FIRST UNITED CORP/MD/
Form 10-Q/A
November 08, 2004

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

FORM 10-Q/A
Amendment No. 1

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

For quarterly period ended September 30, 2004

Commission file number 0-14237

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

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

19 South Second Street, Oakland, Maryland 21550-0009
(address of principal executive offices) (zip code)

(301) 334-4715
Registrant's telephone number, including area code

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

Indicate by check mark whether the registrant is an accelerated filer (As defined in Rule 12b-2 of the Exchange Act). Yes X No __

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 6,087,287 shares of common stock, par value $.01 per share, as of September 30, 2004.

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-Q/A amends the Quarterly Report on Form 10-Q for the quarter ended September 30, 2004 to add Exhibits 31.2 and 32.2 (officer certifications) that were inadvertently omitted from the original filing. Pursuant to Exchange Act Rule 12b-15, the registrant also supplies new certifications to replace those that were included in the original report (Exhibits 31.1 and 32.1).

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FIRST UNITED CORPORATION

PART I. FINANCIAL INFORMATION

FIRST UNITED CORPORATION
Consolidated Balance Sheets
(In thousands, except per share amounts)

	September 30, 2004 (unaudited)	December 31, 2003
Assets		
Cash and due from banks	$15,831	$20,27
Federal funds sold	-	-
Interest-bearing deposits in banks	5,321	1,47
Investment securities available-for-sale (at market value)	217,502	223,61
Federal Home Loan Bank stock, at cost	8,487	8,66
Loans	898,622	792,02
Allowance for loan losses	(6,582)	(5,97
Net loans	892,040	786,05
Premises and equipment, net	20,961	16,59
Goodwill and other intangible assets	15,289	15,46
Accrued interest receivable and other assets	35,294	36,10
Total Assets	$1,210,725	$1,108,24
Liabilities and Shareholders' Equity		
Liabilities:		
Non-interest bearing deposits	$105,011	$ 99,18
Interest-bearing deposits	724,013	650,98
Total deposits	829,024	750,16
Short-term borrowings	94,959	71,84
Long-term borrowings	193,674	191,73
Accrued interest and other liabilities	5,853	9,22
Dividends payable	1,095	1,09
Total Liabilities	1,124,605	1,024,05
Shareholders' Equity		
Preferred stock --no par value; Authorized and unissued 2,000 shares		
Capital Stock -- par value $.01 per share; Authorized 25,000 shares; issued and outstanding 6,087 shares at September 30, 2004 and December 31, 2003	61	6
Surplus	20,324	20,32
Retained earnings	64,714	62,20
Accumulated other comprehensive income	1,021	1,60
Total Shareholders' Equity	86,120	84,19
Total Liabilities and Shareholders' Equity	$1,210,725	$1,108,24

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FIRST UNITED CORPORATION
Consolidated Statement of Income
(in thousands, except per share data)

	Nine Months Ended September 30, 2004	2003
	(unaudited)	
Interest income		
Loans, including fees	$ 39,062	$ 36,931
Investment securities:		
Taxable	4,600	5,201
Exempt from federal income tax	927	1,085
	5,527	6,286
Federal funds sold	25	28
Total interest income	44,614	43,245
Interest expense		
Deposits	8,536	9,813
Short-term borrowings	724	281
Long-term borrowings	8,437	7,821
Total interest expense	17,697	17,915
Net interest income	26,917	25,330
Provision for loan losses	1,635	696
Net interest income after provision for loan losses	25,282	24,634
Other operating income		
Service charges on deposit accounts	2,863	2,253
Trust department income	2,042	1,905
Security gains	703	349
Insurance premium income	1,063	997
Other income	2,576	2,862
Total other operating income	9,247	8,366
Other operating expenses		
Salaries and employees benefits	12,826	11,818
Occupancy, equipment and data processing	4,378	3,624
Amortization of deferred financing fees	910	--
Other expense	7,610	6,461
Total other operating expenses	25,724	21,903
Income before income taxes	8,805	11,097
Applicable income taxes	3,001	3,144
Net income	$5,804	$7,953

Earnings per share	$ .95	$ 1.31
Dividends per share	$ .54	$ .53

FIRST UNITED CORPORATION
Consolidated Statement of Income
(in thousands, except per share data)

	Three Months Ended September 30, 2004	2003
	(unaudited)	
Interest income		
Loans, including fees	$ 13,267	$ 12,529
Investment securities:		
Taxable	1,584	1,632
Exempt from federal income tax	285	358
	1,869	1,990
Federal funds sold	24	15
Total interest income	15,160	14,534
Interest expense		
Deposits	3,104	3,181
Short-term borrowings	331	119
Long-term borrowings	2,913	2,618
Total interest expense	6,348	5,919
Net interest income	8,812	8,615
Provision for loan losses	851	357
Net interest income after provision for loan losses	7,961	8,258
Other operating income		
Service charges on deposit accounts	960	807
Trust department income	642	635
Security gains	2	12
Insurance premium income	361	394
Other income	837	938
Total other operating income	2,802	2,786
Other operating expenses		
Salaries and employees benefits	4,279	3,980
Occupancy, equipment and data processing	1,504	1,241
Amortization of deferred financing fees	910	--

Other expense	2,402	2,771
Total other operating expenses	9,095	7,992
Income before income taxes	1,668	3,052
Applicable income taxes	573	872
Net income	$1,095	$2,180
Earnings per share	$ .18	$ .36
Dividends per share	$ .18	$ .18

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FIRST UNITED CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Nine Months Ended September 30, 2004	2003
	(Unaudited)	
Operating activities		
Net Income	$5,804	$ 7,953
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,635	696
Depreciation	1,754	1,547
Amortization of intangible assets	419	116
Amortization of deferred financing fees	910	--
Net amortization (accretion) of investment security discounts and premiums	953	(1,587)
Gain on sale of investment securities	(349)	(703)
(Decrease) increase in accrued interest receivable and other assets	117	(2,603)
(Decrease) increase in accrued interest and other liabilities	(3,367)	(2,035)
Increase in bank owned life insurance value	(458)	(691)
Net cash provided by operating activities	7,064	3,047
Investing activities		
Net increase in interest-bearing deposits in banks	(3,847)	(2,771)
Proceeds from maturities and sales of investment securities available-for-sale	119,142	257,089
Purchases of investment securities available-for-sale	(113,692)	(278,889)

Net increase in loans	(107,624)	(64,513)
Purchases of premises and equipment	(6,117)	(2,921)
Net cash provided by acquisition	66,040	-
Net cash used in investing activities	(112,138)	(25,965)
Financing activities		
Net increase (decrease) in short-term borrowings	23,119	4,080
Proceeds from issuance of junior subordinated debentures	30,929	--
Redemption of junior subordinated debentures	(23,711)	--
Net decrease in other long-term borrowings	(5,279)	(4,691)
Net increase in deposits	78,863	33,851
Cash dividends paid	(3,288)	(3,196)
Proceeds from issuance of common stock	--	125
Net cash provided by financing activities	100,633	30,169
Cash and cash equivalents at beginning of the year	20,272	18,242
Increase (decrease) in cash and cash equivalents	(4,441)	7,251
Cash and cash equivalents at end of period	$15,831	$25,493

FIRST UNITED CORPORATION
Notes to Unaudited Consolidated Financial Statements

September 30, 2004

Note A -- Basis of Presentation

The accompanying unaudited consolidated financial statements of First United Corporation (the "Corporation") and its consolidated subsidiaries have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all the information and footnotes required for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation, consisting of normal recurring items, have been included. Operating results for the three- and nine-month periods ended September 30, 2004, are not necessarily indicative of the results that may be expected for a full year or for any other interim period. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and footnotes thereto included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2003. For purposes of comparability, certain prior period amounts have been reclassified to conform to the current period presentation.

Note B - Earnings per Share

Earnings per share are based on the weighted average number of shares of common stock outstanding of 6,087,287 for the three- and nine-month periods ended September 30, 2004. For the three- and nine-month periods ended September 30, 2003, the weighted average number of shares of common stock outstanding were 6,087,443 and 6,086,154, respectively. The Corporation does not have any common stock equivalents.

Note C - Comprehensive Income

Unrealized gains and losses on investment securities available-for-sale are the only items included in accumulated other comprehensive income. Total comprehensive income (which consists of net income plus the change in unrealized gains (losses) on investment securities available-for-sale, net of taxes and reclassification adjustments) was $5.2 and $6.6 million for the nine months ended September 30, 2004 and 2003, respectively.

Note D - Junior Subordinated Debentures

The Corporation has issued approximately $30.9 million of junior subordinated debentures. Approximately $20.6 million was issued in March 2004 to First United Statutory Trust I, a Connecticut statutory trust ("FUST I"), and $10.3 million was issued in March 2004 to First United Statutory Trust II, also a Connecticut statutory trust ("FUST II") (collectively, the "Trusts"). These borrowed funds represent the proceeds from the issuance of a like amount of trust preferred securities by the Trusts.

In accordance with the provisions of FIN 46, the Trusts are not consolidated with the Corporation for financial reporting purposes, and their financial positions and results of operations are not included in our consolidated financial position and results of operations. Despite this deconsolidation, the Federal Reserve Board continues to permit up to 25% of the Corporation's Tier I capital to be comprised of, together with other cumulative preferred stock, trust preferred securities issued by the Corporation's deconsolidated subsidiaries.

On September 30, 2004, the Corporation redeemed all of its 9.375% Junior Subordinated Deferrable Interest Debentures that it issued to First United Capital Trust ("Capital Trust") in 1999. The aggregate redemption price paid by the Corporation was approximately $23.7 million. Capital Trust was dissolved on October 12, 2004. In connection with the redemption, approximately $.91 million of unamortized issuance costs were expensed.

Note E - Internal Restructurings

On May 14, 2004, First United Bank & Trust, a Maryland trust company and the Corporation's wholly-owned subsidiary (the "Bank"), completed its publicly-announced restructuring by liquidating First United Securities, Inc., a Delaware corporation and subsidiary of the Bank that held and managed a portion of our investment portfolio. This liquidation follows the Bank's liquidation on February 28, 2004 of another subsidiary, First United Capital Investments, Inc. ("FUCI").

Primarily as a result of the previously announced restructurings involving First United Securities, Inc. and First United Capital Investments, Inc., the Corporation's effective tax rate increased to 34% for the first nine months of 2004, as compared to 28% for the first nine months of 2003 and 30% for the year ended December 31, 2003.

Note F - Contractual Obligations, Commitments and Off-Balance Sheet Arrangements

Loan commitments are made to accommodate the financial needs of our customers. Letters of credit commit us to make payments on behalf of customers when certain specified future events occur. These obligations are not recorded in the Corporation's financial statements. The credit risks inherent in loan commitments and letters of credit are essentially the same as those involved in extending loans to customers, and these arrangements are subject to our normal credit policies. The Corporation's exposure to credit loss in the event the customer does not satisfy the terms of these arrangements equals the notional amount of the obligation less the value of any collateral. Loan commitments and letters of credit totaled $92 million and $4.4 million, respectively, at September 30, 2004. The Corporation is not party to any other off-balance sheet arrangements.

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

INTRODUCTION

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

FORWARD-LOOKING STATEMENTS

This report may contain forward-looking statements within the meaning of The Private Securities Litigation Reform Act of 1995. Readers of this report should be aware of the speculative nature of "forward-looking statements." Statements that are not historical in nature, including those that include the words "anticipate," "estimate," "should," "expect," "believe," "intend," and similar expressions, are based on current expectations, estimates and projections about, among other things, the industry and the markets in which we operate, and they are not guarantees of future performance. Whether actual results will conform to expectations and predictions is subject to known and unknown risks and uncertainties, including risks and uncertainties discussed in this report; general economic, market, or business conditions; changes in interest rates, deposit flow, the cost of funds, and demand for loan products and financial services; changes in our competitive position or competitive actions by other companies; changes in the quality or composition of our loan and investment portfolios; our ability to manage growth; changes in laws or regulations or policies of federal and state regulators and agencies; and other circumstances beyond our control. Consequently, all of the forward-looking statements made in this document are qualified by these cautionary statements, and there can be no assurance that the actual results anticipated will be realized, or if substantially realized, will have the expected consequences on our business or operations. These and other risk factors are discussed in detail in Exhibit 99.1 to our Annual Report on Form 10-K for the year ended December 31, 2003. Except as required by applicable laws, we do not intend to publish updates or revisions of any forward-looking statements we make to reflect new information, future events or otherwise.

THE COMPANY

The Corporation is a Maryland corporation that was incorporated in 1985 and it is registered as both a financial holding company and a bank holding company under the federal Bank Holding Company Act of 1956, as amended. The Corporation's primary business activity is acting as the parent company of the Bank, Oakfirst Life Insurance Company, an Arizona reinsurance company, OakFirst Loan Center, Inc., a West Virginia finance company, OakFirst Loan Center, LLC, a Maryland finance company, Gonder Insurance Agency, Inc., a Maryland insurance producer firm ("Gonder"), and the Trusts. OakFirst Loan Center, Inc. has one subsidiary, First United Insurance Agency, Inc., which is a Maryland insurance producer firm. The Bank has two direct subsidiaries: First United Investment Trust, a Maryland real estate investment trust that invests in mortgage loans (the "Investment Trust"); and First United Auto Finance, LLC, an inactive indirect automobile leasing limited liability company. Gonder was transferred to the Corporation through a dividend declared and paid by the Bank, effective as of the close of business on September 30, 2004. The Corporation recently formed a new subsidiary, First United Insurance Group, LLC ("FUIG"), which is a Maryland limited liability company and licensed insurance producer firm. Pending the receipt by FUIG of all necessary insurance licenses, management intends to merge Gonder with and into FUIG on or about December 31, 2004, with FUIG as the surviving entity.

We maintain an Internet site at www.mybankfirstunited.com on which we make available, free of charge, our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, Section 16 Filings, and all amendments to the foregoing on our Internet site as soon as reasonably practicable after these reports are electronically filed with, or furnished to, the SEC.

SELECTED FINANCIAL DATA

Selected financial data relating to the Corporation's results of operations and financial condition is listed below. This data should be read in conjunction with the unaudited consolidated financial statements and management's discussion and analysis that follows.

	At or For the Nine Months Ended September 30,	
	2004	2003
Per Share Data	$ .95	$ 1.31
Net Income	.54	.53
Dividends Paid	14.15	13.68
Book Value		
Significant Ratios		
Return on Average Assets (a)	.67%	1.04%
Return on Average Equity (a)	9.05	13.06
Dividend Payout Ratio	56.64	40.17
Average Equity to Average Assets	7.39	7.98

Note: (a) Annualized

RESULTS OF OPERATIONS

Overview

Net income for the nine months ended September 30, 2004 totaled $5.8 million, or $.95 per share, a 28% decrease over net income of $8.0 million, or $1.31 per share, for the same period of 2003. Net income for the third quarter of 2004 was $1.1 million, or $.18 per share, compared to $2.2 million, or $.36 per share, for the third quarter of 2003, a 50% decrease. The three- and nine-month comparisons reflect an increase in net interest income, on a fully tax-equivalent basis, of $.1 million and $1.6 million, respectively. These increases in net-interest income are offset by higher costs related to a higher effective tax rate of 34% in 2004 versus 28% in 2003 as a result of our recent internal restructurings, the March 2004 issuance of approximately $31 million of junior subordinated debentures, and the September 2004 redemption of approximately $24 million of our junior subordinated debentures. As a result of this redemption, approximately $.91 million of pretax unamortized issuance costs were expensed. The increase in the provision for loan losses and the professional fees associated with compliance with the Sarbanes-Oxley Act also contributed to these comparison decreases.

Our performance ratios for the first nine months of 2004 have decreased when compared to the same period last year. This decrease is primarily a result of lower earnings. Annualized Returns on Average Equity ("ROAE") for the nine-month period ending September 30, 2004 were 9.05%, compared to 13.06% for the same period last year. Annualized Returns on Average Assets ("ROAA") were .67% and 1.04% for the first nine months of 2004 and 2003, respectively.

Net Interest Income

Net interest income is the largest source of operating revenue. Net interest income is the difference between the interest earned on earning assets and the interest expense incurred on interest-bearing liabilities. For analytical and discussion purposes, net interest income is adjusted to a taxable equivalent basis to facilitate performance comparisons between taxable and tax-exempt assets by increasing tax-exempt income by an amount equal to the federal income taxes that would have been paid if this income were taxable at the statutorily applicable rate. The following table sets forth the average balances, net interest income and expense, and average yields and rates of our interest-earning assets and interest-bearing liabilities for the nine months ended September 30, 2004 and 2003.

	Nine Months Ended September 30, 2004			
(Dollars in thousands)	Average Balance	Interest	Average Rate	Average Balance
Interest-Earning Assets:				
Loans	$ 837,607	$ 39,101	6.22%	$ 701,682
Investment securities	214,752	5,760	3.58	234,110
Other interest earning assets	16,343	290	2.37	22,790
Total earning assets	$ 1,068,702	45,151	5.63%	$ 958,581
Interest-bearing liabilities				

Interest-bearing deposits	$ 700,794	8,536	1.62	610,465
Short-term borrowings	78,893	724	1.22	45,484
Long-term borrowings	208,852	8,437	5.39	192,105
Total interest-bearing liabilities	$ 988,539	17,697	2.39	$ 848,055
Net interest income and spread		$ 27,454	3.24%	
Net interest margin			3.43%	

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Note: Interest income and yields are presented on a fully tax equivalent basis using a 34% tax rate.

Net interest income, on a fully tax-equivalent basis, increased $1.6 million (6%) during the first nine months of 2004 when compared to the same period in 2003. The increase in interest income resulted from an increase in average interest-earning assets of $110.1 million (12%) during the first nine months of 2004, which was partially offset by a 48 basis point decline in yield on such earning assets. The growth in average loans and average earning assets is attributable to strong demand in our core markets. Although average interest-bearing liabilities increased $140.5 million (17%) during the first nine months of 2004, a 15% decrease in the effective rate of these interest-bearing liabilities of 43 basis points resulted in a decrease in interest expense of $.2 million. The growth in our average interest-bearing deposits resulted primarily from our purchase of brokered certificates of deposit to fund loan growth. Also contributing to the increase in total-interest bearing liabilities is the increase in short-term borrowings, resulting from continued emphasis on our "Cash Management" program. The historically low interest rate environment, however, continues to compress our net interest margin, which decreased 18 basis points for the nine months ended September 30, 2004 when compared to the nine months ended September 30, 2003.

	For the Quarter Ended September 3 2004			
(Dollars in thousands)	Average Balance	Interest	Average Rate	Average Balance
Interest-Earning Assets:				
Loans	$ 870,660	$ 13,272	6.10%	748,352
Investment securities	214,990	1,921	3.57	255,450
Other interest earning assets	18,745	127	2.71	26,967
Total earning assets	$ 1,104,395	15,320	5.55%	1,030,769

Interest-bearing liabilities				
Interest-bearing deposits	$ 729,976	3,104	1.70	666,533
Short-term borrowings	84,414	331	1.57	53,887
Long-term borrowings	218,070	2,915	5.34	193,904
Total interest-bearing liabilities	$1,032,460	6,350	2.46	$ 914,324
Net interest income and spread		8,970	3.09%	
Net interest margin			3.25%	

Note: Interest income and yields are presented on a fully tax equivalent basis using a 34% tax rate.

Net interest income, on a fully tax-equivalent basis, increased $.1 million in the third quarter of 2004, compared to the third quarter of 2003. This increase resulted from a $.5 million increase in interest income during the period, coupled with a $.4 million increase in interest expense. The increase in interest income resulted from an increase in average interest-earning assets of $73.6 million (7%) during the third quarter of 2004 when compared to the third quarter of 2003, which was partially offset by a 17 basis point decline in yield on such earning assets. The greater part of the growth in average loans and average earning assets is attributable to strong demand in our core markets. The increase in interest expense resulted from an increase in average interest-bearing liabilities of $118.1 million (13%) during the third quarter of 2004 when compared to the third quarter of 2003, which was partially offset by a 13 basis point decline in yield on such interest-bearing liabilities. As stated previously, the growth in our average interest-bearing deposits resulted primarily from our purchase of brokered certificates of deposit to fund loan growth. The continued emphasis on our "Cash Management" program resulted in an increase in short-term borrowings, which also contributed to the increase in total-interest bearing liabilities. Our ability to realize substantial net interest income during the third quarter of 2004 was hindered by the decline in the net-interest margin of 18 basis points, when compared to the net-interest margin of third quarter 2003.

Other Operating Income

Other operating income increased $.9 million (11%) during the first nine months of 2004 when compared to the same period for 2003. Service charges on deposit accounts accounted for more than half of this increase, which is made up primarily of fees associated with renewed concentration on an overdraft protection product. Also, trust income increased by approximately $.1 million (7%) during the first nine months of 2004 when compared to the same period last year. Additionally, during the first nine months of 2004, net securities gains increased $.4 million when compared to the same period in 2003. These net securities gains included a write down and an ultimate sale in Freddie Mac Preferred equity securities exhibiting other-than-temporary impairment, contributing a combined $.6 million loss to net securities gains of $.3 million.

Comparing the third quarter of 2004 to the third quarter of 2003, other operating income remained unchanged at $2.8 million.

Other Operating Expense

Other operating expense for the first nine months of 2004 increased $3.8 million (18%), when compared to the same period of 2003. For the third quarter of 2004, other operating expenses increased $1.1 million when compared to the third quarter of 2003. Salaries and employee benefits increased $1.0 million (9%) and $.3 million (8%) during the first nine months and third quarter of 2004, respectively, when compared to the same periods last year. These increases are attributable to the addition of employees that are necessary to support our growth objectives.

Occupancy and equipment expense for the first nine months and third quarter of 2004 increased $.8 million (21%) and $.3 million (22%), respectively, compared to the same periods of 2003. These increases are principally due to branch expansion in the Martinsburg, West Virginia area and maintenance contracts associated with our new bank-wide security system.

Other expenses for the first nine months of 2004 increased $1.2 million (18%) when compared to the same period of 2003. This increase resulted from increased professional fees associated with compliance with the Sarbanes-Oxley Act and conversion of network lines associated with branch expansion and modernization. Other expenses decreased $.4 million (13%) in the third quarter of 2004 when compared to the third quarter of 2003. The third quarter of 2003 included costs relating to $.1 million in real estate owned expenses due to a loss on a property located in Keyser, West Virginia, $.1 million of expense due to the loss on a check paid by the Bank, and a $.1 million reconciling difference which the Company concluded was not recoverable. These expenses result in a reduction of costs when compared to the third quarter of 2004.

A write-off of approximately $.9 million related to issuance costs arising from the redemption on September 30, 2004 of our 9.375% junior subordinated debentures issued to Capital Trust occurred during the third quarter of 2004. Please refer to Note D to the consolidated financial statements for further information.

Applicable Income Taxes

Income tax expense for the three and nine months ended September 30, 2004 was $.6 million and $3.0 million, respectively, compared to $ .9 million and $3.1 million for the same periods in 2003. The effective tax rate for the three- and nine-month periods ended September 30, 2004 increased to 34%, as compared to 28% for the same periods in 2003 and 30% for the year ended December 31, 2003. These increases are primarily attributable to our internal restructurings discussed in Note D to the consolidated financial statements. The resulting increase in our effective tax rate has increased tax expense by approximately $.5 million and $.1 million for the nine months and quarter ending September 30, 2004, respectively.

FINANCIAL CONDITION

Balance Sheet Overview

Our total assets reached $1.2 billion at September 30, 2004, representing an increase of $.1 billion (9%) from December 31, 2003. The main source of this increase was a $106.6 million increase in our loan portfolio, partially offset by a $6.1 million decrease in our investment portfolio, which was primarily used to help fund the aforementioned loan growth. Net premises and equipment increased $4.4 million. The majority of this increase is attributable to the acquisition of real estate that management intends to use for expansion of the Bank's branch network over the next three years.

Our total liabilities reached $1.1 billion at September 30, 2004, representing an increase of $100.6 million (10%) from December 31, 2003. Total deposits increased $78.9 million when compared to 2003 year-end. This increase is primarily due to the purchase of brokered certificates of deposit during the first nine months of 2004, in order to fund loan growth. Short-term borrowings increased $23.1 million when compared to 2003 year-end, predominantly from the increase in balances of our "Cash Management" product. For the nine-month period ended September 30, 2004, long-term borrowings increased $1.9 million.

Loan Portfolio

The following table presents the composition of our loan portfolio at the dates indicated:

(Dollars in millions)	September 30, 2004		December 31, 2003	
Commercial	$ 356.2	40%	$ 307.5	39%
Residential-Mortgage	307.6	34	264.7	33
Installment	216.7	24	201.4	26
Residential-Construction	17.3	2	16.1	2
Lease Financing	.8	-	2.3	--
Total Loans	$ 898.6	100%	$ 792.0	100%

During the first nine months of 2004, our loan portfolio grew $106.6 million (14%). The key contributors to this growth were $48.7 million in commercial loans, $42.9 million in residential mortgage loans, and $15.3 million in installment loans. Existing customer relationships in our core markets are responsible for much of the commercial loan growth during the period, and management intends to continue its focus on commercial lending operations for the foreseeable future.

Our residential-mortgage portfolio grew 16% during the first nine months of 2004. This growth is attributable primarily to our competitively priced adjustable rate mortgage products for lot and construction loans, which are marketed as an alternative to the fixed rates offered in the secondary market. Management believes that this strategy should aid us in a rising rate environment.

Risk Elements of Loan Portfolio

The following table presents the risk elements of our loan portfolio at the dates indicated. We have no knowledge of any potential problem loans other than those listed in this table.

(Dollars in thousands)	September 30, 2004	December 31, 2003
Non-accrual loans	$ 6,024	2,774
Accruing loans past due 90 days or more	1,068	1,236

Total	$ 7,092	$ 4,010
Total as a percentage of total loans	.79%	.51%

Allowance and Provision for Loan Losses

The allowance for loan losses is based on our continuing evaluation of the quality of the loan portfolio, assessment of current economic conditions, diversification and size of the portfolio, adequacy of collateral, past and anticipated loss experience, and the amount of non-performing loans. We utilize the methodology outlined in the FDIC Statement of Policy on Allowance of Loan and Lease Losses. To determine an appropriate allowance, we first segregate the loan portfolio into two pools, non-homogeneous (i.e. commercial) and homogeneous (i.e. consumer) loans. Each loan pool is then analyzed with general allowances and specific allocations being made as appropriate. For general allowances, historical loss activity, modified by current qualitative factors, are used in the estimate of losses in the current portfolio. Specific allocations are considered for individual loans that are identified in our internal grading system as those which possess certain qualities or characteristics that may lead to collection and loss issues.

The following table presents a summary of the activity in the allowance for loan losses for the nine months ended September 30 (dollars in thousands):

	2004	2003
Balance, January 1	$ 5,974	$ 6,068
Gross credit losses	(1,440)	(1,249)
Recoveries	413	354
Net credit losses	(1,027)	(895)
Provision for loan losses	1,635	696
Adjustment for acquisition of Huntington		301
Balance at end of period	$ 6,582	$ 6,170
Allowance for Loan Losses to loans outstanding	.73%	.79%
Net charge-offs to average loans outstanding during the period, annualized	.16%	.17%

Although the balance of our total loans increased $106.6 million during the first nine months of 2004, our annualized net charge off experience relative to total average loans outstanding remained stable at .16% for this period, compared to .17% for the first nine months of 2003 and .17% for the year ended December 31, 2003.

Net charge offs relating to the installment loan portfolio represent the majority of total net charge-offs for the first nine months of 2004. Generally, installment loans are charged off after they are 120 days contractually past due. The quality of the installment loan portfolio has improved, as loans past due 30 days or more were $2.7 million of the installment portfolio at September 30, 2004. This compares equally to the $2.7 million at December 31, 2003. However, the ratio of loans past due 30 days or more to total installment loans has decreased from 1.4% at December 31, 2003 to 1.2% at September 30, 2004. At September 30, 2003, loans past due 30 days or more were $3.4 million or 1.7% of the installment portfolio.

This improvement in installment loan delinquencies, as well as our overall loss experience, has been considered in management's assessment of the allowance for loan losses. However, countering this improvement was a $3.3 million increase in non-accrual loans during the first nine months of 2004 when compared to year-end 2003. The increase is a result of the addition of two agriculture loans to non-accrual status in the second quarter of 2004. Our exposure to these relationships has been appropriately considered in determining the adequacy of the allowance for loan losses. As a result of management's evaluation of the loan portfolio using the factors and methodology summarized above, the allowance for loan losses increased slightly to $6.6 million at September 30, 2004, compared to $6.0 million at December 31, 2003. Management believes that the allowance for loan losses at September 30, 2004 is adequate to absorb the probable loan losses inherent in the loan portfolio.

The provision for loan losses was $1.6 million for the first nine months of 2004, as compared to $.7 million for the same period of 2003. The provision for the third quarter of 2004 was $.9 million, as compared to $.4 million for the third quarter of 2003. The increase in the provision is primarily due to the two agriculture loans that were placed in non-accrual status as discussed above. Amounts to be recorded for the provision for loan losses in future periods will depend upon trends in the loan balances, including the composition of the loan portfolio, changes in loan quality and loss experience trends, potential recoveries on previously charged-off loans, and other factors that would have an impact on inherent losses in the loan portfolio.

Investment Securities

At September 30, 2004, our entire investment securities portfolio was categorized as available-for-sale and carried at market value. The following table presents the composition of our securities portfolio at the dates indicated:

(Dollars in millions)	September 30, 2004		December 31, 2003	
U.S. government and agencies	$ 102.6	47%	$ 75.7	34%
Mortgage-backed securities	79.1	37	89.1	40
Obligations of states and political subdivisions	24.2	11	29.3	13
Corporate and other debt securities	11.6	5	18.3	8
Other securities	-	-	11.2	5
Total Investment Securities	$ 217.5	100%	$223.6	100%

The $6.1 million decrease in our securities portfolio during the first nine months of 2004 was primarily attributable to the utilization of matured and called securities to fund rapid loan growth during the period. Of the $6.1 million decline, $.8 million was a result of the decrease in market value compared to the market value of our portfolio at December 31, 2003.

Deposits

The following table presents the composition of our deposits at the dates indicated:

(Dollars in millions)	September 30, 2004		December 31, 2003	
Noninterest-bearing demand deposits	$ 105.0	13%	$ 99.1	13%
Interest-bearing demand deposits	268.1	37	254.1	34
Savings deposits	64.2	11	61.0	8
Time deposits less than $.1	194.7	5	218.4	29
Time deposits $.1 or more	197.0	-	117.5	26
Total Deposits	$ 829.0	100%	$750.1	100%

Deposits grew $78.9 million, or 11%, during the first nine months of 2004. This increase was primarily attributable to an increase in brokered certificates of deposit, of $100,000 or over. Brokered certificates of deposit were purchased in order to fund the rapid loan growth during the period.

Borrowed Funds

The following table presents the composition of our borrowings at the dates indicated:

(In millions)	September 30, 2004	December 31, 2003
Federal funds purchased	$ 7.0	$ 5.8
Securities sold under agreements to repurchase	88.0	66.0
Total short-term borrowings	$ 95.0	$ 71.8
FHLB advances	$ 162.8	$ 168.0
Junior subordinated debt	30.9	23.7
Total long-term borrowings	$ 193.7	$ 191.7

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In March 2004, we issued approximately $31 million of junior subordinated debentures to FUST I and FUST II. On September 30, 2004, we redeemed $23.7 million of the junior subordinated debentures issued to Capital Trust in 1999. As a result of this redemption, approximately $.91 million of pretax unamortized issuance costs were expensed. Using the blended initial weighted average rate of the trust preferred securities recently issued by the Trusts, management believes that it will take approximately 12 months (from September 30, 2004) of interest savings to offset this expense. For further information about our debentures and the trust preferred securities, see Note D to the consolidated financial statements above.

Liquidity and Capital

We derive liquidity through increased customer deposits, maturities in the investment portfolio, loan repayments and income from earning assets. To the extent that deposits are not adequate to fund customer loan demand, liquidity needs can be met in the short-term funds markets through arrangements with our correspondent banks or through the purchase of brokered certificates of deposit. The Bank is also a member of the Federal Home Loan Bank of Atlanta, which provides another source of liquidity. Finally, as evidenced by the issuance of the trust preferred securities as discussed above in Note D to the consolidated financial statements, we may from time to time access capital markets to meet some of our liquidity needs. Management knows of no known trends or demands, commitments, events or uncertainties that will materially affect our ability to maintain liquidity at satisfactory levels.

The following table presents our capital ratios at September 30, 2004:

	Actual	For Capital Adequacy Purposes	To Be Well Capitalized
Total Capital (to risk-weighted assets)	11.80%	8.00%	10.00%
Tier 1 Capital (to risk-weighted assets)	10.89	4.00	6.00
Tier 1 Capital (to average assets)	8.48	3.00	5.00

We are categorized as "well capitalized" under federal banking regulatory capital requirements. The redemption on September 30, 2004 of our junior subordinated debentures issued to Capital Trust required Capital Trust to redeem an equal amount of its trust preferred securities. This reduced our total capital by approximately $23.0 million. The redemption had no material impact on the ratio of Tier 1 capital to risk-weighted assets or the ratio of Tier 1 capital to average assets.

We paid a cash dividend of $.18 per share on August 1, 2004. On September 15, 2004, we declared another dividend of an equal amount, to be paid on November 1, 2004 to stockholders of record at October 15, 2004.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our primary market risk is interest rate fluctuation. We have procedures in place to evaluate and mitigate these risks. This market risk and our procedures are described in our Annual Report on Form 10-K for the year ended December 31, 2003 under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operation - Interest Rate Sensitivity". Management believes that there has been no material change in our market risks or in the procedures used to evaluate and mitigate these risks since December 31, 2003.

Item 4. Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934 with the SEC, such as this Quarterly Report, is recorded, processed, summarized and reported within the time periods specified in those rules and forms, and that such information is accumulated and communicated to our management, including the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), as appropriate, to allow for timely decisions regarding required disclosure. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate.

An evaluation of the effectiveness of these disclosure controls as of September 30, 2004 was carried out under the supervision and with the participation of our management, including the CEO and the CFO. Based on that evaluation, management, including the CEO and the CFO, has concluded that our disclosure controls and procedures are effective.

During the third quarter of 2004, there was no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Part II. OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 5. Other Information

None.

Item 6. Exhibits

The exhibits filed or furnished with this quarterly report are listed in the Exhibit Index that follows the signatures, which index is incorporated herein by reference.

SIGNATURES

Pursuant to the requirement 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.

FIRST UNITED CORPORATION

Date:	November 8, 2004	/s/ William B. Grant -- William B. Grant, Chairman of the Board and Chief Executive Officer
Date	November 8, 2004	/s/ Robert W. Kurtz -- Robert W. Kurtz, President and Chief Financial Officer

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EXHIBIT INDEX

Exhibit	Description
3.1	Amended and Restated Articles of Incorporation (incorporated by reference to Exhibit 3.1 of the Corporation's Quarterly Report on Form 10-Q for the period ended June 30, 1998)
3.2	Amended and Restated By-Laws (incorporated by reference to Exhibit 3(ii) of the Corporation's Annual Report on Form 10-K for the year ended December 31, 1997)
10.1	First United Bank & Trust Supplemental Executive Retirement Plan ("SERP") (incorporated by reference to Exhibit 10.1 of the Corporation's Quarterly Report on Form 10-Q for the period ended June 30, 2003)
10.2	Form of SERP Participation Agreement between the Bank and each of William B. Grant, Robert W. Kurtz, Jeannette R. Fitzwater, Phillip D. Frantz, Eugene D. Helbig, Jr., Steven M. Lantz, Robin M. Murray, Frederick A. Thayer, IV (incorporated by reference to Exhibit 10.2 of the Corporation's Quarterly Report on Form 10-Q for the period ended June 30, 2003)
10.3	Endorsement Split Dollar Agreement between the Bank and William B. Grant (incorporated by reference to Exhibit 10.3 of the Corporation's Quarterly Report on Form 10-Q for the period ended June 30, 2003)
10.4	Endorsement Split Dollar Agreement between the Bank and Robert W. Kurtz (incorporated by reference to Exhibit 10.4 of the Corporation's Quarterly Report on Form 10-Q for the period ended June 30, 2003)
10.5	Endorsement Split Dollar Agreement between the Bank and Jeannette R. Fitzwater (incorporated by reference to Exhibit 10.5 of the Corporation's Quarterly Report on Form 10-Q for the period ended June 30, 2003)
10.6	Endorsement Split Dollar Agreement between the Bank and Phillip D. Frantz (incorporated by reference to Exhibit 10.6 of the Corporation's Quarterly Report on Form 10-Q for the period ended June 30, 2003)
10.7	Endorsement Split Dollar Agreement between the Bank and Eugene D.

	Helbig, Jr. (incorporated by reference to Exhibit 10.7 of the Corporation's Quarterly Report on Form 10-Q for the period ended June 30, 2003)
10.8	Endorsement Split Dollar Agreement between the Bank and Steven M. Lantz (incorporated by reference to Exhibit 10.8 of the Corporation's Quarterly Report on Form 10-Q for the period ended June 30, 2003)
10.9	Endorsement Split Dollar Agreement between the Bank and Robin M. Murray (incorporated by reference to Exhibit 10.9 of the Corporation's Quarterly Report on Form 10-Q for the period ended June 30, 2003)
10.10	Endorsement Split Dollar Agreement between the Bank and Frederick A. Thayer, IV (incorporated by reference to Exhibit 10.10 of the Corporation's Quarterly Report on Form 10-Q for the period ended June 30, 2003)
10.11	First United Corporation Executive and Director Deferred Compensation Plan (incorporated by reference to Exhibit 10.10 of the Corporation's Quarterly Report on Form 10-Q for the period ended September 30, 2003)
31.1	Certifications of the CEO pursuant to Section 302 of the Sarbanes-Oxley Act (filed herewith)
31.2	Certifications of the CFO pursuant to Section 302 of the Sarbanes-Oxley Act (filed herewith)
32.1	Certification of the CEO pursuant to 18 U.S.C. ss. 1350 (furnished herewith)
32.2	Certification of the CFO pursuant to 18 U.S.C. ss. 1350 (furnished herewith)