately identifiable intangible assets. United evaluates its goodwill annually, or more frequently if necessary, to determine if any impairment exists. United performed its annual goodwill impairment assessment as of December 31, 2009. United engaged the services of a national third party valuation expert who employed commonly used valuation techniques including an earnings approach that considered discounted future expected cash earnings and two market approaches. The annual goodwill impairment test performed as of December 31, 2009, did not result in the recognition of any goodwill impairment.

Conditions in the second quarter of 2010 did not lead management to believe that further impairment existed at the time. During the first quarter of 2009, United' s stock price fell from \$13.58 at December 31, 2008 to a low of \$2.28 in the first quarter and ended the first quarter of 2009 at \$4.16. Management believed this fall in stock price reflected uncertainty about the economic cycle. Additionally, the stock prices of the peer group used as part of the valuation analysis in the December 31, 2008 goodwill impairment assessment experienced similar declines. The ongoing economic recession resulted in lower earnings with higher credit costs and those costs have been reflected in the income statement as well as valuation adjustments to the loan balances through increases to the level of the allowance for loan losses. With the stock price trading at a significant discount to book value and tangible book value, in addition to these other factors, management believed that goodwill should be re-assessed for impairment in the first quarter of 2009. As a result of this assessment, United recognized a goodwill impairment charge to earnings in the amount of \$70 million during the first quarter of 2009. No goodwill impairment was recognized in the second quarter of 2009.

United will perform its annual goodwill impairment assessment in the fourth quarter of 2010 and will perform interim testing if conditions indicate that further impairment may be present. Events and conditions that could lead to further goodwill impairment include, among other things, changes in the long-term risk free interest rate or any of the risk premium assumptions used to compile the discount rate for the discounted cash flows valuation method used in Step 1, changes in stock price valuations for United or the selected peer group of banks used to determine United' s value under the guideline public companies method or further deterioration in United' s financial performance or outlook for future financial performance.

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Other intangible assets, primarily core deposit intangibles representing the value of United' s acquired deposit base, are amortizing intangible assets that are required to be tested for impairment only when events or circumstances indicate that impairment may exist. There were no events or circumstances that led management to believe that any impairment exists in United' s other intangible assets.

Deposits

United initiated several programs in early 2009 to improve core earnings by growing customer transaction deposit accounts and lowering pricing on deposit accounts to improve its net interest margin and increase net interest revenue. The programs were very successful in increasing core transaction deposit accounts and reducing more costly time deposit balances as United' s funding needs decreased due to lower loan demand.

Total deposits as of June 30, 2010 were \$6.3 billion, a decrease of \$519 million, or 8%, from June 30, 2009. Total non-interest-bearing demand deposit accounts of \$780 million increased \$65.3 million, or 9%, due to the success of the core deposit programs. NOW, money market and savings accounts of \$2.3 billion increased \$241 million, or 12%, which included \$83 million of growth in public NOW accounts.

Total time deposits, excluding brokered deposits, as of June 30, 2010 were \$2.7 billion, down \$675 million from June 30, 2009. Time deposits less than \$100,000 totaled \$1.6 billion, a decrease of \$417 million, or 21%, from a year ago. Time deposits of \$100,000 and greater totaled \$1.1 billion as of June 30, 2010, a decrease of \$258 million, or 19%, from June 30, 2009. During the second quarter of 2008, United made a decision to actively pursue time deposits by offering a 15 month certificate of deposit at an attractive rate, in order to increase liquidity. The program was successful in adding over \$400 million of customer deposits. Most of those certificates of deposit matured in the third quarter of 2009 and United did not offer a special rate upon their maturity. Approximately half of the certificates of deposit that were part of the 15-month special renewed at standard rates in effect at the time of renewal. The other half left the bank, accounting for a large part of the decline in the balance in certificates of deposit from a year ago. United lowered its rates on non-special certificates during 2009, allowing balances to decline as United' s funding needs have declined due to weak loan demand. Brokered deposits as of June 30, 2010 were \$612 million, compared to \$763 million at June 30, 2009.

Wholesale Funding

The Bank is a shareholder in the Federal Home Loan Bank ("FHLB") of Atlanta. Through this affiliation, FHLB secured advances totaled \$104 million and \$283 million as of June 30, 2010 and 2009, respectively. United anticipates continued use of this short-and long-term source of funds. FHLB advances outstanding at June 30, 2010 had fixed interest rates from 2.85% to 4.49%. Additional information regarding FHLB advances, is provided in Note 10 to the consolidated financial statements included in United' s 2009 Form 10-K.

At June 30, 2010, United had \$104 million in Federal funds purchased, repurchase agreements, and other short-term borrowings outstanding, compared to \$252 million outstanding at June 30, 2009. United takes advantage of these additional sources of liquidity when rates are favorable compared to other forms of short-term borrowings, such as FHLB advances and brokered deposits.

Interest Rate Sensitivity Management

The absolute level and volatility of interest rates can have a significant effect on United' s profitability. The objective of interest rate risk management is to identify and manage the sensitivity of net interest revenue to changing interest rates, in order to achieve United' s overall financial goals. Based on economic conditions, asset quality and various other considerations, management establishes tolerance ranges for interest rate sensitivity and manages within these ranges.

United' s net interest revenue, and the fair value of its financial instruments, are influenced by changes in the level of interest rates. United manages its exposure to fluctuations in interest rates through policies established by the Asset/Liability Management Committee ("ALCO"). ALCO meets periodically and has responsibility for approving asset/liability management policies, formulating and implementing strategies to improve balance sheet positioning and/or earnings, and reviewing United' s interest rate sensitivity.

One of the tools management uses to estimate the sensitivity of net interest revenue to changes in interest rates is an asset/liability simulation model. Resulting estimates are based upon a number of assumptions for each scenario, including the level of balance sheet growth, loan and deposit repricing characteristics and the rate of prepayments. The ALCO regularly reviews the assumptions for accuracy based on historical data and future expectations, however, actual net interest revenue may differ from model results. The primary objective of the simulation model is to measure the potential change in net interest revenue over time using multiple

interest rate scenarios. The base scenario assumes rates remain flat and is the scenario to which all others are compared in order to measure the change in net interest revenue. Policy limits are based on gradually rising and falling rate scenarios, which are compared to this base scenario. Another commonly analyzed scenario is a most-likely scenario that projects the expected change in rates based on the slope of the yield curve. Other scenarios analyzed may include rate shocks, narrowing or widening spreads, and yield curve steepening or flattening. While policy scenarios focus on a twelve month time frame, longer time horizons are also modeled.

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United's policy is based on the 12-month impact on net interest revenue of interest rate ramps that increase 200 basis points and decrease 200 basis points from the base scenario. In the ramp scenarios, rates change 25 basis points per month over the initial eight months. The policy limits the change in net interest revenue over the next 12 months to a 10% decrease in either scenario. The policy ramp and base scenarios assume a static balance sheet. Historically low rates on June 30, 2010 made use of the down 200 basis points scenario problematic. At June 30, 2010 United's simulation model indicated that a 200 basis point increase in rates would cause an approximate .4% increase in net interest revenue over the next twelve months, and a 25 basis point decrease would cause an approximate .2% decrease in net interest revenue over the next twelve months. At June 30, 2009, United's simulation model indicated that a 200 basis point increase in rates would cause an approximate 1.2% decrease in net interest revenue over the next twelve months and a 25 basis point decrease in rates would cause an approximate .6% increase in net interest revenue over the next twelve months.

In order to manage its interest rate sensitivity, United uses off-balance sheet contracts that are considered derivative financial instruments. Derivative financial instruments can be a cost-effective and capital-effective means of modifying the repricing characteristics of on-balance sheet assets and liabilities. These contracts consist of interest rate swaps under which United pays a variable rate and receives a fixed rate.

The following table presents the interest rate derivative contracts outstanding.

Table 13 – Derivative Financial Instruments

As of June 30, 2010 (dollars in thousands)

Type/Maturity	Notional Amount	Rate Received / Floor Rate	Rate Paid	Fair Value (3)
Fair Value Hedges:				
LIBOR Swaps (Brokered CDs)				
August 27, 2010 (1)	\$50,000	4.30 %	1.42 %	\$223
September 22, 2010 (2)	50,000	4.25	1.59	295
September 30, 2010 (1)	95,000	4.25	1.42	649
Total Fair Value Hedges	\$195,000	4.26	1.46	\$1,167

- (1) Rate Paid equals 1-Month LIBOR plus 1.075
- (2) Rate Paid equals 1-Month LIBOR plus 1.2435
- (3) Excludes accrued interest

United's derivative financial instruments are classified as either cash flow or fair value hedges. The change in fair value of cash flow hedges is recognized in other comprehensive income. Fair value hedges recognize currently in earnings both the effect of the change in the fair value of the derivative financial instrument and the offsetting effect of the change in fair value of the hedged asset or liability associated with the particular risk of that asset or liability being hedged. At June 30, 2010, United had receive fixed, pay LIBOR swap contracts with a total notional amount of \$195 million that were accounted for as fair value hedges of brokered deposits.

From time to time, United will terminate swap or floor positions when conditions change and the position is no longer necessary to manage United's overall sensitivity to changes in interest rates. In those situations where the terminated swap or floor was in an effective hedging relationship at the time of termination and the hedging relationship is expected to remain effective throughout the original term of the swap or floor, the resulting gain or loss at the time of termination is amortized over the remaining life of the original contract. For swap contracts, the gain or loss is amortized over the remaining original contract term using the straight line method of amortization. For floor contracts, the gain or loss is amortized over the remaining original contract term based on the original floorlet schedule. At June 30, 2010, United had \$26.9 million in gains from terminated derivative positions included in Other Comprehensive Income that will be amortized into earnings over their remaining original contract terms.

United's policy requires all derivative financial instruments be used only for asset/liability management through the hedging of specific transactions or positions, and not for trading or speculative purposes. Management believes that the risk associated with using derivative financial instruments to mitigate interest rate risk sensitivity is minimal and should not have any material unintended effect on the financial condition or results of operations. In order to mitigate potential credit risk, from time to time United may require the counterparties to derivative contracts to pledge securities as collateral to cover the net exposure.

Liquidity Management

The objective of liquidity management is to ensure that sufficient funding is available, at reasonable cost, to meet the ongoing operational cash needs and to take advantage of revenue producing opportunities as they arise. While the desired level of liquidity will vary depending upon a variety of factors, it is the primary goal of United to maintain a sufficient level of liquidity in all expected economic environments. Liquidity is defined as the ability to convert assets into cash or cash equivalents without significant loss and to raise additional funds by increasing liabilities. Liquidity management involves maintaining United' s ability to meet the daily cash flow requirements of the Bank' s customers, both depositors and borrowers. In addition, because United is a separate entity and apart from the Bank, it must provide for its own liquidity. United is responsible for the payment of dividends declared for its common and preferred shareholders, and interest and principal on any outstanding debt or trust preferred securities.

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Two key objectives of asset/liability management are to provide for adequate liquidity in order to meet the needs of customers and to maintain an optimal balance between interest-sensitive assets and interest-sensitive liabilities to optimize net interest revenue. Daily monitoring of the sources and uses of funds is necessary to maintain a position that meets both requirements.

The asset portion of the balance sheet provides liquidity primarily through loan principal repayments and the maturities and sales of securities, as well as the ability to use these as collateral for borrowings on a secured basis. We also maintain excess funds in short-term interest-bearing assets that provide additional liquidity. Mortgage loans held for sale totaled \$22.7 million at June 30, 2010, and typically turn over every 45 days as the closed loans are sold to investors in the secondary market.

The liability section of the balance sheet provides liquidity through interest-bearing and noninterest-bearing deposit accounts. Federal funds purchased, Federal Reserve short-term borrowings, FHLB advances and securities sold under agreements to repurchase are additional sources of liquidity and represent United's incremental borrowing capacity. These sources of liquidity are generally short-term in nature and are used as necessary to fund asset growth and meet other short-term liquidity needs.

Substantially all of United's liquidity is obtained from subsidiary service fees and dividends from the Bank, which is limited by applicable law.

At June 30, 2010, United had sufficient qualifying collateral to increase FHLB advances by \$867 million and Federal Reserve discount window capacity of \$301 million. United's internal policy limits brokered deposits to 25% of total assets. At June 30, 2010, United had the capacity to increase brokered deposits by \$1.3 billion and still remain within this limit. In addition to these wholesale sources, United has the ability to attract retail deposits at any time by competing more aggressively on pricing.

As disclosed in United's consolidated statement of cash flows, net cash provided by operating activities was \$60.7 million for the six months ended June 30, 2010. The net loss of \$92.8 million for the six month period included non-cash expenses for provision for loan losses of \$136 million and the loss on sale of nonperforming assets of \$45.3 million. Net cash provided by investing activities of \$238 million consisted primarily of purchases of securities of \$418 million and purchases of premises and equipment of \$3.6 million, that were offset by proceeds from sales of securities of \$40.8 million, maturities and calls of investment securities of \$444 million, proceeds from sales of other real estate of \$80.9 million, a net decrease in loans of \$72.9 million and cash received from Fletcher of \$20.6 million. Net cash used in financing activities of \$307 million consisted primarily of a net decrease of \$296 million in deposits and a \$10.0 million repayment of FHLB advances. In the opinion of management, United's liquidity position at June 30, 2010, was sufficient to meet its expected cash flow requirements.

Capital Resources and Dividends

Shareholders' equity at June 30, 2010 was \$904 million, a decrease of \$57.9 million from December 31, 2009. Accumulated other comprehensive income, which includes unrealized gains and losses on securities available for sale and the unrealized gains and losses on derivatives qualifying as cash flow hedges, is excluded in the calculation of regulatory capital adequacy ratios. Excluding the change in the accumulated other comprehensive income, shareholders' equity decreased \$55.0 million from December 31, 2009. During the second quarter of 2010, United recorded a \$39.8 million increase to capital surplus as the result of the issuance of equity instruments to Fletcher International in conjunction with the sale of nonperforming assets. United paid \$2.3 million in dividends on Series A and Series B preferred stock in the second quarter of 2010 and paid \$4.5 million year-to-date. United recognizes that cash dividends are an important component of shareholder value, and therefore, intends to provide for cash dividends when earnings, capital levels and other factors permit.

United's common stock trades on the Nasdaq Global Select Market under the symbol "UCBI". Below is a quarterly schedule of high, low and closing stock prices and average daily volume for 2010 and 2009.

Table 14 – Stock Price Information

	2010				2009			
	High	Low	Close	Avg Daily Volume	High	Low	Close	Avg Daily Volume
First quarter	\$5.00	\$3.21	\$4.41	882,923	\$13.87	\$2.28	\$4.16	524,492
Second quarter	6.20	3.86	3.95	849,987	9.30	4.01	5.99	244,037
Third quarter					8.00	4.80	5.00	525,369
Fourth quarter					5.33	3.07	3.39	1,041,113

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The Board of Governors of the Federal Reserve System has issued guidelines for the implementation of risk-based capital requirements by U.S. banks and bank holding companies. These risk-based capital guidelines take into consideration risk factors, as defined by regulators, associated with various categories of assets, both on and off-balance sheet. Under the guidelines, capital strength is measured in two tiers that are used in conjunction with risk-weighted assets to determine the risk-based capital ratios. The guidelines require an 8% total risk-based capital ratio, of which 4% must be Tier I capital. However, to be considered well-capitalized under the guidelines, a 10% total risk-based capital ratio is required, of which 6% must be Tier I capital.

Under the risk-based capital guidelines, assets and credit equivalent amounts of derivatives and off-balance sheet items are assigned to one of several broad risk categories according to the obligor, or, if relevant, the guarantor or the nature of the collateral. The aggregate dollar amount in each risk category is then multiplied by the risk weight associated with the category. The resulting weighted values from each of the risk categories are added together, and generally this sum is the company's total risk weighted assets. Risk-weighted assets for purposes of United's capital ratios are calculated under these guidelines.

A minimum leverage ratio is required in addition to the risk-based capital standards and is defined as Tier I capital divided by average assets adjusted for goodwill and deposit-based intangibles. Although a minimum leverage ratio of 3% is required for the highest-rated bank holding companies which are not undertaking significant expansion programs, the Federal Reserve Board requires a bank holding company to maintain a leverage ratio greater than 3% if it is experiencing or anticipating significant growth or is operating with less than well-diversified risks in the opinion of the Federal Reserve Board. The Federal Reserve Board uses the leverage and risk-based capital ratios to assess capital adequacy of banks and bank holding companies.

The following table shows United's capital ratios, as calculated under regulatory guidelines, at June 30, 2010 and 2009.

Table 16 – Capital Ratios

(dollars in thousands)

	Regulatory Guidelines		United Community Banks, Inc. (Consolidated)				United Community Bank					
	Minimum	Well Capitalized	As of June 30,		As of June 30,		2010	2009				
			2010	2009	2010	2009						
Risk-based ratios:												
Tier I capital	4.0	%	6.0	%	11.07	%	10.44	%	11.94	%	10.90	%
Total capital	8.0		10.0		13.85		13.11		13.81		12.67	
Leverage ratio	3.0		5.0		7.72		7.68		8.27		7.71	
Tier I capital					\$ 568,047		\$ 607,265		\$611,990		\$638,943	
Total capital					710,765		762,476		707,393		743,137	

United's Tier I capital excludes other comprehensive income, and consists of stockholders' equity and qualifying capital securities, less goodwill and deposit-based intangibles. Tier II capital components include supplemental capital items such as a qualifying allowance for loan losses and qualifying subordinated debt. Tier I capital plus Tier II capital components is referred to as Total Risk-Based capital.

The capital ratios of United and the Bank currently exceed the minimum ratios as defined by federal regulators. United monitors these ratios to ensure that United and the Bank remain above the regulatory well capitalized guidelines.

Effect of Inflation and Changing Prices

A bank's asset and liability structure is substantially different from that of an industrial firm in that primarily all assets and liabilities of a bank are monetary in nature with relatively little investment in fixed assets or inventories. Inflation has an important effect on the growth of total assets and the resulting need to increase equity capital at higher than normal rates in order to maintain an appropriate equity to assets ratio.

United's management believes the effect of inflation on financial results depends on United's ability to react to changes in interest rates, and by such reaction, reduce the inflationary effect on performance. United has an asset/liability management program to manage interest rate sensitivity. In addition, periodic reviews of banking services and products are conducted to adjust pricing in view of current and expected costs.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

There have been no material changes in United's quantitative and qualitative disclosures about market risk as of June 30, 2010 from that presented in the Annual Report on Form 10-K for the year ended December 31, 2009. The interest rate sensitivity position at June 30, 2010 is included in management's discussion and analysis on page 43 of this report.

Item 4. Controls and Procedures

United's management, including the Chief Executive Officer and Chief Financial Officer, supervised and participated in an evaluation of the company's disclosure controls and procedures as of June 30, 2010. Based on, and as of the date of that evaluation, United's Chief Executive Officer and Chief Financial Officer have concluded that the disclosure controls and procedures were effective in accumulating and communicating information to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures of that information under the Securities and Exchange Commission's rules and forms and that the disclosure controls and procedures are designed to ensure that the information required to be disclosed in reports that are filed or submitted by United under the Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

There were no significant changes in the internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

Part II. Other Information

Item 1. Legal Proceedings

In the ordinary course of operations, United and the Bank are defendants in various legal proceedings. In the opinion of management, there is no pending or threatened proceeding in which an adverse decision could result in a material adverse change in the consolidated financial condition or results of operations of United.

Item 1A. Risk Factors

The Dodd-Frank Act and related regulations may adversely affect our business, financial condition, liquidity or results of operations.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 was enacted on July 21, 2010. The Dodd-Frank Act creates a new Consumer Financial Protection Bureau with power to promulgate and enforce consumer protection laws. Smaller depository institutions, those with \$10 billion or less in assets, will be subject to the Consumer Financial Protection Bureau's rule-writing authority, and existing depository institution regulatory agencies will retain examination and enforcement authority for such institutions. The Dodd-Frank Act also establishes a Financial Stability Oversight Council chaired by the Secretary of the Treasury with authority to identify institutions and practices that might pose a systemic risk and, among other things, includes provisions affecting (1) corporate governance and executive compensation of all companies whose securities are registered with the SEC, (2) FDIC insurance assessments, (3) interchange fees for debit cards, which would be set by the Federal Reserve under a restrictive "reasonable and proportional cost" per transaction standard, (4) minimum capital levels for bank holding companies, subject to a grandfather clause for financial institutions with less than \$15 billion in assets, (5) derivative and proprietary trading by financial institutions, and (6) the resolution of large financial institutions.

At this time, it is difficult to predict the extent to which the Dodd-Frank Act or the resulting regulations may adversely impact us. However, compliance with these new laws and regulations may increase our costs, limit our ability to pursue attractive business opportunities, cause us to modify our strategies and business operations and increase our capital requirements and constraints, any of which may have a material adverse impact on our business, financial condition, liquidity or results of operations.

Other than the additional risk factor mentioned above, there have been no material changes from the risk factors previously disclosed in United's Form 10-K for the year ended December 31, 2009.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds – None

Item 3. Defaults upon Senior Securities – None

Item 4. (Removed and Reserved)

Item 5. Other Information – None

Item 6. Exhibits

- 3.1 Restated Articles of Incorporation of United Community Banks, Inc., (incorporated herein by reference to Exhibit 3.1 to United Community Banks, Inc.' s Quarterly Report on Form 10-Q for the quarter ended June 30, 2001, File No. 0-21656, filed with the Commission on August 14, 2001).
- 3.2 Amendment to the Restated Articles of Incorporation of United Community Banks, Inc. (incorporated herein by reference to Exhibit 3.3 to United Community Banks, Inc.' s Registration Statement on Form S-4, File No. 333-118893, filed with the Commission on September 9, 2004).
- 3.3 Certificate of Designation of the Common Stock Equivalent Junior Preferred Stock, dated March 31, 2010 (incorporated by reference to Exhibit 4.1 to United Community Banks, Inc.' s Current Report on Form 8-K, filed with the Commission on April 1, 2010.)
- 3.4 Certificate of Rights and Preferences of the Series C Convertible Preferred Stock, dated April 1, 2010.
- 3.5 Amendment to the Restated Articles of Incorporation, dated May 27, 2010.
- 3.6 Amended and Restated Bylaws of United Community Banks, Inc., dated September 12, 1997 (incorporated herein by reference to Exhibit 3.1 to United Community Banks, Inc.' s Annual Report on Form 10-K, for the year ended December 31, 1997, File No. 0-21656, filed with the Commission on March 27, 1998).
- 4.1 See Exhibits 3.1, 3.2 and 3.3 for provisions of the Restated Articles of Incorporation, as amended, and Amended and Restated Bylaws, which define the rights of the Shareholders.
- 10.1 Asset Purchase Agreement, dated April 1, 2010 by and among United Community Bank and Fletcher International, Inc. and certain affiliates thereof who may become parties thereto as purchasers (incorporated by reference to Exhibit 1.1 to United Community Banks, Inc.' s Current Report on Form 8-K, filed with the Commission on April 1, 2010.)
- 10.2 Securities Purchase Agreement, dated April 1, 2010 between United Community Banks, Inc. and Fletcher International, Ltd. (incorporated by reference to Exhibit 1.2 to United Community Banks, Inc.' s Current Report on Form 8-K, filed with the Commission on April 1, 2010.)
- 10.3 Form of Warrant to be granted by United Community Banks, Inc. to Fletcher International, Ltd. (incorporated by reference to Exhibit 1.3 to United Community Banks, Inc.' s Current Report on Form 8-K, filed with the Commission on April 1, 2010.)
- 10.4 Amendment to Securities Purchase Agreement, dated June 11, 2010 between United Community Banks, Inc. and Fletcher International, Ltd. (incorporated by reference to Exhibit 1.1 to United Community Banks, Inc.' s Current Report on Form 8-K, filed with the Commission on June 14, 2010.)
- 10.5 Amendment to Warrants to Purchase Shares of Common Stock of United Community Banks, Inc., dated June 11, 2010, between United Community Banks, Inc. and Fletcher International, Ltd. (incorporated by reference to Exhibit 1.2 to United Community Banks, Inc.' s Current Report on Form 8-K, filed with the Commission on June 14, 2010.)
- 31.1 Certification by Jimmy C. Tallent, President and Chief Executive Officer of United Community Banks, Inc., as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification by Rex S. Schuette, Executive Vice President and Chief Financial Officer of United Community Banks, Inc., as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

UNITED COMMUNITY BANKS, INC.

/s/ Jimmy C. Tallent

Jimmy C. Tallent
President and Chief Executive Officer
(Principal Executive Officer)

/s/ Rex S. Schuette

Rex S. Schuette
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

/s/ Alan H. Kumler

Alan H. Kumler
Senior Vice President and Controller
(Principal Accounting Officer)

Date: August 4, 2010

**CERTIFICATE OF RIGHTS AND PREFERENCES
OF
SERIES C CONVERTIBLE PREFERRED STOCK
OF
UNITED COMMUNITY BANKS, INC.**

April 1, 2010

Pursuant to Section 14-2-602 of the Georgia Business Corporation Code and Article V of the Restated Articles of Incorporation, as amended, of United Community Banks, Inc., a corporation organized and existing under the laws of the State of Georgia (the "Company"), hereby certifies that the following resolution was duly adopted by the Board of Directors of the Company effective as of March 26, 2010 pursuant to authority conferred upon the Board of Directors by the Restated Articles of Incorporation of the Company, as amended, which authorize the issuance of up to Ten Million (10,000,000) shares of preferred stock, par value \$1.00 per share.

RESOLVED, that pursuant to authority expressly granted to and vested in the Board of Directors of the Company and pursuant to the provisions of the Articles of Incorporation, the Board of Directors hereby creates a series of preferred stock, herein designated and authorized as the Series C Convertible Preferred Stock, par value \$1.00 per share, which shall consist of Sixty-Five Thousand (65,000) of the shares of preferred stock which the Company now has authority to issue, and the Board of Directors hereby fixes the powers, designations and preferences and the relative, participating, optional and other special rights of the shares of such series, and the qualifications, limitations and restrictions thereof as follows:

1. Number. The number of shares constituting the Series C Convertible Preferred Stock shall be Sixty-Five Thousand (65,000), all of which are issuable solely under the Agreement.

2. Definitions. Unless the context otherwise requires, when used herein the following terms shall have the meaning indicated.

"Acquiring Person" has the meaning set forth in the Agreement.

"Acquisition Consideration" is defined in Section 6(f)(iii)(C).

"Agreement" means the Securities Purchase Agreement dated as of April 1, 2010, by and between the Company and Fletcher pursuant to which Sixty-Five Thousand (65,000) shares of Series C Preferred Stock and a warrant are to be issued by the Company, including all schedules, annexes and exhibits thereto, and as such agreement may be amended from time to time.

"Articles of Incorporation" means the Restated Articles of Incorporation of the Company, as amended.

"Board" means the Board of Directors of the Company.

“Business Day” means any day on which the Common Stock may be traded on the Nasdaq, or if not admitted for trading on the Nasdaq, on any day other than a Saturday, Sunday or holiday on which banks in New York City are required or permitted to be closed.

“Capital Stock” means (i) with respect to any Person that is a corporation, any and all shares, interests, participations or other equivalents (however designated) of capital or capital stock of such Person and (ii) with respect to any Person that is not a corporation, any and all partnership, limited partnership, limited liability company or other equity interests of such Person.

“Certificate of Rights and Preferences” means this Certificate of Rights and Preferences of the Series C Preferred Stock.

“Change of Control” has the meaning set forth in the Agreement.

“Change of Control Notice” is defined in Section 6(f)(i).

“Common Stock Equivalent Junior Preferred Stock” means the Company’ s Common Stock Equivalent Junior Preferred Stock, par value \$1.00 per share, issuable pursuant to Section 6 of the Agreement, and any Capital Stock for or into which such Common Stock Equivalent Junior Preferred Stock hereafter is exchanged, converted, reclassified or recapitalized by the Company or pursuant to a Change of Control (or, at the election of the Holder, the Capital Stock of any Acquiring Person from and after the consummation of a Change of Control).

“Common Stock” means the Company’ s common stock, par value \$1.00 per share, and any Capital Stock for or into which such common stock hereafter is exchanged, converted, reclassified or recapitalized by the Company or pursuant to a Change of Control (or, at the election of the Holder, the Capital Stock of any Acquiring Person from and after the consummation of a Change of Control).

“Company” means United Community Banks, Inc., a Georgia corporation (or any Acquiring Person from and after the consummation of a Change of Control).

“Contingent Notice” is defined in Section 6(f)(iii).

“Conversion Closing Date” is defined in Section 6(a)(i).

“Conversion Notice” is defined in Section 6(a)(i).

“Conversion Notice Date” is defined in Section 6(a)(i).

“Conversion Price” means Six Dollars and Two Cents (\$6.02), subject to adjustment as set forth herein.

“Conversion Stock Amount” is defined in Section 6(a)(ii).

“Daily Market Price” has the meaning set forth in the Agreement.

“Dividend Payment Date” is defined in Section 3(a).

“Dividend Period” is defined in Section 3(a).

“Dividend Rate” means (i) prior to receipt of the Stockholder Consent, a rate equal to One Thousand Dollars (\$1,000) per share multiplied by the lesser of (a) twelve percent (12%) per annum and (b) the sum of the three (3)-month London Interbank Offer Rate (LIBOR) determined as of the first day of the Dividend Period (or if the first day of the Dividend Period is not a Business Day, then the first Business Day after the first day of the Dividend Period) plus eight percent (8%) per annum, subject to Section 3(c); and (ii) after receipt of the Stockholder Consent, a rate equal to One Thousand Dollars (\$1,000) per share multiplied by the lesser of (a) eight percent (8%) per annum and (b) the sum of the three (3)-month London Interbank Offer Rate (LIBOR) determined as of the first day of the Dividend Period (or if the first day of the Dividend Period is not a Business Day, then the first Business Day after the first day of the Dividend Period) plus four percent (4%) per annum, subject to Section 3(c).

“Exchange Act” means the Securities Exchange Act of 1934, as amended.

“Fletcher” means Fletcher International, Ltd. a company domiciled in Bermuda, together with its successors.

“Holder” shall mean Fletcher and any one or more Persons to whom Fletcher sells, exchanges, transfers, assigns, gives, pledges, encumbers, hypothecates, alienates or distributes, whether directly or indirectly, any or all the Series C Preferred Stock or all or any portion of the right to purchase the Series C Preferred Stock under the Agreement.

“Investment Period” has the meaning set forth in the Agreement.

“Issue Date” means with respect to any shares of Series C Preferred Stock the original date of issuance of such shares of Series C Preferred Stock.

“Junior Securities” means Capital Stock that, with respect to dividends and distributions upon Liquidation, ranks junior to the Series C Preferred Stock, including but not limited to Common Stock, Common Stock Equivalent Junior Preferred Stock and any other class or series of Capital Stock issued by the Company or any Subsidiary of the Company on or after the date of the Agreement, but excluding any Parity Securities and Senior Securities issued (i) to Fletcher or its authorized assignees under the Agreement, (ii) with the approval of the Holders of a Majority of the Series C Preferred Stock or (iii) upon the conversion, redemption or exercise of securities described in clause (i) or (ii) in accordance with the terms thereof.

“Liquidation” means the voluntary or involuntary liquidation, dissolution or winding up of the Company; provided, however, that a consolidation, merger or share exchange shall not be deemed a Liquidation, nor shall a sale, assignment, conveyance, transfer, lease or other disposition by the Company of all or substantially all of its assets, which does not involve a distribution by the Company of cash or other property to the holders of Common Stock and Common Stock Equivalent Junior Preferred Stock, be deemed to be a Liquidation.

“Liquidation Preference” is defined in Section 4.

“Majority of the Series C Preferred Stock” means more than fifty percent (50%) of the then outstanding shares of Series C Preferred Stock.

“Maximum Number” has the meaning set forth in the Agreement.

“Nasdaq” has the meaning set forth in the Agreement.

“Ordinary Cash Dividend” means all quarterly cash dividends out of capital surplus or retained earnings legally available therefore (determined in accordance with generally accepted accounting principles, consistently applied), in an amount and frequency consistent with past practice.

“Parent” means, as to any Acquiring Person, any Person that (i) controls the Acquiring Person directly or indirectly through one or more intermediaries, (ii) is required to include the Acquiring Person in the consolidated financial statements contained in such Parent’s Annual Report on Form 10-K (if the Parent is required to file such a report) or would be required to so include the Acquiring Person in such Parent’s consolidated financial statements if they were prepared in accordance with U.S. generally accepted accounting principles and (iii) is not itself included in the consolidated financial statements of any other Person (other than its consolidated subsidiaries).

“Parity Securities” means any class or series of Capital Stock that, with respect to dividends or distributions upon Liquidation, is *pari passu* with the Series C Preferred Stock.

“Person” means an individual or a corporation, partnership, trust, incorporated or unincorporated association, limited liability company, joint venture, joint stock company, government (or an agency or political subdivision thereof) or other entity of any kind.

“Preferred Stock” means the Company’s preferred stock authorized pursuant to the provisions of the Articles of Incorporation.

“Prevailing Market Price” means, with respect to any reference date, the average of the Daily Market Prices of the Common Stock (or, for purposes of determining the Prevailing Market Price of the common stock of an Acquiring Person or its Parent under Section 6(f), the common stock of such Acquiring Person or such Parent) for the twenty-five (25) Business Days ending on and including the third (3rd) Business Day before such reference date.

“Redemption Closing Date” is defined in Section 6(b)(i).

“Redemption Notice” is defined in Section 6(b)(i).

“Redemption Price” means Five Dollars and Twenty-Five Cents (\$5.25), subject to adjustment as set forth herein.

“Redemption Stock Amount” is defined in Section 6(b)(ii).

“Restatement” has the meaning set forth in the Agreement.

“SEC” means the Securities and Exchange Commission.

“Securities Act” means the Securities Act of 1933, as amended, or any successor statute, and the rules and regulations promulgated thereunder.

“Senior Securities” means any class or series of Capital Stock that, with respect to dividends or distributions upon Liquidation, ranks senior to the Series C Preferred Stock.

“Series C Preferred Stock” means the Series C Convertible Preferred Stock of the Company or successor as contemplated by Section 6(f).

“Stated Value” is an amount equal to One Thousand Dollars (\$1,000) per share of Series C Preferred Stock plus (x) any unpaid dividends on the Series C Preferred Stock (as of the date of determination, which for purposes of Sections 6(a) and 6(b) shall be the Conversion Closing Date and Redemption Closing Date, respectively), whether or not declared and whether or not earnings are available in respect of such dividends (i.e., the Stated Value shall increase in each Dividend Period by the Dividend Rate if and to the extent that dividends for such Dividend Period are not declared and paid by the respective Dividend Payment Date) and (y) any unpaid dividends declared on the Common Stock and Common Stock Equivalent Junior Preferred Stock in an amount equal to the product of (A) the per-share dividend other than the Ordinary Cash Dividend paid on Common Stock and Common Stock Equivalent Junior Preferred Stock multiplied by (B) the number of shares of Common Stock and/or the number of one-hundredths of a share of Common Stock Equivalent Junior Preferred Stock issuable upon redemption or conversion (whichever number of shares is greater) of a share of Series C Preferred Stock on the date such dividend is declared on the Common Stock and Common Stock Equivalent Junior Preferred Stock. In the event the Company shall declare a distribution on the Common Stock and Common Stock Equivalent Junior Preferred Stock payable in securities or property other than cash, the value of such securities or property will be the fair market value. Any securities shall be valued as follows: (i) if traded on a national securities exchange (as defined in the Exchange Act), the value shall be deemed to be the average of the closing prices of the securities on such exchange or system over the twenty-five (25) Business Day period ending three (3) calendar days prior to such declaration; (ii) if actively traded over-the-counter, the value shall be deemed to be the average of the closing bid or sale prices (whichever is applicable) over the twenty-five (25) Business Day period ending three (3) calendar days prior to such declaration; and (iii) if there is no active public market, the value shall be the fair market value thereof, as determined in good faith by the Board.

“Stockholder Consent” has the meaning set forth in the Agreement.

“Stockholder Consent Date” has the meaning set forth in the Agreement.

“Subsidiary” of a Person means (i) a corporation, a majority of whose stock with voting power, under ordinary circumstances, to elect directors is at the time of determination, directly or indirectly, owned by such Person or by one or more Subsidiaries of such Person, or (ii) any other entity (other than a corporation) in which such Person or one or more Subsidiaries of such Person, directly or indirectly, at the date of determination thereof has a least a majority ownership interest.

The foregoing definitions will be equally applicable to both the singular and plural forms of the defined terms.

3. Dividends and Distributions.

(a) Holders shall be entitled to receive out of the assets of the Company legally available for that purpose, cash dividends at the Dividend Rate to be paid in accordance with the terms of this Section 3. In addition, Holders for each share of Series C Preferred Stock then owned by such Holder shall be entitled to receive out of the assets of the Company legally available for that purpose, dividends or other distributions declared on the Common Stock and Common Stock Equivalent Junior Preferred Stock in the same form as such dividends or distributions in an amount equal to the product of (x) the amount of any per-share dividend or distribution other than the Ordinary Cash Dividends paid on the Common Stock and Common Stock Equivalent Junior Preferred Stock multiplied by (y) the number of shares of Common Stock and/or the number of one-hundredths of a share of Common Stock Equivalent Junior Preferred Stock issuable upon redemption or conversion (whichever number of shares is greater) of a share of the Series C Preferred Shares on the date such dividend is declared, to be paid in accordance with the terms of this Section 3. Such dividends shall be payable quarterly in arrears, when and as declared by the Board (or a duly appointed committee of directors), on April 15, July 15, October 15 and January 15 of each year commencing on April 15, 2010 and, in the case of dividends resulting from dividends or distributions declared on Common Stock and Common Stock Equivalent Junior Preferred Stock, no later than the date on which such dividends or distributions are paid to holders of the Common Stock and Common Stock Equivalent Junior Preferred Stock (each such date being herein referred to as a "Dividend Payment Date"). The period from the Issue Date to March 31, 2010, and each quarterly period between consecutive Dividend Payment Dates shall hereinafter be referred to as a "Dividend Period." The dividend for any Dividend Period for any share of Series C Preferred Stock that is not outstanding on every calendar day of the Dividend Period shall be prorated based on the number of calendar days such share was outstanding during the period. Each such dividend shall be paid to the Holders of record of the Series C Preferred Stock as their names appear on the share register of the Company on the Dividend Payment Date. Dividends on account of arrears for any past Dividend Periods may be declared and paid at any time, without reference to any Dividend Payment Date (including, without limitation, for purposes of computing the Stated Value of any shares of Series C Preferred Stock in connection with the conversion or redemption thereof or any Liquidation of the Company), to Holders of record on a date designated by the Board, not exceeding thirty (30) calendar days preceding the payment date thereof, as may be fixed by the Board. For purposes of determining the amount of dividends accrued as of the first Dividend Payment Date and as of any date that is not a Dividend Payment Date, such amount shall be calculated on the basis of the Dividend Rate for the actual number of calendar days elapsed from and including the Issue Date (in case of the first Dividend Payment Date and any date prior to the first Dividend Payment Date) or the last preceding Dividend Payment Date (in case of any other date) to the date as of which such determination is to be made, based on a three hundred sixty five (365) day year.

(b) So long as any shares of the Series C Preferred Stock shall be outstanding, (i) the Company shall not and shall not allow its Subsidiaries (other than direct or indirect wholly-owned Subsidiaries) to declare or pay any dividend whatsoever, whether in cash, property or otherwise, set aside any cash or property for the payment of any dividends, or make any other distribution on any Junior Securities or Parity Securities and (ii) the Company shall not and shall not allow its Subsidiaries to repurchase, redeem or otherwise acquire for value or set aside any cash or property for the repurchase or redemption of any Junior Securities or Parity Securities, unless in each such case all dividends to which the Holders of the Series C Preferred Stock shall have been entitled to receive for all previous Dividend Periods shall have been paid and dividends on the Series C Preferred Stock for the subsequent four Dividend Periods shall have been designated and set aside in cash.

(c) Notwithstanding anything herein to the contrary, whenever, at any time or times after the Company has obtained the approval of the stockholders of the Company to increase the authorized number of shares of Common Stock, the Company shall fail to redeem any Series C Preferred Stock by the date it is obligated to do so under Section 6(b) hereof and such failure is ongoing, then (x) the Dividend Rate with respect to such Series C Preferred Stock that is subject to such redemption shall mean a rate equal to twenty two percent (22%) per annum times the Stated Value until such date that the failure to redeem no longer exists.

(d) The Company shall be entitled to deduct and withhold from any dividend on the Series C Preferred Stock such amounts as the Company is required to deduct and withhold with respect to such dividend under the Internal Revenue Code of 1986, as amended, or any other provision of state, local or foreign tax law.

4. Liquidation Preference. In the event of any Liquidation, after payment or provision for payment by the Company of the debts and other liabilities of the Company and the liquidation preference of any Senior Securities that rank senior to the Series C Preferred Stock with respect to distributions upon Liquidation, each Holder shall be entitled to receive an amount in cash for each share of the then outstanding Series C Preferred Stock held by such Holder equal to the greater of (a) the Stated Value per share to and including the date full payment is tendered to the Holders with respect to such Liquidation and (b) the amount the Holders would have received if the Holders had converted all outstanding shares of Series C Preferred Stock into Common Stock and/or Common Stock Equivalent Junior Preferred Stock in accordance with the provisions of Section 6(a) hereof or redeemed all outstanding shares of Series C Preferred Stock into Common Stock and/or Common Stock Equivalent Junior Preferred Stock under Section 6(b) hereof (whichever is greater), in each case as of the Business Day immediately preceding the

date of such Liquidation (such greater amount being referred to herein as the “Liquidation Preference”), before any distribution shall be made to the holders of any Junior Securities (and any Senior Securities or Parity Securities that, with respect to distributions upon Liquidation, rank junior to the Series C Preferred Stock) upon the Liquidation of the Company. In case the assets of the Company available for payment to the Holders are insufficient to pay the full Liquidation Preference on all outstanding shares of the Series C Preferred Stock and all outstanding shares of Parity Securities and Senior Securities that, with respect to distributions upon Liquidation, are *pari passu* with the Series C Preferred Stock in the amounts to which the holders of such shares are entitled, then the entire assets of the Company available for payment to the Holders and to the holders of such Parity Securities and Senior Securities shall be distributed ratably among the Holders of the Series C Preferred Stock and the holders of such Parity Securities and Senior Securities, based upon the aggregate amount due on such shares upon Liquidation. Written notice of any Liquidation of the Company, stating a payment date and the place where the distributable amounts shall be payable, shall be given by facsimile and overnight delivery not less than ten (10) calendar days prior to the payment date stated therein, to the Holders of record of the Series C Preferred Stock, if any, at their respective addresses as the same shall appear on the books of the Company.

5. Voting Rights. The Holders shall have the following voting rights with respect to the Series C Preferred Stock:

(a) Each share of Series C Preferred Stock shall entitle the holder thereof to the voting rights specified in Section 5(b) and no other voting rights except as required by law.

(b) The consent of the Holders of at least a Majority of the Series C Preferred Stock, voting separately as a single class with one vote per share, in person or by proxy, either in writing without a meeting or at an annual or a special meeting of such Holders called for the purpose, shall be necessary to amend, alter or repeal, by way of merger or otherwise, any of the provisions of the Articles of Incorporation, including the Certificate of Rights and Preferences, or Bylaws of the Company so as to significantly and adversely affect any of the rights or preferences of the Holders of the Series C Preferred Stock. Without limiting the generality of the preceding sentence, such change includes any action that would:

(i) Reduce the Dividend Rate on the Series C Preferred Stock or defer the date from which dividends will accrue, or cancel accrued and unpaid dividends, or change the relative seniority rights of the holders of Series C Preferred Stock as to the payment of dividends in relation to the holders of any other Capital Stock of the Company;

(ii) Reduce the amount payable to the holders of the Series C Preferred Stock upon the voluntary or involuntary liquidation, dissolution, or winding up of the Company, or change the relative seniority of the liquidation preferences of the holders of the Series C Preferred Stock to the rights upon liquidation of the holders of any other Capital Stock of the Company;

- (iii) Make the Series C Preferred Stock redeemable at the option of the Company;
- (iv) Authorize, create or issue any shares of Senior Securities (or amend the provisions of any existing class of Capital Stock to make such class of Capital Stock a class of Senior Securities); or
- (v) Decrease (other than by redemption or conversion) the total number of authorized shares of Series C Preferred Stock.

6. Conversion and Redemption.

(a) Procedure for Conversion at the Option of the Company.

(i) General. Subject to Section 6(c) hereof, on or after the three year anniversary of the Stockholder Consent Date, on any date on which the Prevailing Market Price exceeds the Conversion Price by one hundred and fifty percent (150%) or more, the Company shall have the option to convert all, but not less than all, of the then outstanding shares of Series C Preferred Stock by delivering a duly executed written Preferred Stock conversion notice, substantially in the form attached as Annex F to the Agreement (the "Conversion Notice" and the date such notice is deemed delivered hereunder, the "Conversion Notice Date"), by facsimile, mail or overnight courier delivery, to the Holder. The closing of such conversion shall take place, subject to the satisfaction or waiver of the conditions set forth in Section 6(a)(iii), (a) on the twentieth (20th) Business Day following and excluding the Conversion Notice Date or (b) any other date upon which the exercising Holder and the Company mutually agree (the "Conversion Closing Date"). The Conversion Notice shall apply only to shares of Series C Preferred Stock for which no Redemption Notice has been tendered to the Company before the twentieth (20th) Business Day after the Conversion Notice Date, regardless of when the applicable redemption is consummated.

(ii) Conversion for stock. Subject to Section 6(c) hereof, such shares of stock shall be converted into that number of shares of Common Stock and/or number of one-hundredths (1/100th) of a share of Common Stock Equivalent Junior Preferred Stock equal to (a) the aggregate Stated Value of such shares divided by (b) the Conversion Price (the "Conversion Stock Amount"). On the Conversion Closing Date, the Holder shall surrender the certificate representing the shares of Series C Preferred Stock to be converted to the Company at the address set forth for notices to the Company specified in Section 18 of the Agreement, and the Company shall deliver to such Holder as specified in the Conversion Notice the Conversion Stock Amount of duly authorized, validly issued, fully paid and nonassessable shares of Common Stock and/or Common Stock Equivalent Junior Preferred Stock.

(iii) Closing conditions. It shall be a condition of the converting Holder's obligation to close that each of the following is satisfied, unless expressly waived by such Holder in writing (which Holder may do or refrain from doing in its sole discretion):

(A) (w) the representations and warranties made by the Company in the Agreement shall be true and correct as of the Conversion Closing Date, except those representations and warranties that address matters only as of a particular date, which shall be true and correct as of such date; (x) the Company shall have complied fully with all of the covenants and agreements in the Agreement; (y) all shares of Common Stock to be issued upon such conversion shall be duly listed and admitted to trading on the Nasdaq Global Select Market, the Nasdaq Global Market or the New York Stock Exchange; and (z) such Holder shall have received a certificate of the Chief Executive Officer and the Chief Financial Officer of the Company dated such date and to the effect of clauses (x), (y) and (z).

(B) On the Conversion Closing Date, the Company shall have delivered to the Holder (x) a Conversion Notice, substantially in the form attached as Annex G to the Agreement and (y) the legal opinion described in Section 12(b) of the Agreement.

(C) If the issuance of Common Stock or Common Stock Equivalent Junior Preferred Stock would cause the number of shares of Common Stock and Common Stock Equivalent Junior Preferred Stock held by any Holder to exceed the Maximum Number then delivery of such shares of Common Stock or Common Stock Equivalent Junior Preferred Stock shall be deferred pursuant to Section 6(d) of the Agreement. Notwithstanding anything herein to the contrary, in such event, the Company shall no longer be obligated to pay any dividend on the Series C Preferred Stock or provide or recognize any other preferences, limitations, powers or other rights provided by this Certificate of Rights and Preferences to the extent that, if the Series C Preferred Stock would have been converted, the Holder would beneficially own Common Stock and Common Stock Equivalent Junior Preferred Securities that would exceed the Maximum Number.

The Company shall use its best efforts to cause each of the foregoing conditions to be satisfied at the earliest practicable date after a Conversion Notice. If such conditions are not satisfied or waived prior to the twentieth (20th) Business Day following and excluding the date the Conversion Notice is delivered, then the Company may, at its sole option, and at any time, withdraw the Conversion Notice by written notice to the Holder regardless of whether such conditions have been satisfied or waived as of the withdrawal date and, after such withdrawal, shall have no further obligations with respect to such Conversion Notice and may submit a Conversion Notice with respect to the shares referenced in the withdrawn Conversion Notice pursuant to Section 6(a)(i) hereof, subject to the closing conditions in this Section 6(a)(iii).

(iv) Holder of record. Each conversion of Series C Preferred Stock shall be deemed to have been effected immediately before the close of business on the Business Day on which the Conversion Notice is delivered (except, that, for purposes of calculation of the Stated Value, dividends shall accrue until and including the Conversion Closing Date), and at such time the Person or Persons in whose name or names any certificate or certificates for shares of Common Stock or Common Stock Equivalent Junior Preferred Securities shall be issuable upon such conversion as provided in Section 6(a)(ii) shall be deemed to have become the holder or holders of record thereof.

(b) Procedure for Redemption at the Option of the Holder.

(i) General. Subject to Section 6(c) hereof, at any time after the Company has obtained the approval of the stockholders of the Company to increase the authorized number of shares of Common Stock, a Holder of Series C Preferred Stock may at the option of the Holder require the Company to redeem any or all shares of Series C Preferred Stock held by such Holder for Common Stock and/or Common Stock Equivalent Junior Preferred Stock on one or more occasions by delivering an optional redemption notice (a "Redemption Notice") to the Company substantially in the form attached as Annex H to the Agreement; provided, however, that until the Company has obtained the approval of the stockholders of the Company to increase the authorized number of shares of Common Stock, a Holder of Series C Preferred Stock may require the Company to redeem any or all of such shares of Series C Preferred Stock for Common Stock Equivalent Junior Preferred Stock. The closing of such redemption shall take place, subject to the satisfaction or waiver of the conditions set forth in Section 6(b)(iii) (a) on the second (2nd) Business Day, or if the Holder so elects, the third (3rd) Business Day, following and excluding the date the Redemption Notice is delivered or (b) any other date upon which the exercising Holder and the Company mutually agree (the "Redemption Closing Date").

(ii) Redemption for stock. Subject to Section 6(c) hereof, such shares of Series C Preferred Stock shall be redeemed into that number of shares of Common Stock and/or number of one-hundredths (1/100th) of a share of Common Stock Equivalent Junior Preferred Stock equal to (a) the aggregate Stated Value of such shares divided by (b) the Redemption Price (the "Redemption Stock Amount"). On the Redemption Closing Date, the Holder shall surrender the certificate representing the shares of Series C Preferred Stock to be redeemed to the Company at the address set forth for notices to the Company specified in Section 18 of the Agreement and the Company shall deliver to such Holder as specified in the Redemption Notice the Redemption Stock Amount of duly authorized, validly issued, fully paid and nonassessable shares of Common Stock and/or Common Stock Equivalent Junior Preferred Stock.

(iii) Closing conditions. It shall be a condition of the redeeming Holder' s obligation to close that each of the following is satisfied, unless expressly waived by such Holder in writing:

(A) (w) the representations and warranties made by the Company in the Agreement shall be true and correct as of the Redemption Closing Date, except those representations and warranties that address matters only as of a particular date, which shall be true and correct as of such date; (x) the Company shall have complied fully with all of the covenants and agreements in the Agreement; (y) all shares of Common Stock to be issued upon such redemption shall be duly listed and admitted to trading on the Nasdaq Global Select Market, the Nasdaq Global Market or the New York Stock Exchange; and such Holder shall have received a certificate of the Chief Executive Officer and (z) the Chief Financial Officer of the Company dated such date and to the effect of clauses (w), (x) and (y).

(B) On the Redemption Closing Date, the Company shall have delivered to the Holder (x) a Preferred Stock redemption delivery notice, substantially in the form attached as Annex I to the Agreement and (y) the legal opinion described in Section 12(b) of the Agreement.

(C) As of the Redemption Closing Date, the Company shall have notified the Holder of all Restatements.

(D) If the issuance of Common Stock or Common Stock Equivalent Junior Preferred Stock would cause the number of shares of Common Stock and Common Stock Equivalent Junior Preferred Stock held by any Holder to exceed the Maximum Number then delivery of such shares of Common Stock or Common Stock Equivalent Junior Preferred Stock shall be deferred pursuant to Section 6(d) of the Agreement. Notwithstanding anything herein to the contrary, in such event, the Company shall no longer be obligated to pay any dividend on the Preferred Stock or provide or recognize any other preferences, limitations, powers or other rights provided by this Certificate of Rights and Preferences to the extent that, if the Series C Preferred Stock would have been redeemed, the Holder would beneficially own Common Stock and Common Stock Equivalent Junior Preferred Securities that would exceed the Maximum Number.

(iv) Holder of record. Each redemption of Series C Preferred Stock shall be deemed to have been effected immediately before the close of business on the Business Day on which the Redemption Notice is delivered (except, that, for the purposes of calculation of the Stated Value, dividends shall accrue until and including the Redemption Closing Date), and at such time the Person or Persons in whose name or names any certificate or certificates for shares of Common Stock (or Other Securities) shall be issuable upon such redemption as provided in Section 6(b)(ii) shall be deemed to have become the holder or holders of record thereof. The foregoing notwithstanding, such redemption shall not be deemed effective if and as of the date that the Holder delivers written notice of withdrawal to the Company as set forth in Section 6(b)(v) below.

(v) Withdrawal of Redemption Notice. If the conditions set forth in Section 6(b)(iii) are not satisfied or waived on or prior to the Redemption Closing Date or if the Company fails to perform its obligations on any Redemption Closing Date (including delivery of all shares of Series C Preferred Stock issuable on such date), then in addition to all remedies available to Holder at law or in equity, Holder may, at its sole option, and at any time, withdraw the Redemption Notice by written notice to the Company regardless of whether such conditions have been satisfied or waived as of the withdrawal date and, after such withdrawal, shall have no further obligations with respect to such Redemption Notice and may submit a Redemption Notice on any future date with respect to such Series C Preferred Stock and the Redemption Price for such subsequent Redemption Notice shall be the lesser of (x) the Redemption Price in the withdrawn Redemption Notice and (y) the Redemption Price in effect as of the date of the subsequent Redemption Notice. If the Company fails to deliver (A) shares of Common Stock as provided in Section 6(b) on or before the later of the twentieth (20th) Business Day following and excluding (1) the Redemption Closing Date or (2) three (3) Business Days after the Stockholder Consent Date (if and to the extent such approval is required to issue such shares of Common Stock) or (B) shares of Common Stock Equivalent Junior Preferred Stock on or before the twentieth (20th) Business Day following and excluding the Redemption Closing Date, then the Redemption Price shall equal the lesser of Four Dollars and Forty-One Cents (\$4.41) and the Redemption Price in effect immediately before such date.

(vi) Partial redemption. If any redemption is for only part of the shares represented by the certificate surrendered, the Company shall deliver on the Redemption Closing Date a new Series C Preferred Stock certificate of like tenor, calling in the aggregate on the face or faces thereof for the number of shares of Series C Preferred Stock in the name and to an address specified by the Holder.

(c) Maximum Voting Stock Amount. The Company shall not effect any conversion or redemption of the Series C Preferred Stock, and the Holders shall not have the right to convert or redeem any portion of the Series C Preferred Stock, into Common Stock to the extent such conversion, redemption or exercise would result in aggregate issuances upon conversion or redemption of the Series C Preferred Stock in excess of nine and seventy-five one hundredths percent (9.75%)(the "Maximum Voting Stock Amount") of the number of shares of Common Stock that would be outstanding after giving effect to such conversion or redemption. Holders of a Majority of the Series C Preferred Stock shall have the right to permanently reduce the percentage used in the determination of the Maximum Voting Stock Amount to four and seventy-five one hundredths percent (4.75%) at any time, effective upon delivery of written notice of such election to the Company. In the event that the Company cannot effect a conversion or redemption of the Series C Preferred Stock into Common Stock pursuant to the terms of this Section 6(c), the conversion or redemption shall be effected into an equal number of shares of Common Stock Equivalent Junior Preferred Stock of the Company.

(d) The Company shall at all times reserve for issuance such number of its shares of Common Stock and Common Stock Equivalent Junior Preferred Stock as shall be required under the Agreement. The Company will procure, at its sole expense, the listing of the Common Stock issuable upon conversion or redemption of the Series C Preferred Stock (including upon the conversion of Common Stock Equivalent Junior Preferred Stock issuable upon the conversion or redemption of the Series C Preferred Stock) and shares issuable as dividends hereunder, subject to issuance or notice of issuance, on all stock exchanges and quotation systems on which the Common Stock is then listed or quoted, no later than the date on which such Series C Preferred Stock is issued to the Holder and thereafter shall use its best efforts to prevent delisting or removal from quotation of such shares. The Company will pay any and all documentary stamp or similar issue or transfer taxes that may be payable in respect of the issuance or delivery of shares of Common Stock and/or Common Stock Equivalent Junior Preferred Stock on conversion or redemption of shares of the Series C Preferred Stock. The Company shall not, however, be required to pay any tax which may be payable in respect of any transfer involving the issue and delivery of shares of Common Stock and/or Common Stock Equivalent Junior Preferred Stock in a name other than that in which the shares of Series C Preferred Stock so converted or redeemed were registered, and no such issue and delivery shall be made unless and until the person requesting such issue has paid to the Company the amount of any such tax, or has established, to the reasonable satisfaction of the Company, that such tax has been paid.

(e) No fractional shares or scrip representing fractional shares of Common Stock or, other than fractional shares in increments of one-hundredth (1/100th) of a share, of Common Stock Equivalent Junior Preferred Stock shall be issued upon the conversion or redemption of the Series C Preferred Stock. If any such conversion or redemption would otherwise require the issuance of a fractional share of Common Stock or, other than fractional shares in increments of one-hundredth (1/100th) of a share, of Common Stock Equivalent Junior Preferred Stock, an amount equal to such fraction multiplied by the current Daily Market Price per share of Common Stock on the date of conversion or redemption shall be paid to the Holder in cash by the Company. If more than one share of Series C Preferred Stock shall be surrendered for conversion or redemption at one time by or for the same Holder, the number of shares of Common Stock and/or Common Stock Equivalent Junior Preferred Stock issuable upon conversion or redemption thereof shall be computed on the basis of the aggregate number of shares of Series C Preferred Stock so surrendered.

(f) Change of Control.

(i) If the Company on or after the date of the Agreement is party to any Change of Control, proper provision shall be made so that, upon the basis and the terms and in the manner provided herein, the Holder of each unconverted and unredeemed share of Series C Preferred Stock, upon conversion or redemption thereof at any time after the consummation of such Change of Control, shall be entitled to, and appropriate adjustments will be made to ensure that the Holder will receive, equivalent rights as those provided in this Certificate of Rights and Preferences, including, without limitation, the voting, dividend, conversion, redemption and liquidation rights contained herein with respect to the Acquiring Person. The Company shall, prior to the consummation of any Change of Control, provide that each Person (other than the Company) that may be required to deliver any stock, securities, cash or property upon conversion of Series C Preferred Stock as provided herein shall assume, by written instrument delivered to, and reasonably satisfactory to, the Holders of a Majority of the Series C Preferred Stock, (a) the obligations of the Company under this Certificate of Rights and Preferences (and if the Company shall survive the consummation of such transaction, such assumption shall be in addition to, and shall not release the Company from, any continuing obligations of the Company under this Certificate of Rights and Preferences) and (b) the obligation to deliver to the Holders of Series C Preferred Stock such shares of stock, securities, cash or property as, in accordance with the provisions of this Certificate of Rights and Preferences, such Holders may be entitled to receive, and such Person shall have similarly delivered to such Holders an opinion of counsel for such Person, which counsel shall be reasonably satisfactory to Holders of a Majority of the Series C Preferred Stock, stating that the rights of such Holders under this Certificate of Rights and Preferences shall thereafter continue in full force and effect with respect to such Acquiring Person in accordance with the terms hereof.

(ii) In the event of a Change of Control, all references to the Conversion Price or the Redemption Price herein shall be references to the Stock Adjustment Measuring Price. "Stock Adjustment Measuring Price" means an amount equal to the Conversion Price or the Redemption Price, as applicable, multiplied by a fraction,

(A) the numerator of which is the Daily Market Price of the securities for Common Stock is exchanged in the Change of Control (or if none, the most widely-held class of voting securities of the Acquiring Person) determined as of the Business Day immediately preceding and excluding the date on which the Change of Control is consummated; and

(B) the denominator of which is the Daily Market Price of the Common Stock of the Company determined as of the Business Day immediately preceding and excluding the date on which the Change of Control is consummated.

(iii) Prior to the effective date of a Change of Control, the Company shall continue to have the right to submit to each Holder Conversion Notices and each Holder shall continue to have the right to submit to the Company Redemption Notices and consummate closings of any such conversions or redemptions, in each party's sole discretion, in accordance with the terms and conditions of this Certificate of Rights and Preferences. In addition, the Holder at its sole option may elect to submit to the Company a special notice (a "Contingent Notice") to redeem the Series C Preferred Stock (including any Series C Preferred Stock issued pursuant to a Contingent Investment Notice (as defined in the Agreement) under the Agreement) in whole or in part in connection with such Change of Control; in which case, notwithstanding anything to the contrary herein:

(A) the effectiveness of such contingent redemption shall be conditional upon the effectiveness of the Change of Control;

(B) until the effective date of such Change of Control, the Holder shall have the right to deliver a notice to withdraw such Contingent Notice; and

(C) if such Contingent Notice shall not have been withdrawn, then on the effective date of such Change of Control, such Holder shall receive the same consideration, in the form of cash, securities or other assets (the "Acquisition Consideration") per share of Common Stock and Common Stock Equivalent Junior Preferred Stock issuable to any other holder of shares of Common Stock and Common Stock Equivalent Junior Preferred Stock in connection with such Change of Control based upon the number of shares of Common Stock and Common Stock Equivalent Junior Preferred Stock which the Holder would have held if the Holder had consummated such redemption on the Business Day immediately preceding the date on which such Change of Control occurs.

7. Status of Converted and Redeemed Shares; Limitations on Series C Preferred Stock. The Company shall return to the status of unauthorized and undesignated shares of Preferred Stock each share of Series C Preferred Stock which shall be converted, redeemed or for any other reason acquired by the Company, and such shares thereafter may have such characteristics and designations as the Board may determine (subject to Section 5 hereof), provided, however, that no share of Series C Preferred Stock which shall be converted, redeemed or otherwise acquired by the Company shall thereafter be reissued, sold or transferred by the Company as Series C Preferred Stock. The Company will not issue any further shares of Series C Preferred Stock.

8. Subdivision of Common Stock. Notwithstanding anything herein to the contrary, if the Company at any time subdivides (by any stock split, stock dividend, recapitalization, reorganization, reclassification or otherwise) the shares of Common Stock and/or Common Stock Equivalent Junior Preferred Stock into a greater number of shares, then, after the date of record for effecting each such subdivision, all measurements and references herein related to share prices for such securities will be proportionately decreased and all references to share numbers for such securities herein will be proportionately increased.

9. Nonperformance. If the Company, shall (i) at any time fail to deliver the shares of Common Stock Equivalent Junior Preferred Stock required to be delivered to the Holder pursuant hereto or (ii) at any time after the Company has obtained the approval of the stockholders of the Company to increase the authorized number of shares of Common Stock, fail to deliver the shares of Common Stock or required to be delivered to the Holder pursuant hereto, for any reason other than the failure of any condition precedent to the Company' s obligations hereunder or the failure by the Holder to comply with its obligations hereunder, then the Company shall (without limitation to the Holder' s other remedies at law or in equity): (i) indemnify and hold the Holder harmless against any loss, claim or damage arising from or as a result of such failure by the Company (regardless of whether any of the foregoing results from a third-party claim or otherwise) and (ii) reimburse the Holder for all of its reasonable out-of-pocket expenses (which includes fees and expenses of its counsel) incurred by the Holder in connection herewith and the transactions contemplated herein (regardless of whether any of the foregoing results from a third-party claim or otherwise).

10. Assignment. The Holder may, in its sole discretion, freely assign, pledge, hypothecate or transfer all shares of Series C Preferred Stock.

[The rest of this page is intentionally left blank.]

IN WITNESS WHEREOF, this Certificate of Rights and Preferences has been signed on behalf of the Company by its Chief Financial Officer and attested to by its Corporate Secretary, all as of the date first set forth above.

UNITED COMMUNITY BANKS, INC.

/s/ Rex S. Schuette

Name: Rex S. Schuette

Title: Chief Financial Officer

/s/ Lori McKay

Name: Lori McKay

Title: Corporate Secretary

[Signature Page to Certificate of Rights and Preferences]

**ARTICLES OF AMENDMENT
OF
UNITED COMMUNITY BANKS, INC.**

1.

The name of the corporation is United Community Banks, Inc.

2.

The Restated Articles of Incorporation of the corporation are amended by striking the first paragraph of Article V thereof and inserting the following:

“The corporation shall have authority to issue 200,000,000 shares of common stock, \$1.00 par value (the “Common Stock”) and 10,000,000 shares of preferred stock, \$1.00 par value (the “Preferred Stock”). Subject to the provisions of any applicable law or the Bylaws of the corporation (as from time to time amended) with respect to fixing the record date for the determination of shareholders entitled to vote, and except as otherwise provided by any applicable law or the by the resolution or resolutions of the board of directors providing for the issue of any series of Preferred Stock, the holders of the Common Stock shall have and possess exclusive voting power and rights for the election of directors and for all other purposes, with each share being entitled to one vote.”

3.

The Restated Articles of Incorporation of the corporation are further amended by striking Article XI in its entirety and insert in lieu the following:

“Except as otherwise provided by law, any amendment or repeal of any provision of the Articles of Incorporation or Article II (Stockholders’ Meetings) or III (Board of Directors) of the Bylaws of the corporation requires the affirmative vote of holders of a majority of the shares of capital stock of the corporation then issued and outstanding and entitled to vote on such matters.”

4.

This amendment to the Restated Articles of Incorporation was adopted on February 10, 2010, and was duly approved by the shareholders entitled to vote thereon in accordance with the provisions of Section 14-2-1003 of the Georgia Business Corporation Code.

IN WITNESS WHEREOF, the undersigned has executed these Articles of Amendment to the Restated Articles of Incorporation of United Community Banks, Inc. this 27th day of May, 2010.

UNITED COMMUNITY BANKS, INC.

By: /s/ Jimmy C. Tallent
Jimmy C. Tallent
President and Chief Executive Officer

Exhibit 31.1

I, Jimmy C. Tallent, certify that:

1. I have reviewed this quarterly report on Form 10-Q of United Community Banks, Inc. (the "Registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a - 15(f) and 15d - 15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ Jimmy C. Tallent

Jimmy C. Tallent
President and Chief Executive Officer
of the Registrant

Date: August 4, 2010

Exhibit 31.2

I, Rex S. Schuette, certify that:

1. I have reviewed this quarterly report on Form 10-Q of United Community Banks, Inc. (the "Registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a - 15(f) and 15d - 15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ Rex S. Schuette

Rex S. Schuette
Executive Vice President and Chief Financial Officer
of the Registrant

Date: August 4, 2010

Exhibit 32

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of United Community Banks, Inc. (“United”) on Form 10-Q for the period ending June 30, 2010 filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Jimmy C. Tallent, President and Chief Executive Officer of United, and I, Rex S. Schuette, Executive Vice President and Chief Financial Officer of United, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of United.

By: /s/ Jimmy C. Tallent

Jimmy C. Tallent
President and Chief Executive Officer

By: /s/ Rex S. Schuette

Rex S. Schuette
Executive Vice President and
Chief Financial Officer

Date: August 4, 2010