VOLITIONRX LTD
Form S-1
April 11, 2014

Registration No.

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM S-1

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

VOLITIONRX LIMITED

(Exact name of registrant as specified in its charter)

Delaware	**2835**	**91-1949078**
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

1 Scotts Road

#24-05 Shaw Centre

Singapore 228208

Telephone: (212) 618-1750

Facsimile: +65 6333 7235
(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

Agents and Corporations, Inc.

1201 Orange Street, Suite 600

Wilmington, DE 19899

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copy of correspondence to:

Shivbir Grewal, Esq.

Marc Alcser, Esq.

Stradling Yocca Carlson & Rauth, P.C.

660 Newport Center Drive, Suite 1600

Newport Beach, California 92660

949-725-4000

From time to time after the effective date of this Registration Statement

(*Approximate date of commencement of proposed sale to the public*)

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933 check the following box: X .

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. .

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. .

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. .

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the 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	. (Do not check if a smaller reporting company)	Smaller reporting company	X .

CALCULATION OF REGISTRATION FEE(1)

Title of Each Class of Securities to beRegistered (1)	Amount to be Registered (2)	Proposed Maximum Offering Price Per Share	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Common stock, $0.001 par value	1,500,000	$ 2.68 (3)	$ 4,020,000	$ 517.78
Common stock, $0.001 par value per share, issuable upon exercise of Investor Warrants	1,500,000	$ 2.68 (4)	$ 4,020,000	$ 517.78
Common stock, $0.001 par value per share, issuable upon exercise of Placement Warrants	30,975	$ 2.68 (4)	$ 83,013	$ 10.69
Common stock, $0.001 par value per share, issuable upon exercise of GVC Warrants	29,750	$ 2.68 (4)	$ 79,730	$ 10.27
Total	3,060,725	$ 2.68	$ 8,202,743	$ 1,056.51

(1)

This Registration Statement covers the resale by our selling stockholders (the Selling Stockholders) of: (i) up to 1,500,000 shares (the Purchased Shares) of common stock previously issued at a price of $2.00 per share in connection with a private placement that closed on February 26, 2014 (the Private Placement); (ii) up to 1,500,000 shares (the Investor Warrant Shares) of common stock issuable upon the exercise of outstanding investor s warrants (the Investor Warrants) at an exercise price of $2.20 that were previously issued in connection with the Private Placement; (iii) up to 30,975 shares, comprised of (x) 24,600 shares (the Lake Street Warrant Shares) of common stock issuable upon the exercise of outstanding warrants (the Lake Street Placement Warrants) at an exercise price of $2.20 that were issued to Lake Street Capital Markets, LLC pursuant to an engagement agreement dated November 19, 2013 and (y) up to 6,375 shares (the Davis Warrant Shares, and together with the Lake Street Warrant Shares, the Placement Warrant Shares) of common stock issuable upon the exercise of outstanding warrants (the Davis Placement Warrants, and together with the Lake Street Warrants, the Placement Warrants) at an exercise price of $2.20 that were issued to Christopher Davis pursuant to an engagement agreement with Founding Asset Management Limited dated February 10, 2014; and (iv) up to 29,750 shares (the GVC Warrant Shares) of common stock issuable upon the exercise of outstanding warrants (the GVC Warrants) at an exercise price of $2.00 that were initially issued to GVC Capital, LLC pursuant to a placement agent agreement dated April 10, 2013. (The Investor Warrants, Placement Warrants, and GVC Warrants are referred to collectively as the Warrants and the Investor Warrant Shares, Placement Warrant Shares, and GVC Warrant Shares issuable under the Warrants are referred to collectively as the Warrant Shares).

(2)

This Registration Statement includes an indeterminate number of additional shares of common stock issuable for no additional consideration pursuant to any stock dividend, stock split, recapitalization or other similar transaction effected without the receipt of consideration, which results in an increase in the number of outstanding shares of our common stock. In the event of a stock split, stock dividend or similar transaction involving our common stock, in

order to prevent dilution, the number of shares registered shall be automatically increased to cover the additional shares in accordance with Rule 416(a) under the Securities Act of 1933, as amended (the Securities Act).

(3)

Estimated in accordance with Rule 457(c) of the Securities Act, solely for the purposes of calculating the registration fee based upon the average of the high and low prices as reported on the OTCQB Marketplace (OTCQB) as of April 9, 2014.

(4)

Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(g) of the Securities Act. The proposed maximum offering price is determined by the offering price of securities of the same class included in the registration statement.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933, AS AMENDED, OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE SECURITIES AND EXCHANGE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

The information in this preliminary prospectus is not complete and may be changed or withdrawn without notice. These securities may not be sold until this registration statement filed with the Securities and Exchange Commission (SEC) is declared effective. This preliminary prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to completion, dated April 11, 2014

VOLITIONRX LIMITED

1 Scotts Road

#24-05 Shaw Centre

Singapore 228208

(212) 618-1750

PRELIMINARY PROSPECTUS

THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED OR WITHDRAWN WITHOUT NOTICE. THESE SECURITIES MAY NOT BE SOLD UNTIL THIS REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS DECLARED EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND IT IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY JURISDICTION WHERE THE OFFER OR SALE IS NOT PERMITTED.

SHARES OF COMMON STOCK

This prospectus covers the resale by our selling stockholders (the Selling Stockholders) of: (i) up to 1,500,000 shares (the Purchased Shares) of common stock previously issued at a price of $2.00 per share in connection with a private placement that closed on February 26, 2014 (the Private Placement); (ii) up to 1,500,000 shares (the Investor Warrant Shares) of common stock issuable upon the exercise of outstanding investor s warrants (the Investor Warrants) at an exercise price of $2.20 that were previously issued in connection with the Private Placement; (iii) up to 30,975 shares, comprised of (x) 24,600 shares (the Lake Street Warrant Shares) of common stock issuable upon the exercise of outstanding warrants (the Lake Street Placement Warrants) at an exercise price of $2.20 that were issued to Lake Street Capital Markets, LLC pursuant to an engagement agreement dated November 19, 2013 and (y) up to 6,375 shares (the Davis Warrant Shares, and together with the Lake Street Warrant Shares, the Placement Warrant Shares) of common stock issuable upon the exercise of outstanding warrants (the Davis Placement Warrants, and together

with the Lake Street Warrants, the Placement Warrants) at an exercise price of $2.20 that were issued to Christopher Davis pursuant to an engagement agreement with Founding Asset Management Limited dated February 10, 2014; and (iv) up to 29,750 shares (the GVC Warrant Shares) of common stock issuable upon the exercise of outstanding warrants (the GVC Warrants) at an exercise price of $2.00 that were initially issued to GVC Capital, LLC pursuant to a placement agent agreement dated April 10, 2013. (The Investor Warrants, Placement Warrants, and GVC Warrants are referred to collectively as the Warrants and the Investor Warrant Shares, Placement Warrant Shares, and GVC Warrant Shares issuable under the Warrants are referred to collectively as the Warrant Shares).

We are not selling any shares of our common stock in this offering and, as a result, we will not receive any proceeds from the sale of the common stock covered by this prospectus. All of the net proceeds from the sale of our common stock will go to the Selling Stockholders. Upon exercise of Warrants, however, we will receive proceeds from the exercise of such Warrants. Any proceeds received from the exercise of such Warrants will be used for general working capital and other corporate purposes.

The Selling Stockholders may sell common stock from time to time at prices established on the OTCQB Marketplace (OTCQB) or as negotiated in private transactions, or as otherwise described under the heading Plan of Distribution. The common stock may be sold directly or through agents or broker-dealers acting as agents on behalf of the Selling Stockholders. The Selling Stockholders may engage brokers, dealers or agents who may receive commissions or discounts from the Selling Stockholders. We will pay all the expenses incident to the registration of the shares; however, we will not pay for sales commissions or other expenses applicable to the sale of our common stock registered hereunder.

VolitionRX Limited is a development stage company and currently has limited operations. Any investment in the shares offered herein involves a high degree of risk. You should only purchase shares if you can afford a loss of your investment. Our independent registered public accountant has issued an audit opinion for VolitionRX Limited, which includes a statement expressing substantial doubt as to our ability to continue as a going concern.

Our common stock is currently quoted on the OTCQB under the symbol VNRX . On April 9, 2014, the closing price of our common stock was $2.70 per share.

THE PURCHASE OF THE SECURITIES OFFERED THROUGH THIS PROSPECTUS INVOLVES A HIGH DEGREE OF RISK. YOU SHOULD CAREFULLY READ THIS ENTIRE PROSPECTUS, INCLUDING THE SECTION ENTITLED RISK FACTORS BEGINNING ON PAGE 9 HEREOF BEFORE BUYING ANY SHARES OF VOLITIONRX LIMITED S COMMON STOCK.

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

No dealer, salesperson or any other person is authorized to give any information or make any representations in connection with this offering other than those contained in this prospectus and, if given or made, the information or representations must not be relied upon as having been authorized by us. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any security other than the securities offered by this prospectus, or an offer to sell or a solicitation of an offer to buy any securities by anyone in any jurisdiction in which the offer or solicitation is not authorized or is unlawful.

The date of this prospectus is , 2014

TABLE OF CONTENTS

	Page
CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS	6
Prospectus Summary	7
Risk Factors	9
Determination of Offering Price	16
Use of Proceeds	16
Business	17
Management s Discussion and Analysis of Financial Condition and Results of Operations	33
Directors, Executive Officers, Promoters and Control Persons	36
Executive Compensation	45
Security Ownership of Certain Beneficial Owners and Management	57
Certain Relationships and Related Transactions	59
Selling Security Holders	63
Plan of Distribution	65
Dilution	67
Description of Securities	67
Commission Position On Indemnification For Securities Act Liabilities	68
Experts	68
Where You Can Find More Information	69
Index to Financial Statements	F-1

Smaller Reporting Company Scaled Disclosure

Pursuant to Item 10(f) of Regulation S-K promulgated under the Securities Act of 1933, as indicated herein, we have elected to comply with the scaled disclosure requirements applicable to smaller reporting companies, including

providing two years of audited financial statements.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward looking statements that involve risks and uncertainties, principally in the sections entitled **Business**, **Risk Factors**, and **Management s Discussion and Analysis of Financial Condition and Results of Operations**. All statements other than statements of historical fact contained in this prospectus, including statements regarding future events, our future financial performance, business strategy and plans and objectives of management for future operations, including with respect to us specifically and the cancer diagnostics industry in general are forward-looking statements. We have attempted to identify forward-looking statements by terminology including **anticipates**, **believes**, **can**, **continue**, **could**, **estimates**, **expects**, **intends**, **may**, **plans**, **should**, or **will** or the negative of these terms or other comparable terminology. Although we do not make forward looking statements unless we believe we have a reasonable basis for doing so, we cannot guarantee their accuracy. These statements are only predictions and involve known and unknown risks, uncertainties and other factors, including the risks outlined under **Risk Factors** or elsewhere in this prospectus, which may cause our or our industry s actual results, levels of activity, performance or achievements to vary from those expressed or implied by these forward-looking statements. Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time and it is not possible for us to predict all risk factors, nor can we address the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause our actual results to differ materially from those contained in any forward-looking statements. All forward-looking statements included in this document are based on information available to us on the date hereof, and we assume no obligation to update any such forward-looking statements. In light of these risks and uncertainties, we cannot assure you that the forward-looking statements contained in this prospectus will in fact occur. You should not place undue reliance on these forward-looking statements.

Before you invest in our securities, you should be aware that the occurrence of the events described in the section entitled **Risk Factors** and elsewhere in this prospectus could negatively affect our business, operating results, financial condition and stock price. Forward-looking statements change over time and except as required by applicable securities laws, we undertake no obligation to update or revise publicly any of the forward-looking statements after the date of this prospectus to conform our statements to actual results or changed expectations.

PROSPECTUS SUMMARY

The following summary highlights material information contained elsewhere in this prospectus. This summary does not contain all of the information you should consider before investing in our common stock. Before making an investment decision, you should read the entire prospectus carefully, including the Risk Factors section, the Management s Discussion and Analysis of Financial Condition and Results of Operations section, the financial statements and the notes to the financial statements. You should also review the other available information referred to in the section entitled Where You Can Find More Information in this prospectus and any amendment or supplement hereto. Unless otherwise indicated, the terms the Company, VolitionRX, VNRX, we, us, and our refer and VolitionRX Limited, together with our wholly owned subsidiary, Singapore Volition Pte Limited, and its two subsidiaries, Belgian Volition SA and HyperGenomics Pte Limited.

The Company Overview

The Company was incorporated on September 24, 1998 in the State of Delaware under the name Standard Capital Corporation. The original business plan of the Company was to acquire and develop mineral properties.

On September 26, 2011, the Company, then under the name Standard Capital Corporation, and its controlling stockholders (the Controlling Stockholders) entered into a Share Exchange Agreement (the Share Exchange Agreement) with Singapore Volition Pte Limited, a Singapore registered company (Singapore Volition) and the shareholders of Singapore Volition (the Volition Shareholders), whereby the Company acquired 6,908,652 (100%) shares of common stock of Singapore Volition (the Volition Stock) from the Volition Shareholders. In exchange for the Volition Stock, the Company issued 6,908,652 shares of its common stock to the Volition Shareholders. The Share Exchange Agreement closed on October 6, 2011. As a result of the Share Exchange Agreement, Singapore Volition became our wholly-owned operating subsidiary and the Company now carries on the business of Singapore Volition as its primary business. Singapore Volition has two subsidiaries, Belgian Volition SA, a Belgium registered company (Belgian Volition), which it acquired as of September 22, 2010, and HyperGenomics Pte Limited, a Singapore registered company (HyperGenomics Pte Limited), which it formed as of March 7, 2011.

On September 22, 2011, the Company filed a Certificate for Renewal and Revival of Charter with the Secretary of State of Delaware. Pursuant to Section 312(1) of Delaware General Corporation Law, the Company was revived under the new name of VolitionRX Limited . The name change to VolitionRX Limited was approved by FINRA on October 7, 2011 and became effective on October 11, 2011.

The Company is now a development stage life sciences company focused on meeting the need for accurate, fast, inexpensive and scalable tests for detecting and diagnosing cancer and other diseases. We are in the development stage of our operations and are in the process of discovering and developing blood-based diagnostic tests intended for future commercialization through various channels within the E.U, the United States, and eventually throughout the rest of the world. The Company has developed twenty blood test assays. Each assay that we have developed can be

commercialized for two distinct markets, the clinical in-vitro diagnostics (IVD) market and the research use only (RUO) market. Commercializing products on the RUO market means that we intend to sell our products to medical schools, universities and commercial research and development departments for research use only. Products placed on the RUO market may be used for any research purpose. RUO products, however, are strictly not to be used for patient diagnosis. Commercializing products on the IVD market means that we intend to sell our future products to be used in hospitals, clinics, etc. for patient diagnosis. None of the assays that we are currently developing are available for sale on the IVD market.

Currently, there are very few blood tests for diagnosis of cancer in common clinical use. The only commonly used blood screening test for any cancer is the Prostate Specific Antigen (PSA) test for prostate cancer. The PSA test has poor diagnostic accuracy (detects approximately 70% of prostate cancers and misdiagnoses about 30% of healthy men as positive for cancer) but is widely used because it is the best product currently available.(1) There are currently no blood tests for diagnosing lung cancer.

We do not anticipate earning significant revenues until such time as we are able to fully market our intended products on either the RUO or IVD clinical diagnostics market. For these reasons, our auditors stated in their report on our audited financial statements that they have substantial doubt that we will be able to continue as a going concern without further financing. The ability of the Company to continue as a going concern is dependent upon its ability to successfully accomplish its plan of operations described herein and eventually attain profitable operations.

---

(1) National Cancer Institute FactSheet Tumor Markers, 7 December 2011 [online], Available at http://www.cancer.gov/cancertopics/factsheet/detection/tumor-markers, [accessed 03.03.2014]

We anticipate that any additional funding that we will require will be in the form of equity financing from the sale of our common stock. However, there is no assurance that we will be able to raise sufficient funding from the sale of our common stock. The risky nature of our business enterprise places debt financing beyond the credit-worthiness required by most banks or typical investors of corporate debt until such time as our intended products are available on the market. We do not have any arrangements in place for any future equity financing. If we are unable to secure additional funding, we will cease or suspend operations. We have no plans, arrangements or contingencies in place in the event that we cease operations.

Corporate Information

Our executive offices are located at 1 Scotts Road, #24-05 Shaw Centre, Singapore 228208, and our telephone number is (212) 618-1750. We maintain a website at *www.volitionrx.com*. Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and all amendments to such reports are available to you free of charge through the Investors section of *www.volitionrx.com* as soon as practicable after such materials have been electronically filed with, or furnished to, the Securities and Exchange Commission. The information contained on our websites are not incorporated by reference into this prospectus. We have included our website addresses only as an inactive textual reference and do not intend them to be active links to our websites.

We are a smaller reporting company as defined in Rule 12b-2 of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and have elected to take advantage of certain of the scaled disclosure available to smaller reporting companies.

Summary of This Offering

Securities being offered	3,060,725 shares of common stock, which includes: (i) 1,500,000 shares of common stock; (ii) 1,500,000 shares of common stock issuable upon the exercise of the outstanding Investor Warrants; (iii) 30,975 shares of common stock issuable upon the exercise of the outstanding Placement Warrants; and (iv) 29,750 shares of common stock issuable upon the exercise of the outstanding GVC Warrants. Our common stock is described in further detail in the section of this prospectus titled DESCRIPTION OF SECURITIES.
Securities being offered by the Company	None.
Number of common shares outstanding Before the Offering (1)	13,307,936 shares of common stock.
	14,868,661 shares of common stock.

Number of common shares outstanding After the Offering (2)	
Use of Proceeds	We will not receive any of the proceeds from the sale of shares of common stock by the Selling Stockholders. Upon exercise of the Warrants, we will receive proceeds from the exercise of such Warrants. Any proceeds from the exercise of such Warrants will be used for general working capital and other corporate purposes.
Risk Factors	An investment in our common stock involves a high degree of risk. You should carefully consider the risk factors set forth under the Risk Factors section hereunder and the other information contained in this prospectus before making an investment decision regarding our common stock. Our common stock should not be purchased by investors who cannot afford the loss of their entire investment.
OTCQB Trading Symbol	Our common stock is currently quoted on the OTCQB Marketplace (the OTCQB) under the symbol VNRX .

(1)

Based on the number of shares issued and outstanding as of March 28, 2014, not including 4,330,244 shares issuable upon exercise of options and warrants to purchase our common stock, including the Warrant Shares being offered for sale under this prospectus.

(2)

Assumes full exercise of the Warrants (and excluding all other shares issuable upon exercise of outstanding options and warrants).

RISK FACTORS

Investment in our common stock involves significant risk. You should carefully consider the information described in the following risk factors, together with the other information appearing elsewhere in this prospectus, before making an investment decision regarding our common stock. If any of the events or circumstances described in these risks actually occur, our business, financial conditions, results of operations and future growth prospects would likely be materially and adversely affected. In these circumstances, the market price of our common stock could decline, and you may lose all or a part of your investment in our common stock.

RISKS ASSOCIATED WITH OUR COMPANY

We have not generated any significant revenue since our inception and we may never achieve profitability.

We are a development stage company and since our inception on September 24, 1998, we have not generated any significant revenue. As we continue the discovery and development of our future diagnostic products, our expenses are expected to increase significantly. Accordingly, we will need to generate significant revenue to achieve profitability. Even as we begin to market and sell our intended products, we expect our losses to continue as a result of ongoing research and development expenses, as well as increased manufacturing, sales and marketing expenses. These losses, among other things, have had and will continue to have an adverse effect on our working capital, total assets and stockholders equity. Because of the numerous risks and uncertainties associated with our product development and commercialization efforts, we are unable to predict when we will become profitable, and we may never become profitable. Even if we do achieve profitability, we may not be able to sustain or increase profitability on a quarterly or annual basis. If we are unable to achieve and then maintain profitability, our business, financial condition and results of operations will be negatively affected and the market value of our common stock will decline.

We may need to raise additional capital in the future. If we are unable to secure adequate funds on terms acceptable to us, we may be unable to execute our plan of operations.

We believe that our current cash, cash equivalents and marketable securities will be sufficient to meet our anticipated cash requirements through the fourth quarter of 2014. If we incur delays in commencing commercialization of our intended products or in achieving significant product revenue, or if we encounter other unforeseen adverse business developments, we may exhaust our capital resources prior to this time.

We cannot be certain that additional capital will be available when needed or that our actual cash requirements will not be greater than anticipated. Financing opportunities may not be available to us, or if available, may not be available on favorable terms. The availability of financing opportunities will depend on various factors, such as market conditions and our financial condition and outlook. In addition, if we raise additional funds through the issuance of equity or convertible debt securities, the percentage ownership of our stockholders could be significantly diluted, and these newly-issued securities may have rights, preferences or privileges senior to those of existing stockholders. If we obtain additional debt financing, a substantial portion of our operating cash flow may be dedicated to the payment of principal and interest on such indebtedness, and the terms of the debt securities issued could impose significant restrictions on our operations. If we are unable to obtain financing on terms favorable to us, we may be unable to execute our plan of operations and we may be required to cease or reduce development or commercialization of any future products, sell some or all of our technology or assets or merge with another entity.

It is difficult to forecast our future performance, which may cause our financial results to fluctuate unpredictably.

Our limited operating history and the rapid evolution of the market for diagnostic products make it difficult for us to predict our future performance. A number of factors, many of which are outside of our control, may contribute to fluctuations in our financial results, such as:

.

The demand for our intended products;

.

Our ability to obtain any necessary financing;

.

Our ability to market and sell our future products;

.

Market acceptance of our future products and technology;

.

Performance of any future strategic business partners;

.

Our ability to obtain regulatory clearances or approvals;

.

Changes in technology that may render our future products uncompetitive or obsolete;

- Competition with other cancer diagnostics companies; and
- Adverse changes in the healthcare industry.

Our future success depends on our ability to retain our officers and directors, scientists, and other key employees and to attract, retain and motivate qualified personnel.

Our success depends on our ability to attract, retain and motivate highly qualified management and scientific personnel. In particular, we are highly dependent on Cameron Reynolds our President and Chief Executive Officer, other officers and directors, scientists and key employees. The loss of any of these persons or their expertise would be difficult to replace and could have a material adverse effect on our ability to achieve our business goals. In addition, the loss of the services of any one of these persons may impede the achievement of our research, development and commercialization objectives by diverting management s attention to the identification of suitable replacements, if any. There can be no assurance that we will be successful in hiring or retaining qualified personnel, and our failure to do so could have a material adverse effect on our business, financial condition and results of operations.

Recruiting and retaining qualified scientific personnel and, in the future, sales and marketing personnel will also be critical to our success. We may not be able to attract and retain these personnel on acceptable terms given the competition among pharmaceutical, biotechnology and diagnostic companies for similar personnel. We also experience competition for the hiring of scientific personnel from universities and research institutions. We do not maintain key person insurance on any of our employees. In addition, we rely on consultants and advisors, including scientific and clinical advisors, to assist us in formulating our research, development and commercialization strategies. Our consultants and advisors, however, may have other commitments or employment, that may limit their availability to us.

We expect to expand our product development, research and sales and marketing capabilities, and as a result, we may encounter difficulties in managing our growth, which could disrupt our operations.

We expect to experience significant growth in the number of our consultants, advisors, and employees and the scope of our operations as we continue to develop and commercialize our current pipeline of intended products and new products. In order to manage our anticipated future growth, we must continue to implement and improve our managerial, operational and financial systems, expand our facilities, and continue to recruit and train additional qualified personnel. Due to our limited resources, we may not be able to effectively manage the expansion of our operations or recruit and train additional qualified personnel. The expansion of our operations may lead to significant costs and may divert our management and business development resources. Any inability to manage growth could delay the execution of our business plan or disrupt our operations.

We have limited experience with direct sales and marketing and any failure to build and manage a direct sales and marketing team effectively could have a material adverse effect on our business.

The Company s products will require several dynamic and evolving sales models tailored to different worldwide markets, users and products. The Company has decided to focus its sales strategy on the initial RUO market in 2014 and develop a flexible strategy for its future IVD products through the later part of 2014. We hope to progressively grow to large volumes of tests sold to centralized laboratories and eventually reach the mass diagnostics testing market. The exact nature of the ideal sales strategy will evolve as the Company continues to develop its intended products and seek entry into the RUO and IVD markets. We have limited experience with direct sales and marketing and any failure to build and manage a direct sales and marketing team effectively could have a material adverse effect on our business.

There are significant risks involved in building and managing our sales and marketing organization, as well identifying and negotiating deals with the right sales and distribution partners, including risks related to our ability to:

.

Identify appropriate partners;

.

Negotiate beneficial partnership and distribution agreements;

.

Hire qualified individuals as needed;

.

Generate sufficient leads within our targeted market for our sales force;

.

Provide adequate training for effective sales and marketing;

.

Retain and motivate our direct sales and marketing professionals; and

.

Effectively oversee geographically dispersed sales and marketing teams.

Our failure to adequately address these risks could have a material adverse effect on our ability to increase sales and use of our future products, which would cause our revenues to be lower than expected and harm our results of operations.

Our Amended and Restated Certificate of Incorporation exculpates our officers and directors from certain liability to our Company or our stockholders.

Our Amended and Restated Certificate of Incorporation contain a provision limiting the liability of our officers and directors for their acts or failures to act, except for acts involving intentional misconduct, fraud or a knowing violation of law. This limitation on liability may reduce the likelihood of derivative litigation against our officers and directors and may discourage or deter our stockholders from suing our officers and directors based upon breaches of their duties to our Company.

Our internal controls may be inadequate, which could cause our financial reporting to be unreliable and lead to misinformation being disseminated to the public.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. As defined in Exchange Act Rule 13a-15(f), internal control over financial reporting is a process designed by, or under the supervision of, the principal executive and principal financial officer and effected by the board of directors, management and other personnel, 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 and includes those policies and procedures that:

.

pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;

.

provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and/or directors of the Company; and

.

provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Our internal controls may be inadequate or ineffective, which could cause our financial reporting to be unreliable and lead to misinformation being disseminated to the public. Investors relying upon this misinformation may make an uninformed investment decision.

***We have a going concern opinion from our auditors, indicating the possibility that we may not be able to continue to operate*.**

Our independent registered public accountants have expressed substantial doubt about our ability to continue as a going concern. This opinion could materially limit our ability to raise additional funds by issuing new debt or equity securities or otherwise. If we fail to raise sufficient capital when needed, we will not be able to complete our proposed business. As a result we may have to liquidate our business and investors may lose their investments. The ability of the Company to continue as a going concern is dependent upon its ability to successfully accomplish its plan of operations described herein and eventually attain profitable operations. Investors should consider our independent registered public accountant s comments when deciding whether to invest in the Company.

RISKS ASSOCIATED WITH OUR BUSINESS

Failure to successfully develop, manufacture, market, and sell our future products will have a material adverse effect on our business, financial condition, and results of operations.

We are in the process of developing a suite of diagnostic tests as well as additional products. To date, we have not placed any of our product prototypes on either the clinical or research market. The successful development and commercialization of our intended products is critical to our future success. Our ability to develop, manufacture, market, and sell our future products successfully is subject to a number of risks, many of which are outside our control. There can be no assurance that we will be able to develop and manufacture products in commercial quantities at acceptable costs, successfully market any products, or generate revenues from the sale of any products. Failure to achieve any of the foregoing would have a material adverse effect on our business, financial condition, and results of operations.

Our business is dependent on our ability to successfully develop and commercialize diagnostic products. If we fail to develop and commercialize diagnostic products, we may be unable to execute our plan of operations.

Our current business strategy focuses on discovering, developing and commercializing diagnostic products. The success of our business will depend on our ability to fully develop and commercialize the diagnostic products in our current development pipeline as well as continue the discovery and development of other diagnostics products.

Prior to commercializing diagnostic products, we will be required to undertake time-consuming and costly development activities with uncertain outcomes, including conducting clinical studies and obtaining regulatory clearance or approval in the U.S. and in Europe. We have limited experience in taking products through these processes and there are considerable risks involved in these activities. The science and methods that we are employing are innovative and complex, and it is possible that our development programs will ultimately not yield products suitable for commercialization or government approval. Products that appear promising in early development may fail to be validated in subsequent studies, and even if we achieve positive results, we may still fail to obtain the necessary regulatory clearances or approvals. Few research and development projects result in commercial products, and perceived viability in early clinical studies often is not replicated in later studies. At any point, we may abandon development of a product, or we may be required to expend considerable resources obtaining additional clinical and nonclinical data, which would adversely impact the timing for generating potential revenue from those products. Further, our ability to develop and launch diagnostic tests is dependent on our receipt of substantial additional funding. If our discovery and development programs yield fewer commercial products than we expect, we may be unable to execute our business plan, and our business, financial condition and results of operations may be adversely affected.

If the marketplace does not accept the products in our development pipeline or any other diagnostic products we might develop, we may be unable to generate sufficient revenue to sustain and grow our business.

Our intended products may never gain significant acceptance in the research or clinical marketplace and therefore may never generate substantial revenue or profits. Physicians, hospitals, clinical laboratories, researchers or others in the healthcare industry may not use our future products unless they determine that they are an effective and cost-efficient means of detecting and diagnosing cancer. In addition, we will need to expend a significant amount of resources on marketing and educational efforts to create awareness of our future products and to encourage their acceptance and adoption. If the market for our future products does not develop sufficiently or the products are not accepted, our revenue potential will be harmed.

The cancer diagnostics market is highly competitive and subject to rapid technological change; accordingly, we will face fierce competition and our intended products may become obsolete.

The cancer diagnostics market is extremely competitive and characterized by evolving industry standards and new product enhancements. Cancer diagnostic tests are technologically innovative and require significant planning, design, development, and testing at the technological, product, and manufacturing process levels. These activities require significant capital commitments and investment. There can be no assurance that our intended products or proprietary technologies will remain competitive following the introduction of new products and technologies by competing companies within the industry. Furthermore, there can be no assurance that our future competitors will not develop products that render our future products obsolete or that are more effective, accurate or can be produced at lower costs. There can be no assurance that we will be successful in the face of increasing competition from new technologies or products introduced by existing companies in the industry or by new companies entering the market.

We expect to face intense competition from companies with greater resources and experience than us, which may increase the difficulty for us to achieve significant market penetration.

The market for cancer diagnostics is intensely competitive, subject to rapid change, and significantly affected by new product introductions and other market activities of industry participants. Our future competitors include large multinational corporations and their operating units, including Abbott Laboratories Inc., Cepheid Inc., Philips, GE Healthcare, Siemens, Gen-Probe Incorporated, MDxHealth SA, EpiGenomics AG, Roche Diagnostics, Exact Sciences Corporation and Sequenom, Inc., and several others. These companies have substantially greater financial, marketing and other resources than we do. Each of these companies is either publicly traded or a division of a publicly traded company, and enjoys several competitive advantages, including:

- Significantly greater name recognition;
- Established relationships with healthcare professionals, companies and consumers;
- Additional lines of products, and the ability to offer rebates or bundle products to offer higher discounts or incentives to gain a competitive advantage;
- Established supply and distribution networks; and
- Greater resources for product development, sales and marketing, and intellectual property protection.

These other companies have developed and will continue to develop new products that will compete directly with our future products. In addition, many of our future competitors spend significantly greater funds for the research, development, promotion, and sale of new and existing products. These resources allow them to respond more quickly to new or emerging technologies and changes in consumer requirements. For all the foregoing reasons, we may not be able to compete successfully against our future competitors.

Declining global economic or business conditions may have a negative impact on our business.

Continuing concerns over U.S. healthcare reform legislation and energy costs, geopolitical issues, the availability and cost of credit and government stimulus programs in the United States and other countries have contributed to increased volatility and diminished expectations for the global economy. These factors, combined with low business and consumer confidence and high unemployment precipitated a global economic slowdown and recession. If the economic climate does not improve or continues to deteriorate, our business, including our access to the RUO or clinical market for diagnostic tests, could be adversely affected, resulting in a negative impact on our business, financial condition and results of operations.

Our failure to obtain necessary regulatory clearances or approvals would significantly impair our ability to distribute and market our future products on the clinical in-vitro diagnostics market.

We are subject to regulation and supervision by the FDA in the United States, the Conformité Européenne in Europe and other regulatory bodies in other countries where we intend to sell our future products. Before we are able to place our intended products in the clinical in-vitro diagnostics markets in the U.S. and Europe, we will be required to obtain approval of our future products from the FDA and receive a CE Mark, respectively. Delays in obtaining approvals and clearances could have material adverse effects on the Company and its ability to fully carry out its plan of operations.

Additionally, even if we receive the required government approval of our intended products, we are still subject to continuing regulation and oversight. Under the FDA, diagnostics are considered medical devices and are subject to ongoing controls and regulations, including inspections, compliance with established manufacturing practices, device-tracking, record-keeping, advertising, labeling, packaging, and compliance with other standards. The process of complying with such regulations with respect to current and new products can be costly and time-consuming. Failure to comply with these regulations could have a material adverse effect on our business, financial condition, and results of operations. Furthermore, any FDA regulations governing our future products are subject to change at any time, which may cause delays and have material adverse effects on our operations. In Europe, IVD companies are able to self-certify that they meet the appropriate regulatory requirements but are subject to inspection for enforcement. European national agencies, such as Customs authorities and/or the Departments of Health, Industry and Labor, conduct market surveillance to ensure the applicable requirements have been met for products marketed within the European Union.

We will rely on third parties to manufacture and supply our intended products. Any problems experienced by these third parties could result in a delay or interruption in the supply of our intended products to our customers, which could have a material negative effect on our business.

We will rely on third parties to manufacture and supply our intended products. The manufacture of our intended diagnostic products will require specialized equipment and utilize complicated production processes that would be

difficult, time-consuming and costly to duplicate. If the operations of third party manufacturers are interrupted or if they are unable to meet our delivery requirements due to capacity limitations or other constraints, we may be limited in our ability to fulfill our future sales orders. Any prolonged disruption in the operations of third party manufacturers could have a significant negative impact on our ability to sell our future products, could harm our reputation and could cause us to seek other third party manufacturing contracts, thereby increasing our anticipated development and commercialization costs. In addition, if we are required to change manufacturers for any reason, we will be required to verify that the new manufacturer maintains facilities and procedures that comply with quality standards required by the FDA and with all applicable regulations and guidelines. The delays associated with the verification of a new manufacturer could negatively affect our ability to develop products or receive approval of any products in a timely manner. As of the date of this Amended Registration Statement, we have not entered into any agreements with third party manufacturers for the manufacture of any of our intended products.

The manufacturing operations of our future third party manufacturers will likely be dependent upon third party suppliers, making us vulnerable to supply shortages and price fluctuations, which could harm our business.

The operations of our future third party manufacturers will likely be dependent upon third party suppliers. A supply interruption or an increase in demand beyond a supplier s capabilities could harm the ability of our future manufacturers to manufacture our intended products until new sources of supply are identified and qualified.

Reliance on these suppliers could subject the Company to a number of risks that could harm our business, including:

- Interruption of supply resulting from modifications to or discontinuation of a supplier s operations;
- Delays in product shipments resulting from uncorrected defects, reliability issues, or a supplier s variation in a component;
- A lack of long-term supply arrangements for key components with our suppliers;
- Inability to obtain adequate supply in a timely manner, or to obtain adequate supply on commercially reasonable terms;
- Difficulty and cost associated with locating and qualifying alternative suppliers for components in a timely manner;
- Production delays related to the evaluation and testing of products from alternative suppliers, and corresponding regulatory qualifications;
- Delay in delivery due to suppliers prioritizing other customer orders over ours;
- Damage to our brand reputation caused by defective components produced by the suppliers; and
- Fluctuation in delivery by the suppliers due to changes in demand from us or their other customers.

Any interruption in the supply of components of our future products or materials, or our inability to obtain substitute components or materials from alternate sources at acceptable prices in a timely manner, could impair our ability to meet the demand of our future customers, which would have an adverse effect on our business.

We will depend on third party distributors in the future to market and sell our future products which will subject us to a number of risks.

We will depend on third party distributors to sell, market, and service our future products in our intended markets. We are subject to a number of risks associated with reliance upon third party distributors including:

.

Lack of day-to-day control over the activities of third party distributors;

.

Third party distributors may not commit the necessary resources to market and sell our future products to our level of expectations;

.

Third party distributors may terminate their arrangements with us on limited or no notice or may change the terms of these arrangements in a manner unfavorable to us; and

.

Disagreements with our future distributors could result in costly and time-consuming litigation or arbitration which we could be required to conduct in jurisdictions with which we are not familiar.

If we fail to establish and maintain satisfactory relationships with our future third party distributors, our revenues and market share may not grow as anticipated, and we could be subject to unexpected costs which could harm our results of operations and financial condition.

If the patents that we rely on to protect our intellectual property prove inadequate, our ability to successfully commercialize our future products will be harmed and we may never be able to operate our business profitably.

Our success depends, in large part, on our ability to protect proprietary methods, discoveries and technologies that we develop under the patents and intellectual property laws of the United States, European Union and other countries, so that we can seek to prevent others from unlawfully using our inventions and proprietary information. We have exclusive license rights to a number of patent applications related to our diagnostic tests under development, but do not have any issued patents in the United States and only one issued patent in Europe. Additionally, the Company has patent applications authored by both Singapore Volition and Belgian Volition, which are also currently pending. We cannot assure you that any of the pending patent applications will result in patents being issued. In addition, due to technological changes that may affect our future products or judicial interpretation of the scope of our patents, our intended products might not, now or in the future, be adequately covered by our patents.

If third parties assert that we have infringed their patents and proprietary rights or challenge the validity of our patents and proprietary rights, we may become involved in intellectual property disputes and litigation that would be costly, time consuming, and delay or prevent the development or commercialization of our future products.

Our ability to commercialize our intended products depends on our ability to develop, manufacture, market and sell our future products without infringing the proprietary rights of third parties. Third parties may allege that our future products or our methods or discoveries infringe their intellectual property rights. Numerous U.S. and foreign patents and pending patent applications, which are owned by third parties, exist in fields that relate to our intended products and our underlying methodologies, discoveries and technologies.

A third party may sue us for infringing its patent rights. Likewise, we may need to resort to litigation to enforce a patent issued or licensed to us or to determine the scope and validity of third party proprietary rights. In addition, a third party may claim that we have improperly obtained or used its confidential or proprietary information. The cost to us of any litigation or other proceeding relating to intellectual property rights, even if resolved in our favor, could be substantial, and the litigation could divert our management s attention from other aspects of our business. Some of our competitors may be able to sustain the costs of complex patent litigation more effectively than we can because they have substantially greater resources. Uncertainties resulting from the initiation and continuation of any litigation could limit our ability to continue our operations.

If we are found to infringe upon intellectual property rights of third parties, we might be forced to pay damages, potentially including treble damages. In addition to any damages we might have to pay, a court could require us to stop the infringing activity or obtain a license. Any license required under any patent may not be made available on commercially acceptable terms, if at all. In addition, such licenses are likely to be non-exclusive and, therefore, our competitors may have access to the same technology licensed to us. If we fail to obtain a required license and are unable to design around a patent, we may be unable to effectively market some or all of our future products, which could limit our ability to generate revenue or achieve profitability and possibly prevent us from generating revenue sufficient to sustain our operations.

If we are unable to protect our trade secrets, we may be unable to protect our interests in proprietary technology, processes and know-how that is not patentable or for which we have elected not to seek patent protection.

In addition to patented technology, we rely upon trade secret protection to protect our interests in proprietary know-how and for processes for which patents are difficult or impossible to obtain or enforce. We may not be able to protect our trade secrets adequately. Although we use reasonable efforts to protect our trade secrets, our employees, consultants, contractors and outside scientific advisors may unintentionally or willfully disclose our information to competitors. Enforcing a claim that a third party illegally obtained and is using any of our trade secrets is expensive and time consuming, and the outcome is unpredictable. In addition, courts outside the United States are sometimes less willing to protect trade secrets. We rely, in part, on non-disclosure and confidentiality agreements with our employees, consultants and other parties to protect our trade secrets and other proprietary technology. These agreements may be breached and we may not have adequate remedies for any breach. Moreover, others may independently develop equivalent proprietary information, and third parties may otherwise gain access to our trade secrets and proprietary knowledge. Any disclosure of confidential information into the public domain or to third parties could allow our future competitors to learn our trade secrets and use the information in competition against us, which could adversely affect our competitive advantage.

RISKS ASSOCIATED WITH OUR COMMON STOCK

The Company s stock price may be volatile.

The market price of the Company s common stock is likely to be highly volatile and could fluctuate widely in price in response to various potential factors, many of which will be beyond the Company s control, including the following:

- competition;
- additions or departures of key personnel;
- the Company s ability to execute its business plan;
- operating results that fall below expectations;
- loss of any strategic relationship;
- industry developments;
- economic and other external factors; and
- period-to-period fluctuations in the Company s financial results.

In addition, the securities markets have from time to time experienced significant price and volume fluctuations that are unrelated to the operating performance of particular companies. These market fluctuations may also materially and adversely affect the market price of the Company s common stock.

We do not expect to pay dividends in the foreseeable future.

We do not intend to declare dividends for the foreseeable future, as we anticipate that we will reinvest any future earnings in the development and growth of our business. Therefore, investors will not receive any funds unless they

sell their common stock, and stockholders may be unable to sell their shares on favorable terms or at all. We cannot assure you of a positive return on investment or that you will not lose the entire amount of your investment in our common stock.

We may in the future issue additional shares of our common stock which would reduce investors ownership interests in the Company and which may dilute our share value.

Our Certificate of Incorporation and amendments thereto authorize the issuance of 100,000,000 shares of common stock, par value $0.001 per share and 1,000,000 shares of preferred stock, par value $0.001 per share.. The future issuance of all or part of our remaining authorized common stock may result in substantial dilution in the percentage of our common stock held by our then existing stockholders. We may value any common stock or preferred stock issued in the future on an arbitrary basis. The issuance of common stock or preferred stock for future services or acquisitions or other corporate actions may have the effect of diluting the value of the shares held by our investors, and might have an adverse effect on any trading market for our common stock.

The Company s common stock is currently deemed to be penny stock , which makes it more difficult for investors to sell their shares.

The Company s common stock is currently subject to the penny stock rules adopted under section 15(g) of the Exchange Act. The penny stock rules apply to companies whose common stock is not listed on a national securities exchange and trades at less than $5.00 per share or that have tangible net worth of less than $5,000,000 ($2,000,000 if the company has been operating for three or more years). These rules require, among other things, that brokers who trade penny stock to persons other than established customers complete certain documentation, make suitability inquiries of investors and provide investors with certain information concerning trading in the security, including a risk disclosure document and quote information under certain circumstances. Many brokers have decided not to trade penny stocks because of the requirements of the penny stock rules and, as a result, the number of broker-dealers willing to act as market makers in such securities is limited. If the Company remains subject to the penny stock rules for any significant period, it could have an adverse effect on the market, if any, for the Company s securities. If the Company s securities are subject to the penny stock rules, investors will find it more difficult to dispose of the Company s securities.

FINRA sales practice requirements may limit a stockholder s ability to buy and sell our stock.

The Financial Industry Regulatory Authority (FINRA) has adopted rules that relate to the application of the SEC s penny stock rules in trading our securities and require that a broker/dealer have reasonable grounds for believing that the investment is suitable for that customer, prior to recommending the investment. Prior to recommending speculative, low priced securities to their non-institutional customers, broker/dealers must make reasonable efforts to obtain information about the customer s financial status, tax status, investment objectives and other information.

Under interpretations of these rules, FINRA believes that there is a high probability that speculative, low priced securities will not be suitable for at least some customers. FINRA s requirements make it more difficult for broker-dealers to recommend that their customers buy our common stock, which may have the effect of reducing the level of trading activity and liquidity of our common stock. Further, many brokers charge higher transactional fees for

penny stock transactions. As a result, fewer broker/dealers may be willing to make a market in our common stock, reducing a stockholder s ability to resell shares of our common stock.

DETERMINATION OF OFFERING PRICE

The prices at which the shares of common stock covered by this prospectus may actually be sold will be determined by the prevailing public market price for shares of common stock, by negotiations between the Selling Stockholders and buyers of our common stock in private transactions or as otherwise described in Plan of Distribution.

USE OF PROCEEDS

We will not receive any proceeds from the sale of shares of common stock by the Selling Stockholders covered by this prospectus. All proceeds from the sale of shares of common stock offered under this prospectus will be for the account of the Selling Stockholders as described below in the sections entitled Selling Security Holders and Plan of Distribution. We have agreed to bear the expenses relating to the registration of the common stock for the Selling Stockholders.

To the extent the Selling Stockholders exercise the Warrants, we would receive proceeds from the exercise of the Warrants. The Warrants may expire without having been exercised. Even if some or all of these Warrants are exercised, we cannot predict when they will be exercised and when we would receive the proceeds. We intend to use any proceeds we receive upon exercise of the warrants for general working capital and other corporate purposes.

BUSINESS

Corporate History

The Company was incorporated on September 24, 1998 in the State of Delaware under the name Standard Capital Corporation . On September 22, 2011, the Company filed a Certificate for Renewal and Revival of Charter with the Secretary of State of Delaware. Pursuant to Section 312(1) of the Delaware General Corporation Law, the Company was revived under the new name of VolitionRX Limited. The name change to VolitionRX Limited was approved by FINRA on October 7, 2011 and became effective on October 11, 2011.

On September 26, 2011, the Company, then under the name Standard Capital Corporation, and its controlling stockholders (the Controlling Stockholders) entered into a Share Exchange Agreement (the Share Exchange Agreement) with Singapore Volition Pte Limited, a Singapore registered company (Singapore Volition) and the shareholders of Singapore Volition (the Volition Shareholders), whereby the Company acquired 6,908,652 (100%) shares of common stock of Singapore Volition (the Volition Stock) from the Volition Shareholders. In exchange for the Volition Stock, the Company issued 6,908,652 shares of its common stock to the Volition Shareholders. The Share Exchange Agreement closed on October 6, 2011. As a result of the Share Exchange Agreement, Singapore Volition became our wholly-owned operating subsidiary and the Company now carries on the business of Singapore Volition as its primary business. Singapore Volition has two subsidiaries, Belgian Volition SA, a Belgium registered company (Belgian Volition) which it acquired as of September 22, 2010, and HyperGenomics Pte Limited, a Singapore registered company (HyperGenomics Pte Limited), which it formed as of March 7, 2011.

Description of Our Business

The Company is a development stage life sciences company focused on meeting the need for accurate, fast, inexpensive and scalable tests for detecting and diagnosing cancer and other diseases. We are in the development stage of our operations and are in the process of discovering and developing blood-based diagnostic tests intended for future commercialization through various channels within the E.U., the United States and eventually throughout the rest of the world. The Company has developed twenty blood test assays. Each assay that we have developed can be commercialized for two distinct markets, the clinical in-vitro diagnostics (IVD) market and the research use only (RUO) market. Commercializing products on the RUO market means that we intend to sell our products to medical schools, universities and commercial research and development departments for research use only. Products placed on the RUO market may be used for any research purpose. RUO products, however, are strictly not to be used for patient diagnosis. Commercializing products on the IVD market means that we intend to sell our future products to be used in hospitals, clinics, etc. for patient diagnosis. None of the assays that we are currently developing are available for sale on the IVD market.

Currently, there are very few blood tests for diagnosis of cancer in common clinical use. The only commonly used blood screening test for any cancer is the Prostate-Specific Antigen (PSA) test for prostate cancer. The PSA test has

poor diagnostic accuracy (detects approximately 70% of prostate cancers and misdiagnoses about 30% of healthy men as positive for cancer) but is widely used because it is the best product currently available[1]. There are currently no blood tests for diagnosing lung cancer. Pancreatic cancer is currently not detectable by any means prior to symptomatic presentation of the patient by which time the disease is advanced and the patient life expectancy is short (a matter of a small number of months).

We do not anticipate earning significant revenues until such time as we able to fully market our intended products on either the RUO or IVD clinical diagnostics market. For these reasons, our auditors stated in their report on our audited financial statements that they have substantial doubt that we will be able to continue as a going concern without further financing. The ability of the Company to continue as a going concern is dependent upon its ability to successfully accomplish its plan of operations described herein and eventually attain profitable operations.

We anticipate that any additional funding that we will require will be in the form of equity financing from the sale of our common stock. However, there is no assurance that we will be able to raise sufficient funding from the sale of our common stock. The risky nature of our business enterprise places debt financing beyond the credit-worthiness required by most banks or typical investors of corporate debt until such time as our intended products are available on the market. We do not have any arrangements in place for any future equity financing. If we are unable to secure additional funding, we will cease or suspend operations. We have no plans, arrangements or contingencies in place in the event that we cease operations.

---

[1] National Cancer Institute FactSheet Tumor Markers, 7 December 2011 [online], Available at http://www.cancer.gov/cancertopics/factsheet/detection/tumor-markers, [accessed 03.03.2014]

The Market

Everyone in the world has been, or will be, touched by the effects of cancer. It is one of the world s most deadly diseases, accounting for around 13% of annual global deaths.[2] In the United States alone, there are 14 million cancer survivors.[3] By 2020, this figure is expected to rise to 18.1 million and the cost of cancer in the U.S. is projected to reach $158 billion.[4] These figures are mirrored in all regions of the world and will continue to grow as populations age. This is a large potential market of which diagnostics will be a significant part.

Inevitably, the chances of surviving cancer are greatly improved by early detection and diagnosis; however, there is currently no screening test for cancer in general, and very few effective mass screening tests for specific cancers in blood. Further, current methods of cancer diagnosis are either not cost effective or cannot provide accurate results. The inadequacy of existing diagnostic products means that most cancers are only diagnosed once the patient experiences symptoms and the cancer is well established. By this stage, it will often have spread beyond the primary tumor (metastatic cancers), making it substantially more difficult to treat. Early, non-invasive, accurate cancer diagnosis remains a great unmet medical need and a huge commercial opportunity. For these reasons, cancer diagnostics is an active field of research and development both academically and in the industry.

The global IVD market is forecast to reach $60.0 billion in 2014[5], driven by the increasing health care demands of an aging population. Of this the two largest current IVD market segments are:

.

Histology, immunohistochemistry and cytology of tissue samples (expected to grow 6.8% per annum from 2011-2018, with an expected value of $25.5 billion by 2018).[6] These are mostly used to confirm cancer diagnosis post-surgery and to determine cancer sub-type; and

.

Immunoassay (chemical tests used to detect a substance in blood or body fluid), which will be the second largest market with a value of more than US$7 billion.[7] These tests are mostly used to monitor for disease progress and relapse. This market segment includes Volition s future Nucleosomics® products, which will be blood immunoassay tests for modified histones for the diagnosis of cancer.

Molecular diagnostics (the analysis of genetic makeup e.g. DNA, RNA, and proteins) is growing rapidly, and is expected to reach approximately 18% of IVD market by 2014.[8] In Vitro Diagnostics will be the largest medical technology sector by 2018 greater than either cardiology or diagnostic imaging.[9] The cancer IVD market comprising cancer blood and tissue biopsy tests was $4.7 billion in 2008 and growing at 11%.[10]

---

(2) Cancer - Fact sheet N°297, World Health Organization, [online], Available at: http://www.who.int/mediacentre/factsheets/fs297/en/index.html, [accessed 03.03.2014]

(3) Mariotto AB et al., Projections of the cost of cancer care in the United States: 2010-2020. Jan 19, 2011, JNCI, Vol 103, No.2

(4) Mariotto AB et al., Projections of the cost of cancer care in the United States: 2010-2020. Jan 19, 2011, JNCI, Vol 103, No.2

(5) Report: Worldwide IVD Market Will Cross $60 Billion U.S. Dollars by 2014, August 20, 2012 [online], Available at: http://www.ivdtechnology.com/blog/ivdt-insight/report-worldwide-ivd-market-will-cross-60-billion-us-dollars-2014, [accessed 03.03.2014]

(6) In Vitro Diagnostics Market to 2018 - Consolidation, Decentralization and Demand for Genetic Testing to Shape the Competitive Landscape, March 23, 2012 [online], Available at http://

(7) Report: Worldwide IVD Market Will Cross $60 Billion U.S. Dollars by 2014, August 20, 2012 [online], Available at: http://www.ivdtechnology.com/blog/ivdt-insight/report-worldwide-ivd-market-will-cross-60-billion-us-dollars-2014, [accessed 03.03.2014]

(8) Report: Worldwide IVD Market Will Cross $60 Billion U.S. Dollars by 2014, August 20, 2012 [online], Available at: http://www.ivdtechnology.com/blog/ivdt-insight/report-worldwide-ivd-market-will-cross-60-billion-us-dollars-2014, [accessed 03.03.2014]

(9) IVD Will Be Largest Medtech Sector by 2018, October 4, 2012 [online], Available at http://www.ivdtechnology.com/blog/ivdt-insight/ivd-will-be-largest-medtech-sector-2018, [accessed 03.03.2014]

(10) Cancer IVD market expands to meet customer demand, May 1, 2008, [online], Available at: http://www.ivdtechnology.com/article/cancer-ivd-market-expands-meet-customer-demand, [accessed 03.03.2014]

The Company is focused on responding to the need for early, accurate diagnostic tests through the development of its proprietary technologies and product prototypes. The Company intends to develop a range of products over the next 5-10 years with both general and specific cancer tests, on increasingly simple formats. For the year ended December 31, 2012, the Company spent $2,773,142 on research and development activities. For the year ended December 31, 2013, the Company spent $2,503,765 on research and development activities. None of these costs are borne directly by customers as the Company is in the development stage and does not have any customers.

Our Intended Products

Each product that we are in the process of developing can be commercialized for two distinct markets, the clinical IVD market and the RUO market. To commercialize our future products on the clinical IVD market requires government approval (CE Marking in Europe and/or FDA approval in the U.S.). Commercializing our future products on the IVD market means that we intend to sell our future products to be used in hospitals, clinics, etc. for patient diagnosis. Commercializing our products on the RUO market means that we intend to sell our future products to medical schools, universities and commercial research and development departments for RUO, and not to be used for patient diagnosis. The RUO market does not require government approval; however, before any of our products can be sold on the RUO market, they need to successfully complete beta-testing. Beta-testing involves providing the products to a few laboratories to identify and correct any problems in the products. None of the products that we are currently developing are available on the IVD market. The products that the Company is currently developing are described in detail below:

NuQ® Suite of Epigenetic Cancer Blood Tests

We have developed twenty epigenetic NuQ® assays using our Nucleosomics® technology which are designed to detect the level and structure of nucleosomes in blood. We are in the development stage of our operations and to date, we have no products available for sale on the IVD market. Epigenetics is the science of how genes are switched on or off in the body s cells. A major factor controlling the switching on and off is the structuring of DNA. The DNA human cells is packaged as protein complexes in a beads on a string structure. Each individual protein/DNA bead is called a nucleosome. These nucleosomes then form additional structures with increasingly dense packing, culminating in chromosomes containing hundreds of thousands of nucleosomes.

Figure 1 A nucleosome

Cancer is characterized by uncontrolled and often rapid cell growth which exceeds the corresponding rate of cell death. When cells die, the DNA fragments into individual nucleosomes which are released into the blood as illustrated in Figure 2 below. The cell debris in the bloodstream is eventually recycled back into the body. When a cancer is present, the number of dying cells can overwhelm the recycling process, leaving the excess fragments, including the nucleosomes, in the blood. Importantly, the structure of nucleosomes is not uniform but subject to immense variety. It has been known for 4 or 5 years that nucleosomes in cancer cells have differences in structure from those in healthy cells.[(11)]

[(11)] Fraga MF et al., Loss of acetylation at Lys16 and trimethylation at Lys20 of histone H4 is a common hallmark of human cancer , Nature Genetics, Vol 37 (4), p391-400, 2005

Figure 2 Release of nucleosomes into blood

Blood nucleosome levels can be raised in conditions other than cancer including in auto-immune disease, inflammatory disease, endometriosis, sepsis, and in the immediate aftermath of major trauma (for example following a heart attack, surgery or car accident). The Company s primary focus is on cancer diagnosis but we also intend to pursue diagnostic opportunities in other disease areas.

To date the Company has developed 20 NuQ® blood test assays that fall into 5 main types and are intended to be used together to complement each other and to provide a total solution. To date, we do not have any products available for sale on the IVD market.

.

NuQ®-X: We are currently developing two blood tests in the NuQ®-X family to detect the presence of cancer by detecting nucleosomes containing specific nucleotides.

.

NuQ®-V: We are currently developing three blood tests in the NuQ®-V family to detect cancer by detecting nucleosomes containing specific histone variants. Through our research, we have found that the pattern of blood levels of the different types of histone variants in nucleosomes is different for different cancer types.

.

NuQ®-M: We are currently developing nine blood tests in the NuQ®-M family to detect cancer by detecting nucleosomes containing modified histones, the proteins that package and order DNA into nucleosomes.

.

NuQ®-A: We are currently developing five blood tests in the NuQ®-A family to detect cancer by detecting nucleosome-protein adducts.

.

NuQ®- T: We are currently developing a NuQ®-T test to detect cancer by detecting total blood nucleosome levels.

Generally, the above tests are being developed to work together, using a combination of tests in conjunction (collectively called the NuQ® panel) for the IVD market. To date, we have used the NuQ® panel prototypes to test a small number of blood samples taken from lung, colon, and pancreatic cancer patients.

NuQ® Research Kits

The Company has launched its first RUO products for use in cell culture. The research products are 96 well semi-manual kits for the simultaneous analysis of 48 samples, the usual format for research products (a 96 well kit can be used to analyze 48 samples as samples are tested in duplicate). The most expensive component in the manufacture of products will be the pairs of antibodies employed. Initially, these are purchased or licensed on a small scale, but the Company has commenced development of its own antibodies which we believe will reduce costs. Total small scale production costs for our lowest cost kit is currently $130 per kit. This kit is marketed at $495 to the end user. The more expensive kits currently cost $300 USD per kit to manufacture and have selling prices between $795 - $1370 per kit. We anticipate a drop in the production price to approximately $100 USD per kit, as the Company continues to develop its own antibodies.

The NuQ® assay technology is proprietary to the Company so no direct competition exists. However, some competitors manufacture simple generic modified histone ELISA kits which are the closest competitors currently on the market to the Company s intended NuQ®-M products. The generic products offered by competitors do not measure modified histones in intact nucleosomes but require chemical extraction of histones from samples prior to use.

The NuQ® research use kits are designed to run on simple instrumentation available from a wide range of suppliers and found in most research laboratories and hospitals. Our own instrument, on which we develop and run the NuQ® tests, is shown in Figure 3 below.

Figure 3 Example of lab instrument for running ELISA tests

NuQ® Clinical Diagnostic Products

There are three main segments of the clinical IVD market that the Company intends to adapt its future NuQ® products to in the future.

.

Centralized Laboratory Market

Centralized laboratories test thousands of blood samples taken from patients everyday mostly using fully automated enzyme-linked immunosorbent assay (ELISA) systems, commonly known as random access analyzers, usually supplied by one of the global diagnostics companies. Tests run on ELISA systems use components of the immune system and chemicals to detect immune responses in the body. ELISA systems analyze thousands of blood samples

every day and can run dozens of different ELISA tests in any combination on any sample and for many samples simultaneously. The systems are highly automated and rapid (as little as 10 minutes for many tests), and can be run at low costs. Additionally, ELISA instruments are used in all major hospitals throughout the U.S. and Europe and therefore are well understood by clinicians and laboratory staff. It is more cost-effective and technically simple for hospitals and clinics to run several blood samples simultaneously using ELISA tests compared to non-ELISA tests or alternative methods for screening cancer. All of the NuQ® tests that we are in the process of developing are designed for ELISA systems. A typical example of an ELISA system is shown below in Figure 4.

Figure 4 Example of an Automated ELISA System

One option that may be available to the Company in the future is to license our NuQ® technology on a non-exclusive basis to a global diagnostics company. As of the date of this prospectus, the Company has not entered into any discussions or negotiations with diagnostic companies or established an anticipated timeframe for licensing our NuQ® technology.

Another option that may be available to the Company is to sell manual and/or semi-automated 96 well ELISA plates for use by these laboratories. As of the date of this prospectus, the Company has not entered into any discussions or negotiations with diagnostic companies for the sale of ELISA plates.

.

Point-of-Care Devices: Point-of-care devices are small instruments that perform tens of ELISA tests per day rapidly on blood taken from a finger prick. The instruments can be found in any oncology clinic and tests can be performed during patient consultations. The Company intends to contract with an instrument manufacturer to produce these instruments for point-of-care NuQ® testing for the oncologist s office, general doctor s office or at home testing. The Company hopes to enter the point-of-care clinical market in Europe in 2016 and in the U.S. in 2017, as the Company will first need to adapt its test prototypes to these small instruments and demonstrate their success in the greater diagnostics market before these products will be adopted by others in the industry. At this stage of its development, the Company cannot accurately predict the costs to manufacture these devices or their selling price. As of the date of this prospectus, the Company has not entered into any discussions or negotiations regarding the manufacture or sale of these devices. See Figure 5 for an example of a point-of-care device.

Figure 5 Example of a Point-of-Care Device

The above photograph is an illustration of the Company s intended products. To date, the Company has no products available for sale on the IVD or RUO market and there is no guarantee that any such products will be developed or commercialized on either market.

.

Disposable Home Use or Doctor s Office Tests: Disposable home use or doctor s office tests are single shot disposable devices which can be purchased over the counter at any chemist shop or pharmacy and test a drop of blood taken from a finger prick. The test is administered at a doctor s office using a point-of-care device or at home using a home testing kit, neither of which require laboratory involvement. Thus, the patient experiences considerably lower costs using these tests as compared to traditional laboratory tests. The format of the self-use home testing kit is very easy to use and reproduce and does not rely on laboratory processing. There are currently no useful diagnostics tests suitable for mass screening for cancer in general through a simple self-use home testing kit. Figure 6 below shows a basic home use test on the left which displays the results of the test in the two windows, similar to a pregnancy test. The test on the right is more sophisticated and plugs into a meter or the USB port of a computer for analysis and interpretation.

Figure 6 Examples of Disposable Doctor s Office or Home Use Tests

The above photograph is an illustration of the Company s intended products. To date, the Company has no products available for sale on the IVD or RUO market and there is no guarantee that any such products will be developed or commercialized on either market.

The Company intends to contract with a specialist company to adapt the NuQ® test prototypes to the doctor s office or home use system and to contract with a manufacturer for the production of these tests. As of the date of this prospectus, the Company has not entered into any discussions or negotiations with a specialist company or manufacturer. Initially, the Company intends to sell these tests for professional use only (doctor s office) and to sell the tests for non-professional home use at a later time. The Company does not yet have an estimated timeframe for entering into this market. Further, at this early stage of our development, the Company cannot accurately determine the manufacturing costs or selling price of these tests

HyperGenomics®

The Company is in the process of developing HyperGenomics® tissue and blood-based tests to determine disease subtype following initial diagnosis and to help decide the most appropriate therapy. Selecting the correct treatment approach can significantly improve outcome, reduce side effects and deliver cost savings. The HyperGenomics® tests will be performed on cancer tissue obtained either by biopsy or during surgical resection to determine the cancer subtype and to determine optimal treatment regimens. The HyperGenomics® profiling tests are being developed to provide detailed epigenetic characterization of tumors in a cost effective way. A new protocol for analyzing white blood cells a precursor to applications in leukemia - was developed in 2012. Volition commenced development of a bioinformatics pipeline to analyze the complex data sets generated from the biological samples in 2012 and continued development of the algorithms in 2013. Volition aims to file new in house methodology patents for HyperGenomics in the first half of 2014.

First revenue of $50,000 was realized from contract research in 2012. Volition will continue to offer this service in parallel with development of a HyperGenomics® research kit with completion expected by the end of 2014, Beta-testing is expected to take approximately six (6) months to complete and will cost approximately $50,000 USD. If beta-testing is successful, the Company expects to launch HyperGenomics® research kits into the RUO market in

Europe and in the U.S. in 2015.

For the IVD market, the Company expects to expand clinical proof of concepts and validation work for the HyperGenomics® test in 2014. The launch of the HyperGenomics® test into the IVD market in Europe and the U.S. will follow the commercialization of the test into the RUO market. The estimated timeframe for its launch into the IVD market has not yet been determined and will depend upon the speed of clinical trials and market approval. The HyperGenomics® test is too early in its development for the Company to accurately determinate the manufacturing costs and sale price of the test.

Endometriosis Test

Endometriosis is a progressive gynecological condition that affects one in ten women of childbearing age and approximately 176 million women worldwide. The disease is the leading cause of infertility in women, with up to 40% of all infertile women suffering from endometriosis. There is currently no existing non-surgical diagnostic test for endometriosis. Diagnosis is typically made via invasive and expensive laparoscopy, followed by a histological examination of any lesions found to confirm the diagnosis. Due to difficulties in this process, the diagnosis can take approximately 9 years from when the symptoms appear. The lack of a suitable screening test has also held up development of a cure for the disease.

Singapore Volition acquired the patent application for an endometriosis test (NuQ Endo) in June 2011 and the Company is now in the process of developing the test based on its existing NuQ® technology. The NuQ Endo test is designed to be a simple blood test taken at two stages of a woman s menstrual cycle, during menses and partway through the month. If the two measurements show quantitative differences in total nucleosome level, endometriosis is indicated. Hypothesis-testing and clinical proof of concept work (to demonstrate that the test is feasible or has the potential to be used and effective) on the endometriosis test is currently being carried out in the Company s laboratory. The Company completed pilot studies of the NuQ Endo endometriosis test in 2012 and expects to commence large trials in 2014. The NuQ Endo test is too early in its development for the Company to accurately determinate the manufacturing costs and sale price of the test. The NuQ Endo test is not currently being developed for the RUO market.

Intellectual Property

The Company holds nine families of patents covering the products currently being developed. Two are licensed from world-class research institutions, two are patents authored by Belgian Volition and five are patents authored by Singapore Volition.

Nucleosomics® Intellectual Property

.

Singapore Volition holds an exclusive license to the following patent from Chroma Therapeutics Limited:

Nucleosomics WO2005019826: Detection of Histone Modifications in Cell-Free Nucleosomes (Patent that underlies the NuQ®-M tests)

Application Date: August 18, 2003

Status: Granted in Europe; Pending in U.S.

.

Singapore Volition holds the worldwide exclusive license in the field of cancer diagnosis and cancer prognosis for the following patent from the European Molecular Biology Laboratory:

EMBL Variant Patent WO2011000573: Diagnostic Method for Predicting the Risk of Cancer Recurrence based on MacroH2A Isoforms

Application Date: July 2, 2009

Status: Pending Europe, USA, Canada, Australia, South Africa, India, Brazil, Japan, China, Singapore

.

Belgian Volition authored the following patent application covering its total NuQ® assay technology:

NuQ Patent UK1115099.2 and U.S. 61530300: Method for Detecting Nucleosomes

Application Date: September 1, 2011

Status: Pending Europe, USA

.

Belgian Volition authored the following patent application covering its NuQ®-V technology:

NuQ-V Patent UK1115098.4 and **U.S. 61530304:** Method for Detecting Nucleosomes containing Histone Variants

Application Date: September 1, 2011

Status: Pending Europe, USA, Canada, Australia, South Africa, India, Brazil, Japan, China, Singapore, Russia, South Korea, Mexico

.

Singapore Volition authored the following patent application covering its NuQ®-X technology:

NuQ-X Patent UK1115095.0 and U.S. 61530295: Method for detecting Nucleosomes containing Nucleotides

Application Date: September 1, 2011

Status: Pending Europe, USA, Canada, Australia, South Africa, India, Brazil, Japan, China, Singapore, Russia, South Korea, Mexico

.

Singapore Volition authored the following patent application covering a NuQ®-A blood test for detecting nucleosome adducts of cancer origin that circulate in the blood of cancer patients. The patent application covers both the use of these adducts as biomarkers and the methods for their detection.

NuQ-A Patent UK112130.5 and U.S. 61568090: Method for detecting Nucleosome Adducts

Application Date: December 7, 2011

Status: Pending Worldwide

.

Singapore Volition authored the following patent application covering NuQ®-M blood tests for detecting nucleosomes containing modified histones of cancer origin that circulate in the blood of cancer patients. The patent application covers methods for their detection.

NuQ-M US1770893: Method for detecting Histone Modifications in Nucleosomes

Application Date: February 28th, 2013

Status: Pending Worldwide

.

Singapore Volition was the applicant for and has been assigned the following patent:

US61770922: Method for Predicting Therapy Efficacy using Nucleosome Structure Biomarkers

Application Date: February 28th, 2013

Status: Pending Worldwide

Endometriosis Intellectual Property

.

Singapore Volition authored the following patent application for its endometriosis test:

Endometriosis Diagnostic UK1012662.1: Method for Detecting the Presence of a Gynaecological Growth

Application Date: July 28, 2010

Status: Pending USA, Canada, Australia, Europe

Future Intellectual Property Strategy

The Company intends to continue its development of the NuQ® and HyperGenomics® technologies and will continue to apply for patents for future product developments. The Company s strategy is to protect the *technologies* with patents in Europe and the U.S. Following product development, each product, *based on the technologies*, will be further protected individually by new patent filings worldwide.

We believe that this will provide:

·

Market exclusivity through a double layer of patent protection (primarily the protection of the underlying technology on which all the tests are based and, secondarily, specific patent protection for each future product).

·

A full 20-year protection for each new product developed (e.g. a NuQ® product developed in 2013 would continue to be protected in all markets until 2033, beyond expiration of the parent technology patent in 2023).

Trademarks

·

Europe Granted Trademarks

o

NuQ (covers associated brand names including NuQ-X, NuQ-V, NuQ-M, NuQ Endo, etc.)

European Community Trade Mark No. 009979675

In Classes 01, 05, 10. 42

Registration Date: November 28, 2011

Initial Duration: 10 years

From: May 19, 2011

o

Hypergenomics

European Community Trade Mark No. 009979626

In Classes 01, 05, 10. 42

Registration Date: November 28, 2011

Initial Duration: 10 years

From: May 19, 2011

o

Nucleosomics

European Community Trade Mark Application No. 009979551

Registration Date: March 27, 2012

Classes 01, 05, 10. 42

Application Date: May 19, 2011

.

United States   Granted Trademark

o

Hypergenomics

US Trade Mark No. 4196778

In Classes 01, 05, 10. 42

Registration Date: August 28, 2012

Initial Duration: 10 years

From: August 28, 2012

o

NuQ

US Trade Mark No. 4228623

In Classes 01, 05, 10. 42

Registration Date: October 23, 2012

Initial Duration: 10 years

From: May 19 2011

o

Nucleosomics

US Trade Mark No. 4208619

In Classes 01, 05, 10. 42

Registration Date: September 18, 2012

Initial Duration: 10 years

From: May 19 2011

Government Approval

All of the Company s intended products are designed to be non-invasive, meaning they cannot harm the subject other than through misdiagnosis. The Company s strategy is to begin selling its future products for RUO purposes, which requires no regulatory approval, while simultaneously going through the process of obtaining regulatory approval for IVD products to be used clinically on cancer patients. Conformité Européenne (CE) Marking is a rough equivalent of the United States Food and Drug Administration (FDA) approvals process, although it is a somewhat lighter regime. The Company will first focus on the regulatory process in Europe (CE Marking), due to the grant of the NuQ® patent in Europe and due to the lighter regulatory requirements to obtain CE Marking than to obtain FDA approval in the U.S. This will be followed closely by the regulatory process in the U.S. and in the rest of the world. In many territories, the European CE Mark is sufficient to place products on the clinical market and, where it is not, it often simplifies the regulation processes. To date, the Company has not begun the CE Marking or FDA approval process for any of its tests currently under development.

Europe CE Marking

Manufacturers in the European Union (EU) and abroad must meet CE Marking requirements, where applicable, in order to market their products in Europe. The CE Mark certifies that a product has met EU health, safety, and environmental requirements which ensure consumer safety.

To receive the CE Mark, the Company must meet certain requirements as set forth in the In-Vitro Diagnostic Medical Devices Directive which applies to the Company s diagnostic products. The requirements to procure CE Marking for In-Vitro Diagnostic Medical products are: (i) analytical validation of the products; (ii) clinical validation of the products (which can be retrospective clinical studies using biobank patient samples, i.e. blood samples from historic patients); (iii) implementation of regulatory compliant manufacture; and (iv) certification from the International Organization for Standardization (this last requirement is not technically required but will aid the regulatory approval process in Europe and the U.S.).

The Company is currently engaged in requirements (i) and (ii) for the NuQ®-X test and the NuQ® panel. Requirements (iii) and (iv) are general requirements that apply to all of the Company s intended products. In compliance with the In-Vitro Diagnostic Medical Devices Directive and the CE Marking process, the Company has ensured that all development and validation is carried out in a manner consistent with regulatory approval. Additionally, the Company has maintained proper records so that its future products can be approved as quickly and simply as possible. The Company has engaged a regulatory advisor to lead in requirement (iv) for all of its future products. All of these requirements must be completed prior to the submission of an application for CE Marking. The Company will submit applications, which will contain a dossier of all relevant analytical, clinical and manufacturing data following retrospective clinical studies which will require a total of approximately six (6) months to complete. We estimate the cost of obtaining CE Marking will be approximately $500,000 USD per test. The Company expects that CE Marking for the NuQ®-X test and NuQ® panel products will be applied for in 2014. Sales of our clinical products can occur in Europe once CE Marking has been granted.

In Europe, IVD companies are able to self-certify that they meet the appropriate regulatory requirements and are subject to inspection for enforcement. European national agencies, such as Customs authorities and/or the Departments of Health, Industry and Labor, conduct market surveillance to ensure the provisions of the applicable Directive have been met for products marketed within the European Union. In pursuit of this goal, surveillance authorities will: i) visit commercial, industrial and storage premises on a regular basis; ii) visit work places and other premises where products are put into service and used; iii) organize random checks; and iv) take samples of products for examination and testing. If a product is found to be noncompliant, corrective action will depend on and be appropriate to the level of noncompliance. Others responsible for the noncompliance of the product will be held accountable as well. Penalties, which may include imprisonment, are determined by national law.

U.S. FDA Approval

The Company s diagnostic products are designated as medical devices by the FDA. Among other things, the FDA regulates the research, testing, manufacturing, safety, labeling, storage, recordkeeping, pre-market clearance or approval, marketing and promotion, and sales and distribution of medical devices in the U.S. to ensure that medical devices distributed domestically are safe and effective for their intended uses. In addition, the FDA regulates the export of medical devices manufactured in the U.S. to international markets. We estimate the cost of obtaining FDA approval to be approximately $825,000 USD per product. FDA approval is more expensive and will take at least twice as long as CE Marking in Europe.

Unless an exemption applies, each medical device that we wish to market in the U.S. must first receive either clearance of a 510(k) pre-market notification or approval of a Product Market Application (PMA) from the FDA. The FDA s 510(k) clearance process usually takes from three to twelve months, but it can take significantly longer and clearance is never guaranteed. The process of obtaining PMA approval is much more costly, lengthy and uncertain. It generally takes from one to three years or even longer and approval is not guaranteed. The FDA decides whether a device must undergo either the 510(k) clearance or PMA approval process based upon statutory criteria. These criteria include the level of risk that the agency determines is associated with the device and a determination of whether the product is a type of device that is similar to devices that are already legally marketed. Devices deemed to pose relatively less risk are placed in either Class I or II. Class III devices are those devices which are deemed by the FDA to pose the greatest risk, such as life-sustaining, life-supporting or implantable devices, have a new intended use, or use advanced technology that is not substantially equivalent to that of a legally marketed device. In the U.S., cancer diagnostics are considered Class III products, the highest classification (in Europe, cancer diagnostics are not in the high classification group except for home use). As such, most of the Company s future products will likely have to undergo the full PMA process of the FDA.

A clinical trial may be required in support of a 510(k) submission and is generally required for a PMA application. These trials generally require an effective Investigational Device Exemption (IDE), from the FDA for a specified number of patients, unless the product is exempt from IDE requirements or deemed a non-significant risk device eligible for more abbreviated IDE requirements. The IDE application must be supported by appropriate data, such as animal and laboratory testing results. Clinical trials may begin 30 days after the submission of the IDE application unless the FDA or the appropriate institutional review boards at the clinical trial sites place the trial on clinical hold.

Once the application and approval process is complete and the product is placed on the clinical diagnostics market, regardless of the classification or pre-market pathway, it remains subject to significant regulatory requirements. The FDA may impose limitations or restrictions on the uses and indications for which the product may be labeled and promoted. Medical devices may only be marketed for the uses and indications for which they are cleared or approved. FDA regulations prohibit a manufacturer from promoting a device for an unapproved, or off-label use. Manufacturers that sell products to laboratories for research or investigational use in the collection of research data are similarly prohibited from promoting such products for clinical or diagnostic tests.

Further, our future manufacturing processes and those of our future suppliers will be required to comply with the applicable portions of the FDA s Quality Systems Regulations, which cover the methods and documentation of the design, testing, production, processes, controls, quality assurance, labeling, packaging and shipping of our intended products. Domestic facility records and manufacturing processes are subject to periodic unscheduled inspections by the FDA. The FDA also may inspect foreign facilities that export products to the U.S.

The FDA has broad regulatory and enforcement powers. If the FDA determines that we have failed to comply with applicable regulatory requirements, it can impose a variety of enforcement actions ranging from public warning letters, fines, injunctions, consent decrees and civil penalties to suspension or delayed issuance of approvals, seizure or recall of our future products, total or partial shutdown of production, withdrawal of approvals or clearances already granted, and criminal prosecution. The FDA can also require us to repair, replace or refund the cost of products that we manufactured or distributed. Furthermore, the regulation and enforcement of diagnostics and equipment by the FDA is an evolving area that is subject to change. While we believe that we are and will continue to be in compliance

with the current regulatory requirements and policies of the FDA, the FDA may impose more rigorous regulations or policies that may expose us to enforcement actions or require a change in our business practices. If any of these events were to occur, it could materially adversely affect us.

Product Development and Plan of Operations

NuQ® Panel Tests:

.

Research Use Only Market

o

The NuQ® panel of tests has been released for the RUO market.

.

In-Vitro Diagnostics Market

o

CE Marking (Europe): A pilot NuQ® panel of 3 tests underwent external third party retrospective clinical validations during 2012 which took approximately nine (9) months to complete. A larger NuQ® panel of tests commenced large scale retrospective clinical validations in 2013 which will continue during 2014. Once the retrospective validations are completed, the tests will be submitted for CE Mark approval. We estimate the cost of obtaining CE Marking will be approximately $500,000 USD.

o

FDA Approval (U.S.): FDA approval is expected to require longer large scale prospective clinical validation studies and is expected to commence in 2014 and be completed in 2016. When completed, the data will be submitted to the FDA for U.S. market approval. We estimate the cost of obtaining FDA approval will be approximately $825,000 USD.

The Company completed initial external testing on a variety of cancers in 2012-2013 based on the Company s NuQ® technology. Cancers were selected by medical need and commercial value and large scale retrospective (CE Mark) and prospective (FDA) clinical validation studies for the cancers identified as most promising in the 2012 studies commenced in 2013. A rolling pipeline of products for different types of cancers is expected to be produced over the next three (3) to five (5) years.

NuQ®-Endo Endometriosis Test:

·

Research Use Only Market

o

The Company does not intend to bring the NuQ®-Endo test to the RUO market and instead will focus its efforts on bringing it to the IVD market.

·

In-Vitro Diagnostics Market

o

Currently, the NuQ®-Endo test is undergoing hypothesis-testing and clinical proof of concept work. The Company expects to continue with validations for the NuQ®-Endo test in 2014. Once the proof of concepts and validations are completed, the Company will then perform a large scale prospective clinical trial which shall take approximately twenty-four (24) months to complete and will cost approximately $250,000 USD. If the Company is successful in developing a reliable test, we hope to partner with large pharmaceutical companies to bring these tests to the IVD market in Europe and the U.S. The NuQ®-Endo is too early in its development for the Company to accurately determinate the manufacturing costs and sale price of the test. The estimated timeframe for its launch into the IVD market has not yet been determined and will depend upon the speed of clinical trials and market approval.

NuQ® Clinical Diagnostic Products:

·

Centralized Laboratory Market

o

License of NuQ® technology to a global diagnostics company: The Company may license our NuQ® technology on a non-exclusive basis to a global diagnostics company. The approximate licensing fees have not yet been determined. As of the date of this prospectus, the Company has not entered into any discussions or negotiations with diagnostic companies or established an anticipated timeframe for licensing our NuQ® technology.

o

Sell manual and/or semi-manual ELISA plates to centralized laboratories: The Company may sell manual and/or semi-automated 96 well ELISA plates for use by centralized laboratories. The approximate manufacturing costs or sales price have not yet been determined. As of the date of this prospectus, the Company has not entered into any discussions or negotiations with diagnostic companies or established an anticipated timeframe regarding the sale of ELISA plates.

o

Point-of-Care Devices: The Company expects to enter the point-of-care clinical market in Europe in 2016 and in the U.S. in 2017. The approximate manufacturing costs or sales price per device have not yet been determined. As of the date of this prospectus, the Company has not entered into any discussions or negotiations regarding the manufacture or sale of these devices.

o

Disposable Home Use or Doctor s Office Tests: The Company intends to contract with a specialist company to adapt the NuQ® tests to the doctor s office or home use system and to contract with a manufacturer for the production of these tests. The sale of these tests will initially be for professional use only (doctors) and will likely be released at a later time for non-professional home use. The approximate manufacturing costs or sales price per test have not yet been determined. As of the date of this prospectus, the Company has not entered into any discussions or negotiations with a specialist company or manufacturer. The Company does not yet have an estimated timeframe for the manufacture or sale of these tests.

If we do not have enough funds to fully implement our business plan, we will be forced to scale back our plan of operations and our business activities, increase our anticipated timeframes to complete each milestone or seek additional funding. In the event that additional financing is delayed, the Company will prioritize the maintenance of its research and development personnel and facilities, primarily in Belgium, and the maintenance of its patent rights. However, the development of the current pipeline of intended products for the RUO market would be delayed, as would clinical validation studies and regulatory approval processes for the purpose of bringing products to the IVD market. In the event of an ongoing lack of financing, the Company may be obliged to discontinue operations, which will adversely affect the value of its common stock.

Sales and Marketing Strategy

The first use of our future NuQ® products will be for RUO, as the RUO market does not require government approval, as opposed to the clinical IVD market. We believe that by selling intended products in the RUO market, we will drive awareness of our Company and our intended products which, in turn, will lead to future sales in both the RUO and IVD clinical markets. The Company s products are available for sale to researchers via the Company s product website, http://www.nucleosomics.com. Initially, the Company will provide its products to carefully chosen opinion leaders to provide further validation and product feedback.

The Company will use the following methods to generate revenues from its intended products:

·

Direct Sales: As the Company desires to launch its intended products into both the RUO and IVD markets as quickly as possible, direct sales will be the first path to market the future suite of NuQ® products as well as all of the Company s other future products when they are first available for sale. We hope to achieve initial sales through strong existing contacts and a dedicated product website. As of the date of this prospectus, the Company has not begun direct sales or entered into any sales agreements for any of its intended products with end users. The Company hired a Sales and Marketing Director on September 1, 2012, whose remit is the direct sales of the Company s first research products.

·

Product Sales Partners: If the Company is able to sell its intended products, the Company will strive to carry out the majority of its sales of diagnostic and research products through contracted sales and marketing partners. This will be organized by territory, by region and end user, e.g. clinical vs. research. We estimate such partners will take approximately 30% to 40% of the sales prices of any products sold through these channels. While initial discussions have been commenced, the Company has not finalized any formal partnerships.

·

Distribution Agreements: Distribution agreements will be used primarily in markets and territories where the Company has no real prospect of obtaining traction alone or where the entry barriers are high. The Company plans to enter into tightly drawn distribution agreements outlining the territory and sectors to be covered. Control will be maintained by the Company through strict oversight and by centralized production centers that will provide supplies to distributors. We estimate such distributors will take approximately 30% of the sales prices of any products sold through these channels. The Company entered into two distribution agreements in September and December 2013 respectively in relation to its RUO products. The Company expects sales of these products to commence in April 2014.

The Company s future products will require several dynamic and evolving sales models tailored to different worldwide markets, users and products. The Company has decided to focus its sales strategy on the initial RUO market in 2014 and develop a flexible strategy for its future IVD products through the later part of 2014. We hope to progressively grow to large volumes of tests sold to centralized laboratories and eventually reach the mass diagnostics testing market. The exact nature of the ideal sales strategy will evolve as the Company continues to develop its intended products and seek entry into the RUO and IVD markets.

Government Regulations

The health care industry, and thus our business, is subject to extensive federal, state, local and foreign regulation. Some of the pertinent laws have not been definitively interpreted by the regulatory authorities or the courts, and their provisions are open to a variety of subjective interpretations. In addition, these laws and their interpretations are subject to change.

Both federal and state governmental agencies continue to subject the health care industry to intense regulatory scrutiny, including heightened civil and criminal enforcement efforts. As indicated by work plans and reports issued by these agencies, the federal government will continue to scrutinize, among other things, the marketing of diagnostic health care products. The federal government also has increased funding in recent years to fight health care fraud, and various agencies, such as the U.S. Department of Justice, the Office of Inspector General of the Department of Health and Human Services, or OIG, and state Medicaid fraud control units, are coordinating their enforcement efforts.

We will also be required to comply with numerous other federal, state, and local laws relating to matters such as safe working conditions, industrial safety, and labor laws. We may incur significant costs to comply with such laws and regulations in the future, and lack of compliance could have material adverse effects on our operations.

We believe that we have structured our business operations to comply with applicable legal requirements. However, it is possible that governmental entities or other third parties could interpret these laws differently and assert otherwise.

Competition

We anticipate facing competition primarily from large healthcare, pharmaceutical and diagnostic companies such as Abbott Laboratories Inc., Cepheid Inc., Philips, GE Healthcare, Siemens, Gen-Probe Incorporated, MDxHealth SA, EpiGenomics AG, Roche Diagnostics, Exact Sciences Corporation and Sequenom, Inc. We hope that our future products will have a competitive edge compared to those offered by competitors on the basis that our tests are being developed to be accurate, cost-effective, easy to use, non-invasive, technologically advanced, compatible with ELISA systems, based on strong intellectual property and to be used for mass screenings.

Many of our anticipated competitors have substantially greater financial, technical, and other resources and larger, more established marketing, sales and distribution systems than we will have. Many of our future competitors also offer broad product lines outside of the diagnostic testing market and have brand recognition. Moreover, our future competitors may make rapid technological developments that may result in our intended technologies and products becoming obsolete before we are able to enter the market, recover the expenses incurred to develop them or generate significant revenue. Our success will depend, in part, on our ability to develop our intended products in a timely manner, keep our future products current with advancing technologies, achieve market acceptance of our future products, gain name recognition and a positive reputation in the healthcare industry, and establish successful marketing, sales and distribution efforts.

Employees

The Company has no full-time or part-time employees.

Our subsidiary, Singapore Volition, has two full-time employees: Charlotte Reynolds, Communications Manager, who is responsible for all communications, such as the Company s website and news releases, as well as the Company s branding and visual communications; and Tom Bygott, who is responsible for Sales and Marketing, including the direct sale of the Company s first research products, and bioinformatics. Singapore Volition has no part-time employees.

Our subsidiary, Belgian Volition, has five full-time employees and one part time employee: laboratory technicians comprising of Dr. Marielle Herzog, Muriel Chapelier, Katty Scoubeau, Gaëlle Cuvelier and Eleonore Josseaux are full-time employees; and Maria Dolores Fernandez, who provides administrative services, is a part-time employee.

Our subsidiary, Hypergenomics Pte Limited, has no full-time or part-time employees.

Properties

Our principal executive office is located at 1 Scotts Road, #24-05 Shaw Centre, Singapore 228208. We currently rent this space for approximately $1,500 USD a month. Currently, this space is sufficient to meet our needs, however, once we expand our business to a significant degree, we will have to find a larger space. We do not foresee any significant difficulties in obtaining any required additional space. We do not currently own any real estate.

On February 29, 2012, Belgian Volition entered into a lease agreement for larger laboratory and office space at 20A Rue de Séminaire, 5000, Namur, Belgium for approximately $5,091 USD (€3,833 EUR) per month commencing April

1, 2012 for a leasing term of two years and eight months. Additionally, Belgian Volition shall pay $1,992 USD (€1,500) EUR per month as a provision against expenses.

Market Price of Common Stock and Other Stockholder Matters

Market Information

Our common stock is currently quoted on the OTCQB. Our common stock has been quoted on the OTCQB since April 12, 2007 under the symbol SNDC.OB. Effective October 11, 2011 our symbol was changed to VNRX to reflect the Company s name change. Because we are quoted on the OTCQB, our securities may be less liquid, receive less coverage by security analysts and news media, and generate lower prices than might otherwise be obtained if they were listed on a national securities exchange.

The following table sets forth the high and low bid prices for our common stock per quarter as reported by the OTCQB for 2014, 2013 and 2012 based on our fiscal year end December 31. These prices represent quotations between dealers without adjustment for retail mark-up, markdown or commission and may not represent actual transactions.

	High	**Low**
Year ended December 31, 2014:		
Quarter ended June 30, 2014 (through April 9, 2014)	2.75	2.40
Quarter ended March 31, 2014	3.25	2.05
Year ended December 31, 2013:		
Quarter ended December 31, 2013	2.79	1.25
Quarter ended September 30, 2013	2.22	0.25
Quarter ended June 30, 2013	3.00	2.00
Quarter ended March 31, 2013	2.90	1.31
Year ended December 31, 2012:		
Quarter ended December 31, 2012	4.31	2.76
Quarter ended September 30, 2012	5.00	3.48
Quarter ended June 30, 2012	3.50	2.75
Quarter ended March 31, 2012	3.00	2.25

Holders

As at March 28, 2014, we had approximately 248 holders of record, based on information provided by our transfer agent.

Dividends

We have not paid any cash dividends on our common stock since inception and presently anticipate that all earnings, if any, will be retained for development of our business and that no dividends on our common stock will be declared in the foreseeable future. Any future dividends will be subject to the discretion of our Board of Directors and will depend upon, among other things, future earnings, operating and financial conditions, capital requirements, general business conditions and other pertinent facts. Therefore, there can be no assurance that any dividends on our common stock will be paid in the future.

Equity Compensation Plan Information

The following table provides certain aggregate information with respect to all of our equity compensation plans in effect as of December 31, 2013.

Plan Category	**Number of securities to be issued upon exercise of outstanding options, warrants and rights** **(a)**	**Weighted-average exercise price of outstanding options, warrants and rights** **(b)**	**Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))** **(c)**
Equity compensation plans approved by security holders	-	-	-
Equity compensation plans not approved by security holders	873,300	$ 3.89	26,700
Total	873,300	$ 3.89	26,700

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read together with our financial statements and related notes included elsewhere in this prospectus. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. You should review the section entitled Risk Factors beginning on page 9 of this prospectus for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements.

Liquidity and Capital Resources

As of December 31, 2013, the Company had cash of $888,704 and other current assets of $116,747. The Company had current liabilities of $957,274. This represents a working capital surplus of $48,177. During 2014 to date, the Company has received subscriptions of $3 million for 1,500,000 shares of common stock, and 1,500,000 warrants attached to these shares, for an aggregate purchase price of $2.00 per share, in connection with a private placement. The warrants are immediately exercisable for five years at a price of $2.20 per share.

We intend to use our cash reserves to fund further research and development activities as well as to meet company overheads. We do not currently have any substantial source of revenues and expect to rely on additional financing. We are pursuing plans to seek further capital through the sale of additional stock by way of private placement, but there is no assurance that we will be successful in raising further funds.

In the event that additional financing is delayed, the Company will prioritize the maintenance of its research and development personnel and facilities, primarily in Belgium, and the maintenance of its patent rights. However the completion of clinical validation studies and regulatory approval processes for the purpose of bringing products to the IVD market would be delayed. In the event of an ongoing lack of financing, we may be obliged to discontinue operations, which will adversely affect the value of our common stock.

Overview of Operations

Management has identified the specific processes and resources required to achieve the near and medium term objectives of the business plan, including personnel, facilities, equipment, research and testing materials including antibodies and clinical samples, and the protection of intellectual property. To date, operations have proceeded satisfactorily in relation to the business plan. However it is possible that some resources will not readily become available in a suitable form or on a timely basis or at an acceptable cost. It is also possible that the results of some processes may not be as expected and that modifications of procedures and materials may be required. Such events could result in delays to the achievement of the near and medium term objectives of the business plan, in particular the progression of clinical validation studies and regulatory approval processes for the purpose of bringing products to the IVD market. However, at this point, the most significant risk to the Company is that it will not succeed in obtaining additional financing in the medium term.

Results of Operations

Year Ended December 31, 2013

The following table sets forth the Company s results of operations for the year ended on December 31, 2013 and the comparative period for the year ended December 31, 2012.

	Year Ended December 31, 2013 ($)	Year Ended December 31, 2012 ($)	Increase/ (Decrease) ($)	Percentage Increase/ (Decrease) (%)
Revenues	-	54,968	(54,968)	-100%
Operating Expenses	(4,575,912)	(4,138,018)	(437,894)	11%
Other Income (Expenses)	865,623	-	865,623	-
Income Taxes	-	-	-	-
Net Loss	(3,710,289)	(4,083,050)	372,761	-9%
Basic and Diluted Loss Per Common Share	(0.34)	(0.44)	(0.10)	-23%
Weighted Average Basic and Diluted Common Shares Outstanding	10,832,369	9,359,934	1,472,435	16%

Revenues

The Company had no revenues from operations in the year ended December 31, 2013, compared to revenues of $54,968 in the comparative period for the year ended December 31, 2012. The Company s operations are in the development stage.

Operating Expenses

For the year ended December 31, 2013, the Company s operating expenses increased by $437,894, or 11%. Operating expenses are comprised of salaries and office administrative fees, research and development expenses, impairment of patents, professional fees, and other general and administrative expenses. Salaries and office administrative fees were materially unchanged. Research and development expenses decreased by $269,377, due principally to a reduction of $383,291 in share option expense offset by an increase of $120,828 in net payroll costs, the latter primarily reflecting an increase in headcount. Impairment of patents was $350,000 (2012 $Nil) due to discovery of an earlier filed patent similar to one licensed by the Company. Professional fees increased by $371,256 due to additional fees for public relations and investor relations services to raise the profile of the company. General and administrative expenses decreased by $14,031 due to a reduction in fundraising services expense.

Other Income

For the year ended December 31, 2013, the Company recorded other income of $865,623, representing grant funds received from public bodies in respect of approved expenditures, where there is no obligation to repay. There were no grant funds that met these criteria in respect of the year ended December 31, 2012.

Net Loss

For the year ended December 31, 2013, our net loss was $3,710,289, a decrease of $372,761 or 9% over the comparative period for the year ended December 31, 2012. The change is a result of the changes described above.

Going Concern

We have not attained profitable operations and are dependent upon obtaining financing to pursue any extensive activities. For these reasons, our auditors stated in their report on our audited financial statements that they have substantial doubt that we will be able to continue as a going concern without further financing.

Off-Balance Sheet Arrangements

We have no significant off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to stockholders.

Future Financings

We will continue to rely on equity sales of our common shares in order to continue to fund our business operations. Issuances of additional shares will result in dilution to existing stockholders. There is no assurance that we will achieve any additional sales of the equity securities or arrange for debt or other financing to fund our operations and other activities.

Critical Accounting Policies

Our financial statements and accompanying notes have been prepared in accordance with United States generally accepted accounting principles applied on a consistent basis. The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods.

We regularly evaluate the accounting policies and estimates that we use to prepare our financial statements. A complete summary of these policies is included in the notes to our financial statements. In general, management's estimates are based on historical experience, on information from third party professionals, and on various other assumptions that are believed to be reasonable under the facts and circumstances. Actual results could differ from those estimates made by management.

Contractual Obligations

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this item.

Recently Issued Accounting Pronouncements

The Company has implemented all new accounting pronouncements that are in effect. These pronouncements did not have any material impact on the financial statements unless otherwise disclosed, and the Company does not believe that there are any other new accounting pronouncements that have been issued that might have a material impact on its financial position or results of operations.

DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS

Identification of Directors and Executive Officers

<u>The Company</u>

The following table sets forth the names and ages of the Company s directors and executive officers as of April 3, 2014. The board of directors has no nominating or compensation committee at this time.

Name	Age	Position with the Company	Officer/Director Since
Cameron Reynolds	43	President	October 6, 2011
		Chief Executive Officer	October 6, 2011
		Director	October 6, 2011
Malcolm Lewin	63		

Balance, June 30, 2011	$	217	$	176,392	$ 16,613	$	$	$ 41,555	$ 15,914	$ 3,574	$ 1,052,482	$ (723,378)	$ 19,232	$ 602,601

alance, December 31, 011	$ 217	$	177,092	$ 16,613	$	$	$ 41,647	$ 15,914	$ 3,233	$ 1,054,940	$ (730,861)	$ (3,309)	$ 575,486
let income											18,027		18,027
ther omprehensive oss												(13,797)	(13,797)
ommon stock ssued to ividend einvestment lan and to mployee enefit plans 60,982 shares)							61			440			501
mortization of tock options nd restricted tock awards										946			946
esting of estricted stock 15,790 shares ssued, (8,399 hares deferred)							16		(151)	206			71
eferred ompensation lan, net, ncluding ividend quivalents									101				101
hares issued rom deferred ompensation lan (2,637 hares)							3		(290)	287			
referred stock ividends:													
eries A											(6)		(6)
eries B			722								(5,222)		(4,500)
eries D											(834)		(834)
alance, une 30, 2012	$ 217	$	177,814	$ 16,613	$	$	$ 41,727	$ 15,914	$ 2,893	$ 1,056,819	$ (718,896)	$ (17,106)	$ 575,995

See accompanying notes to consolidated financial statements.

6

Table of Contents

UNITED COMMUNITY BANKS, INC.

Consolidated Statement of Cash Flows *(Unaudited)*

(in thousands)	Six Months Ended June 30, 2012	2011
Operating activities:		
Net income (loss)	$ 18,027	$ (225,308)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation, amortization and accretion	16,511	9,374
Provision for loan losses	33,000	201,000
Stock based compensation	946	758
Securities gains, net	(7,047)	(838)
Losses and write downs on sales of other real estate owned	2,943	60,505
Loss on prepayment of borrowings	6,681	791
Changes in assets and liabilities:		
Other assets and accrued interest receivable	22,783	29,332
Accrued expenses and other liabilities	(6,754)	1,078
Mortgage loans held for sale	5,236	16,502
Net cash provided by operating activities	92,326	93,194
Investing activities:		
Investment securities held to maturity:		
Proceeds from maturities and calls	45,741	34,742
Purchases		(141,862)
Investment securities available for sale:		
Proceeds from sales	371,103	106,603
Proceeds from maturities and calls	289,985	220,018
Purchases	(580,652)	(875,250)
Net (increase) decrease in loans	(58,765)	64,778
Proceeds from loan sales		99,298
Proceeds collected from FDIC under loss sharing agreements	5,054	11,852
Proceeds from sales of premises and equipment	664	534
Purchases of premises and equipment	(2,581)	(5,276)
Proceeds from sale of other real estate	14,620	60,310
Net cash provided by (used in) investing activities	85,169	(424,253)
Financing activities:		
Net change in deposits	(275,516)	(285,957)
Net change in federal funds purchased, repurchase agreements, and other short-term borrowings	(53,401)	2,599
Proceeds from Federal Home Loan Bank advances	1,489,000	
Settlement of Federal Home Loan Bank advances	(1,406,701)	(15,291)
Proceeds from issuance of common stock for dividend reinvestment and employee benefit plans	501	744
Proceeds from issuance of common and preferred stock, net of offering costs		361,560
Proceeds from penalty on incomplete private equity transaction		3,250
Cash dividends on preferred stock	(5,341)	(5,113)
Net cash (used in) provided by financing activities	(251,458)	61,792
Net change in cash and cash equivalents	(73,963)	(269,267)
Cash and cash equivalents at beginning of period	378,416	649,457

Cash and cash equivalents at end of period	$ 304,453	$ 380,190
Supplemental disclosures of cash flow information:		
Cash paid (received) during the period for:		
Interest	$ 23,222	$ 36,703
Income taxes	(27,105)	1,527
Unsettled securities purchases		35,634

See accompanying notes to consolidated financial statements.

UNITED COMMUNITY BANKS, INC. AND SUBSDIARIES

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 its Annual Report on Form 10-K for the year ended December 31, 2011.

In management s opinion, all accounting adjustments necessary to accurately reflect the financial position and results of operations on the accompanying financial statements have been made. These adjustments are normal and recurring accruals considered necessary for a fair and accurate presentation. The results for interim periods are not necessarily indicative of results for the full year or any other interim periods.

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

Note 2 Accounting Standards Updates

In July 2012, the Financial Accounting Standards Board issued Accounting Standards Update No. 2012-02, *Testing Indefinite-Lived Intangible Assets for Impairment* (the revised standard). It allows companies to perform a qualitative assessment to determine whether further impairment testing of indefinite-lived intangible assets is necessary, similar in approach to the goodwill impairment test. The revised standard is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, and entities can choose to early adopt the revised guidance. It is not expected to have a material impact on United s financial position, results of operations or disclosures.

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

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

The table below shows the components of covered assets at June 30, 2012 *(in thousands).*

(in thousands)	**Purchased Impaired Loans**	**Other Purchased Loans**	**Other**	**Total**

Commercial (secured by real estate)	$	$ 28,021	$	$ 28,021
Commercial & industrial		1,473		1,473
Construction and land development	525	4,709		5,234
Residential mortgage	145	6,429		6,574
Consumer installment		152		152
Total covered loans	670	40,784		41,454
Covered foreclosed property			14,098	14,098
Estimated loss reimbursement from the FDIC			10,362	10,362
Total covered assets	$ 670	$ 40,784	$ 24,460	$ 65,914

Table of Contents

UNITED COMMUNITY BANKS, INC. AND SUBSDIARIES

Notes to Consolidated Financial Statements

Note 4 Reverse Repurchase Agreements

United enters into reverse repurchase agreements in order to invest short-term funds. In addition, United enters into repurchase agreements and reverse repurchase agreements with the same counterparty in transactions commonly referred to as collateral swaps that are subject to master netting agreements under which the balances are netted in the balance sheet in accordance with ASC 210-20, *Offsetting*. The following table presents a summary of amounts outstanding under reverse repurchase agreements including those entered into in connection with repurchase agreements with the same counterparty under master netting agreements *(in thousands).*

	June 30, 2012		
	Reverse Repurchase Agreements (Assets)	Repurchase Agreements (Liabilities)	Net Reported Balance (Asset)
Amounts subject to master netting agreements	$ 200,000	$ 200,000	$
Other reverse repurchase agreements	120,000		120,000
Total	$ 320,000	$ 200,000	$ 120,000
Weighted average interest rate	1.27%	.41%	

In addition to the collateral swap transactions, United has entered into offsetting securities lending agreements with counterparties that function similar to the collateral swaps. United had $80.0 million in offsetting securities lending positions outstanding at June 30, 2012.

Note 5 Securities

Realized gains and losses are derived using the specific identification method for determining the cost of securities sold. The following table summarizes securities sales activity for the three and six month periods ended June 30, 2012 and 2011 *(in thousands)*.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Proceeds from sales	$ 265,992	$ 55,363	$ 371,103	$ 106,603
Gross gains on sales	$ 6,490	$ 838	$ 7,047	$ 1,169
Gross losses on sales		(55)		(331)
Net gains on sales of securities	$ 6,490	$ 783	$ 7,047	$ 838

Securities with a carrying value of $1.29 billion, $1.72 billion, and $2.11 billion were pledged to secure public deposits, FHLB advances and other secured borrowings at June 30, 2012, December 31, 2011 and June 30, 2011, respectively. Substantial borrowing capacity remains available under borrowing arrangements with the FHLB with currently pledged 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.

Table of Contents

UNITED COMMUNITY BANKS, INC. AND SUBSDIARIES

Notes to Consolidated Financial Statements

The amortized cost, gross unrealized gains and losses and fair value of securities held to maturity at June 30, 2012, December 31, 2011 and June 30, 2011 are as follows *(in thousands)*.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
As of June 30, 2012				
State and political subdivisions	$ 51,801	$ 5,586	$	$ 57,387
Mortgage-backed securities [1]	230,949	11,635		242,584
Total	$ 282,750	$ 17,221	$	$ 299,971
As of December 31, 2011				
U.S. Government agencies	$ 5,000	$ 6	$	$ 5,006
State and political subdivisions	51,903	4,058	13	55,948
Mortgage-backed securities [1]	273,300	9,619	342	282,577
Total	$ 330,203	$ 13,683	$ 355	$ 343,531
As of June 30, 2011				
U.S. Government agencies	$ 5,000	$	$	$ 5,000
State and political subdivisions	49,122	1,823	292	50,653
Mortgage-backed securities [1]	317,456	6,184	62	323,578
Total	$ 371,578	$ 8,007	$ 354	$ 379,231

[1] All are residential type mortgage-backed securities

The cost basis, unrealized gains and losses, and fair value of securities available for sale at June 30, 2012, December 31, 2011 and June 30, 2011 are presented below *(in thousands)*.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
As of June 30, 2012				
U.S. Government agencies	$ 43,618	$ 256	$	$ 43,874
State and political subdivisions	25,704	1,462	7	27,159
Mortgage-backed securities [1]	1,408,047	25,723	339	1,433,431
Corporate bonds	119,198		9,160	110,038
Asset-backed securities	85,090		592	84,498
Other	2,583			2,583
Total	$ 1,684,240	$ 27,441	$ 10,098	$ 1,701,583

As of December 31, 2011				
U.S. Government agencies	$ 43,592	$ 158	$	$ 43,750
State and political subdivisions	24,997	1,345	3	26,339
Mortgage-backed securities [(1)]	1,576,064	33,988	143	1,609,909
Corporate bonds	119,110		11,432	107,678
Other	2,371			2,371
Total	$ 1,766,134	$ 35,491	$ 11,578	$ 1,790,047
As of June 30, 2011				
U.S. Government agencies	$ 77,930	$ 61	$ 514	$ 77,477
State and political subdivisions	25,569	1,207	4	26,772
Mortgage-backed securities [(1)]	1,556,910	35,991	283	1,592,618
Corporate bonds	119,021	100	1,827	117,294
Other	2,452			2,452
Total	$ 1,781,882	$ 37,359	$ 2,628	$ 1,816,613

(1) All are residential type mortgage-backed securities

Table of Contents

UNITED COMMUNITY BANKS, INC. AND SUBSDIARIES

Notes to Consolidated Financial Statements

The following table summarizes held to maturity securities in an unrealized loss position as of, December 31, 2011 and June 30, 2011 *(in thousands)*. As of June 30, 2012, there were no held to maturity securities in an unrealized loss position.

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
As of December 31, 2011						
State and political subdivisions	$	$	$ 363	$ 13	$ 363	$ 13
Mortgage-backed securities	10,967	342			10,967	342
Total unrealized loss position	$ 10,967	$ 342	$ 363	$ 13	$ 11,330	$ 355
As of June 30, 2011						
State and political subdivisions	$ 10,160	$ 292	$	$	$ 10,160	$ 292
Mortgage-backed securities	25,160	60	1,937	2	27,097	62
Total unrealized loss position	$ 35,320	$ 352	$ 1,937	$ 2	$ 37,257	$ 354

The following table summarizes available for sale securities in an unrealized loss position as of June 30, 2012, December 31, 2011 and June 30, 2011 *(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, 2012						
State and political subdivisions	$ 5,696	$ 3	$ 11	$ 4	$ 5,707	$ 7
Mortgage-backed securities	104,644	332	19,436	7	124,080	339
Corporate bonds	16,500	3,500	93,488	5,660	109,988	9,160
Asset-backed securities	74,097	592			74,097	592
Total unrealized loss position	$ 200,937	$ 4,427	$ 112,935	$ 5,671	$ 313,872	$ 10,098
As of December 31, 2011						
State and political subdivisions	$	$	$ 11	$ 3	$ 11	$ 3
Mortgage-backed securities	98,687	110	22,719	33	121,406	143
Corporate bonds	42,864	5,197	64,765	6,235	107,629	11,432
Total unrealized loss position	$ 141,551	$ 5,307	$ 87,495	$ 6,271	$ 229,046	$ 11,578
As of June 30, 2011						
U.S. Government agencies	$ 54,482	$ 514	$	$	$ 54,482	$ 514
State and political subdivisions	301		10	4	311	4
Mortgage-backed securities	169,907	283			169,907	283
Corporate bonds	97,145	1,827			97,145	1,827

Total unrealized loss position	$ 321,835	$ 2,624	$ 10	$ 4	$ 321,845	$ 2,628

At June 30, 2012, there were 36 available for sale securities and no held to maturity securities that were in an unrealized loss position. United does not intend to sell nor believes it will be required to sell securities in an unrealized loss position prior to the recovery of their amortized cost basis. Unrealized losses at June 30, 2012 were primarily attributable to changes in interest rates, however the unrealized losses in corporate bonds also reflect downgrades in the underlying securities ratings. The bonds remain above investment grade and United does not consider them to be impaired. Unrealized losses at June 30, 2011 were primarily attributable to changes in interest rates.

Table of Contents

UNITED COMMUNITY BANKS, INC. AND SUBSDIARIES

Notes to Consolidated Financial Statements

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. No impairment charges were recognized during the second quarter or six months ended June 30, 2012 or 2011.

The amortized cost and fair value of held to maturity and available for sale securities at June 30, 2012, by contractual maturity, are presented in the following table *(in thousands)*.

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
U.S. Government agencies:				
5 to 10 years	$ 43,618	$ 43,874	$	$
	43,618	43,874		
State and political subdivisions:				
Within 1 year	6,567	6,576		
1 to 5 years	14,960	15,982	6,826	7,419
5 to 10 years	3,329	3,676	21,808	24,264
More than 10 years	848	925	23,167	25,704
	25,704	27,159	51,801	57,387
Corporate bonds:				
1 to 5 years	28,198	27,182		
5 to 10 years	90,000	82,556		
More than 10 years	1,000	300		
	119,198	110,038		
Asset-backed securities				
5 to 10 years	85,090	84,498		
	85,090	84,498		
Other:				
More than 10 years	2,583	2,583		
	2,583	2,583		
Total securities other than mortgage-backed securities:				
Within 1 year	6,567	6,576		
1 to 5 years	43,158	43,164	6,826	7,419
5 to 10 years	222,037	214,604	21,808	24,264

More than 10 years	4,431	3,808	23,167	25,704
Mortgage-backed securities	1,408,047	1,433,431	230,949	242,584
	$ 1,684,240	$ 1,701,583	$ 282,750	$ 299,971

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.

12

Table of Contents

UNITED COMMUNITY BANKS, INC. AND SUBSDIARIES

Notes to Consolidated Financial Statements

Note 6 Loans and Allowance for Loan Losses

Major classifications of loans as of June 30, 2012, December 31, 2011 and June 30, 2011, are summarized as follows *(in thousands)*.

	June 30, 2012	December 31, 2011	June 30, 2011
Commercial (secured by real estate)	$ 1,836,477	$ 1,821,414	$ 1,741,754
Commercial & industrial	450,222	428,249	428,058
Commercial construction	169,338	164,155	195,190
Total commercial	2,456,037	2,413,818	2,365,002
Residential mortgage	1,128,336	1,134,902	1,177,226
Residential construction	408,966	448,391	501,909
Consumer installment	125,896	112,503	119,310
Total loans	4,119,235	4,109,614	4,163,447
Less allowance for loan losses	112,705	114,468	127,638
Loans, net	$ 4,006,530	$ 3,995,146	$ 4,035,809

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 metropolitan statistical area, the Gainesville, Georgia metropolitan statistical area, coastal Georgia, western North Carolina and east Tennessee. Although the Bank has a diversified loan portfolio, a substantial portion of the loan portfolio is collateralized by improved and unimproved real estate and is dependent upon the real estate market.

Changes in the allowance for loan losses for the three and six months ended June 30, 2012 and 2011 are summarized as follows *(in thousands)*.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Balance beginning of period	$ 113,601	$ 133,121	$ 114,468	$ 174,695
Provision for loan losses	18,000	11,000	33,000	201,000
Charge-offs:				
Commercial (secured by real estate)	4,418	3,433	8,346	52,140
Commercial & industrial	888	604	1,644	4,966
Commercial construction	88	980	452	50,695
Residential mortgage	4,014	4,667	9,781	41,343
Residential construction	9,846	6,769	15,475	99,024
Consumer installment	408	883	1,161	1,979
Total loans charged-off	19,662	17,336	36,859	250,147
Recoveries:				
Commercial (secured by real estate)	69	174	300	274
Commercial & industrial	113	81	200	403

Commercial construction		111	30	111
Residential mortgage	152	78	544	371
Residential construction	283	140	598	257
Consumer installment	149	269	424	674
Total recoveries	766	853	2,096	2,090
Net charge-offs	18,896	16,483	34,763	248,057
Balance end of period	$ 112,705	$ 127,638	$ 112,705	$ 127,638

Table of Contents

UNITED COMMUNITY BANKS, INC. AND SUBSDIARIES

Notes to Consolidated Financial Statements

The following table presents the balance and activity in the allowance for loan losses by portfolio segment and the recorded investment in loans by portfolio segment based on the impairment method as of June 30, 2012, December 31, 2011 and June 30, 2011 (*in thousands*).

	Commercial (Secured by Real Estate)	Commercial & Industrial	Commercial Construction	Residential Mortgage	Residential Construction	Consumer Installment	Unallocated	Total
Six Months Ended June 30, 2012								
Allowance for loan losses:								
Beginning balance	$ 31,644	$ 5,681	$ 6,097	$ 29,076	$ 30,379	$ 2,124	$ 9,467	$ 114,468
Charge-offs	(8,346)	(1,644)	(452)	(9,781)	(15,475)	(1,161)		(36,859)
Recoveries	300	200	30	544	598	424		2,096
Provision	6,288	1,061	4,662	6,471	13,712	1,183	(377)	33,000
Ending balance	$ 29,886	$ 5,298	$ 10,337	$ 26,310	$ 29,214	$ 2,570	$ 9,090	$ 112,705
Ending allowance attributable to loans:								
Individually evaluated for impairment	$ 8,544	$ 753	$ 2,476	$ 1,389	$ 4,188	$ 20	$	$ 17,370
Collectively evaluated for impairment	21,342	4,545	7,861	24,921	25,026	2,550	9,090	95,335
Total ending allowance balance	$ 29,886	$ 5,298	$ 10,337	$ 26,310	$ 29,214	$ 2,570	$ 9,090	$ 112,705
Loans:								
Individually evaluated for impairment	$ 130,838	$ 57,747	$ 42,833	$ 19,844	$ 41,906	$ 511	$	$ 293,679
Collectively evaluated for impairment	1,705,639	392,475	126,505	1,108,492	367,060	125,385		3,825,556
Total loans	$ 1,836,477	$ 450,222	$ 169,338	$ 1,128,336	$ 408,966	$ 125,896	$	$ 4,119,235
December 31, 2011								
Allowance for loan losses:								
Ending allowance attributable to loans:								
Individually evaluated for impairment	$ 7,491	$ 1,117	$ 236	$ 2,234	$ 3,731	$ 16	$	$ 14,825
Collectively evaluated for impairment	24,153	4,564	5,861	26,842	26,648	2,108	9,467	99,643
Total ending allowance balance	$ 31,644	$ 5,681	$ 6,097	$ 29,076	$ 30,379	$ 2,124	$ 9,467	$ 114,468
Loans:								
Individually evaluated for impairment	$ 107,831	$ 57,828	$ 26,245	$ 18,376	$ 46,687	$ 292	$	$ 257,259
Collectively evaluated for impairment	1,713,583	370,421	137,910	1,116,526	401,704	112,211		3,852,355
Total loans	$ 1,821,414	$ 428,249	$ 164,155	$ 1,134,902	$ 448,391	$ 112,503	$	$ 4,109,614
Six Months Ended June 30, 2011								
Allowance for loan losses:								
Beginning balance	$ 31,191	$ 7,580	$ 6,780	$ 22,305	$ 92,571	$ 3,030	$ 11,238	$ 174,695
Charge-offs	(52,140)	(4,966)	(50,695)	(41,343)	(99,024)	(1,979)		(250,147)
Recoveries	274	403	111	371	257	674		2,090
Provision	42,671	4,016	51,256	49,063	55,249	498	(1,753)	201,000
Ending balance	$ 21,996	$ 7,033	$ 7,452	$ 30,396	$ 49,053	$ 2,223	$ 9,485	$ 127,638

Ending allowance attributable to loans:								
Individually evaluated for impairment	$ 78	$	$ 450	$ 639	$	$	$	$ 1,167
Collectively evaluated for impairment	21,918	7,033	7,002	29,757	49,053	2,223	9,485	126,471
Total ending allowance balance	$ 21,996	$ 7,033	$ 7,452	$ 30,396	$ 49,053	$ 2,223	$ 9,485	$ 127,638
Loans:								
Individually evaluated for impairment	$ 14,780	$	$ 1,015	$ 7,247	$ 12,611	$	$	$ 35,653
Collectively evaluated for impairment	1,726,974	428,058	194,175	1,169,979	489,298	119,310		4,127,794
Total loans	$ 1,741,754	$ 428,058	$ 195,190	$ 1,177,226	$ 501,909	$ 119,310	$	$ 4,163,447

In calculating specific reserves, United reviews all loans that are on nonaccrual with a balance of $500,000 or greater for impairment, as well as accruing substandard relationships greater than $2 million and all troubled debt restructurings (TDRs). A loan is considered impaired when, based on current events and circumstances, it is probable that all amounts due, according to the contractual terms of the loan, will not be collected. All troubled debt restructurings are considered impaired regardless of accrual status. Impaired loans are measured based on the present value of expected future cash flows, discounted at the loan s effective interest rate, at the loan s observable market price, or the fair value of the collateral if the loan is collateral dependent. Interest payments received on impaired nonaccrual loans are applied as a reduction of the outstanding principal balance. For impaired loans not on nonaccrual status, interest is accrued according to the terms of the loan agreement. Impairment amounts are recorded quarterly and specific reserves are recorded in the allowance for loan losses.

At June 30, 2012, December 31, 2011 and June 30, 2011, loans with a carrying value of $1.61 billion, $1.52 billion and $991 million were pledged as collateral to secure FHLB advances and other contingent funding sources.

UNITED COMMUNITY BANKS, INC. AND SUBSDIARIES

Notes to Consolidated Financial Statements

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

The recorded investments in individually evaluated impaired loans at June 30, 2012, December 31, 2011 and June 30, 2011 were as follows (*in thousands*).

	June 30, 2012	December 31, 2011	June 30, 2011
Period-end loans with no allocated allowance for loan losses	$ 214,808	$ 188,509	$ 32,791
Period-end loans with allocated allowance for loan losses	78,871	68,750	2,862
Total	$ 293,679	$ 257,259	$ 35,653
Amount of allowance for loan losses allocated	$ 17,370	$ 14,825	$ 1,167

The average balances of impaired loans and income recognized on impaired loans while they were considered impaired is presented below for the three and six months ended June 30, 2012 and 2011 (*in thousands*).

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Average balance of individually evaluated impaired loans during period	$ 287,336	$ 42,099	$ 283,981	$ 68,631
Interest income recognized during impairment	2,421		4,688	
Cash-basis interest income recognized	3,216		6,408	

UNITED COMMUNITY BANKS, INC. AND SUBSDIARIES

Notes to Consolidated Financial Statements

The following table presents loans individually evaluated for impairment by class of loans as of June 30, 2012, December 31, 2011 and June 30, 2011 *(in thousands)*.

	June 30, 2012			December 31, 2011			June 30, 2011		
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
With no related allowance recorded:									
Commercial (secured by real estate)	$ 105,788	$ 95,543	$	$ 82,887	$ 76,215	$	$ 19,653	$ 13,572	$
Commercial & industrial	81,036	56,036		77,628	52,628				
Commercial construction	22,491	21,372		24,927	23,609				
Total commercial	209,315	172,951		185,442	152,452		19,653	13,572	
Residential mortgage	13,994	11,578		13,845	10,804		10,006	6,608	
Residential construction	46,589	30,094		38,955	25,190		27,441	12,611	
Consumer installment	185	185		63	63				
Total with no related allowance recorded	270,083	214,808		238,305	188,509		57,100	32,791	
With an allowance recorded:									
Commercial (secured by real estate)	35,348	35,295	8,544	31,806	31,616	7,491	1,398	1,208	78
Commercial & industrial	1,711	1,711	753	5,200	5,200	1,117			
Commercial construction	21,461	21,461	2,476	2,636	2,636	236	1,441	1,015	450
Total commercial	58,520	58,467	11,773	39,642	39,452	8,844	2,839	2,223	528
Residential mortgage	8,458	8,266	1,389	7,642	7,572	2,234	639	639	639
Residential construction	11,886	11,812	4,188	21,629	21,497	3,731			
Consumer installment	335	326	20	235	229	16			
Total with an allowance recorded	79,199	78,871	17,370	69,148	68,750	14,825	3,478	2,862	1,167
Total	$ 349,282	$ 293,679	$ 17,370	$ 307,453	$ 257,259	$ 14,825	$ 60,578	$ 35,653	$ 1,167

There were no loans more than 90 days past due and still accruing interest at June 30, 2012, December 31, 2011 or June 30, 2011. Nonaccrual loans include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually evaluated impaired loans with larger balances.

The following table presents the recorded investment (unpaid principal less amounts charged-off) in nonaccrual loans by loan class as of June 30, 2012, December 31, 2011 and June 30, 2011 *(in thousands)*.

	Nonaccrual Loans		
	June 30, 2012	December 31, 2011	June 30, 2011
Commercial (secured by real estate)	$ 19,115	$ 27,322	$ 17,764
Commercial & industrial	34,982	34,613	1,998
Commercial construction	18,175	16,655	2,782
Total commercial	72,272	78,590	22,544
Residential mortgage	16,631	22,358	24,809
Residential construction	25,530	25,523	22,643
Consumer installment	907	1,008	1,069
Total	$ 115,340	$ 127,479	$ 71,065
Balance as a percentage of unpaid principal	68.8%	71.3%	64.5%

Table of Contents

UNITED COMMUNITY BANKS, INC. AND SUBSDIARIES

Notes to Consolidated Financial Statements

The following table presents the aging of the recorded investment in past due loans as of June 30, 2012, December 31, 2011 and June 30, 2011 by class of loans *(in thousands)*.

	Loans Past Due				Loans Not	
	30 - 59 Days	60 - 89 Days	> 90 Days	Total	Past Due	Total
As of June 30, 2012						
Commercial (secured by real estate)	$ 7,053	$ 1,342	$ 11,996	$ 20,391	$ 1,816,086	$ 1,836,477
Commercial & industrial	663	1,496	389	2,548	447,674	450,222
Commercial construction	3,555	133	950	4,638	164,700	169,338
Total commercial	11,271	2,971	13,335	27,577	2,428,460	2,456,037
Residential mortgage	12,636	2,980	6,756	22,372	1,105,964	1,128,336
Residential construction	4,781	1,189	11,096	17,066	391,900	408,966
Consumer installment	971	325	398	1,694	124,202	125,896
Total loans	$ 29,659	$ 7,465	$ 31,585	$ 68,709	$ 4,050,526	$ 4,119,235
As of December 31, 2011						
Commercial (secured by real estate)	$ 8,036	$ 4,182	$ 10,614	$ 22,832	$ 1,798,582	$ 1,821,414
Commercial & industrial	3,869	411	407	4,687	423,562	428,249
Commercial construction	166		1,128	1,294	162,861	164,155
Total commercial	12,071	4,593	12,149	28,813	2,385,005	2,413,818
Residential mortgage	15,185	4,617	9,071	28,873	1,106,029	1,134,902
Residential construction	3,940	2,636	10,270	16,846	431,545	448,391
Consumer installment	1,534	308	430	2,272	110,231	112,503
Total loans	$ 32,730	$ 12,154	$ 31,920	$ 76,804	$ 4,032,810	$ 4,109,614
As of June 30, 2011						
Commercial (secured by real estate)	$ 6,990	$ 2,001	$ 11,605	$ 20,596	$ 1,721,158	$ 1,741,754
Commercial & industrial	1,496	624	809	2,929	425,129	428,058
Commercial construction	930	651	1,985	3,566	191,624	195,190
Total commercial	9,416	3,276	14,399	27,091	2,337,911	2,365,002
Residential mortgage	13,788	3,594	12,678	30,060	1,147,166	1,177,226
Residential construction	2,942	2,242	15,774	20,958	480,951	501,909
Consumer installment	1,234	353	273	1,860	117,450	119,310
Total loans	$ 27,380	$ 9,465	$ 43,124	$ 79,969	$ 4,083,478	$ 4,163,447

As of June 30, 2012 and December 31, 2011, $10.3 million and $8.65 million of specific reserves were allocated to customers whose loan terms have been modified in troubled debt restructurings. There were no specific reserves established for loans considered to be troubled debt restructurings at June 30, 2011. United committed to lend additional amounts totaling up to $490,000, $1.12 million, and $396,000 as of June 30, 2012 and December 31, 2011, and June 30, 2011 respectively, to customers with outstanding loans that are classified as TDRs.

The modification of the terms of the troubled debt restructurings included one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date or an extension of the amortization period, any of which are not available in the current market for new debt with similar risk; a permanent reduction of the principal amount; or a restructuring of the borrower s debt into an A/B note structure.

Table of Contents

UNITED COMMUNITY BANKS, INC. AND SUBSDIARIES

Notes to Consolidated Financial Statements

The following table presents additional information on troubled debt restructurings including the number of loan contracts restructured and the pre and post modification recorded investment *(dollars in thousands)*.

	June 30, 2012			December 31, 2011			June 30, 2011		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial (secured by real estate)	96	$ 87,104	$ 82,325	74	$ 70,380	$ 69,054	31	$ 24,946	$ 21,998
Commercial & industrial	29	3,972	3,972	18	806	806	5	156	156
Commercial construction	23	42,796	41,677	11	18,053	18,053	5	9,477	9,477
Total commercial	148	133,872	127,974	103	89,239	87,913	41	34,579	31,631
Residential mortgage	110	17,613	16,950	80	11,943	11,379	29	3,937	3,784
Residential construction	72	25,123	22,178	54	24,921	24,145	46	11,741	10,718
Consumer installment	47	521	511	34	298	293	6	111	111
Total loans	377	$ 177,129	$ 167,613	271	$ 126,401	$ 123,730	122	$ 50,368	$ 46,244

Loans modified under the terms of a TDR during the three and six months ended June 30, 2012 are presented in the table below. In addition, the following table presents loans modified under the terms of a TDR that became 90 days or more delinquent during the three and six months ended June 30, 2012, respectively, that were initially restructured within one year prior to the three and six months ended June 30, 2012, respectively *(dollars in thousands)*.

Troubled Debt Restructurings for the Three Months Ended June 30, 2012	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Subsequently Defaulted During the Three Months Ended June 30, 2012	
				Number of Contracts	Recorded Investment
Commercial (secured by real estate)	10	$ 7,815	$ 7,728	3	$ 2,307
Commercial & industrial	7	598	598	1	5
Commercial construction	7	7,702	7,702		
Total commercial	24	16,115	16,028	4	2,312
Residential mortgage	20	5,288	5,112	1	27
Residential construction	20	7,638	6,361	1	121
Consumer installment	8	210	210	1	6
Total loans	72	$ 29,251	$ 27,711	7	$ 2,466

Troubled Debt Restructurings for the	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Subsequently Defaulted During the Six Months Ended June 30, 2012	
				Number of Contracts	Recorded Investment
Six Months Ended June 30, 2012					
Commercial (secured by real estate)	34	$ 22,914	$ 21,469	3	$ 2,307
Commercial & industrial	17	3,322	3,322	2	48
Commercial construction	14	28,483	28,483	2	4,174
Total commercial	65	54,719	53,274	7	6,529
Residential mortgage	44	10,567	10,385	4	400
Residential construction	34	11,389	9,550	4	1,597
Consumer installment	15	270	265	1	6
Total loans	158	$ 76,945	$ 73,474	16	$ 8,532

UNITED COMMUNITY BANKS, INC. AND SUBSDIARIES

Notes to Consolidated Financial Statements

Risk Ratings

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

Watch. Loans in this category are presently protected from apparent loss; however, weaknesses exist that could cause future impairment, including the deterioration of financial ratios, past due status and questionable management capabilities. These loans require more than the ordinary amount of supervision. Collateral values generally afford adequate coverage, but may not be immediately marketable.

Substandard. These loans are inadequately protected by the current net worth and paying capacity of the obligor or by the collateral pledged. Specific and well-defined weaknesses exist that may include poor liquidity and deterioration of financial ratios. The loan may be past due and related deposit accounts experiencing overdrafts. There is the distinct possibility that the Company will sustain some loss if deficiencies are not corrected. If possible, immediate corrective action is taken.

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

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

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

As of June 30, 2012, December 31, 2011 and June 30, 2011, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows *(in thousands)*.

	Pass	Watch	Substandard	Doubtful / Loss	Not Rated	Total
As of June 30, 2012						
Commercial (secured by real estate)	$ 1,596,879	$ 72,067	$ 167,531	$	$	$ 1,836,477
Commercial & industrial	393,893	4,652	50,899		778	450,222
Commercial construction	107,201	6,088	56,049			169,338
Total commercial	2,097,973	82,807	274,479		778	2,456,037
Residential mortgage	999,328	39,105	89,903			1,128,336
Residential construction	290,808	47,182	70,976			408,966
Consumer installment	121,153	1,117	3,626			125,896
Total loans	$ 3,509,262	$ 170,211	$ 438,984	$	$ 778	$ 4,119,235
As of December 31, 2011						
Commercial (secured by real estate)	$ 1,561,204	$ 89,830	$ 170,380	$	$	$ 1,821,414
Commercial & industrial	369,343	7,630	50,366		910	428,249
Commercial construction	114,817	14,173	35,165			164,155

Total commercial	2,045,364	111,633	255,911		910	2,413,818
Residential mortgage	993,779	42,323	98,800			1,134,902
Residential construction	312,527	38,386	97,478			448,391
Consumer installment	107,333	1,411	3,759			112,503
Total loans	$ 3,459,003	$ 193,753	$ 455,948	$	$ 910	$ 4,109,614
As of June 30, 2011						
Commercial (secured by real estate)	$ 1,508,284	$ 98,175	$ 135,295	$	$	$ 1,741,754
Commercial & industrial	404,704	3,682	18,647		1,025	428,058
Commercial construction	143,609	17,452	34,129			195,190
Total commercial	2,056,597	119,309	188,071		1,025	2,365,002
Residential mortgage	1,046,255	35,775	95,196			1,177,226
Residential construction	353,769	51,223	96,917			501,909
Consumer installment	114,718	608	3,984			119,310
Total loans	$ 3,571,339	$ 206,915	$ 384,168	$	$ 1,025	$ 4,163,447

Table of Contents

UNITED COMMUNITY BANKS, INC. AND SUBSDIARIES

Notes to Consolidated Financial Statements

Note 7 Foreclosed Property

Major classifications of foreclosed properties at June 30, 2012, December 31, 2011 and June 30, 2011 are summarized as follows *(in thousands)*.

	June 30, 2012	December 31, 2011	June 30, 2011
Commercial real estate	$ 11,639	$ 10,866	$ 11,944
Commercial construction	2,732	3,336	6,764
Total commercial	14,371	14,202	18,708
Residential mortgage	5,868	7,840	11,346
Residential construction	22,054	29,799	47,916
Total foreclosed property	42,293	51,841	77,970
Less valuation allowance	11,872	18,982	30,386
Foreclosed property, net	$ 30,421	$ 32,859	$ 47,584
Balance as a percentage of original loan unpaid principal	39.3%	35.9%	32.6%

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Balance at beginning of period	$ 17,746	$ 53,023	$ 18,982	$ 16,565
Additions charged to expense	1,008	3,118	3,119	51,703
Direct write downs	(6,882)	(25,755)	(10,229)	(37,882)
Balance at end of period	$ 11,872	$ 30,386	$ 11,872	$ 30,386

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net (gain) loss on sales	$ (269)	$ (3,218)	$ (176)	$ 8,802
Provision for unrealized losses	1,008	3,118	3,119	51,703
Operating expenses	1,112	1,991	2,733	6,285
Total foreclosed property expense	$ 1,851	$ 1,891	$ 5,676	$ 66,790

Table of Contents

UNITED COMMUNITY BANKS, INC. AND SUBSDIARIES

Notes to Consolidated Financial Statements

Note 8 Earnings Per Share

United is required to report on the face of the consolidated statement of operations, earnings (loss) per common share with and without the dilutive effects of potential common stock issuances from instruments such as options, convertible securities and warrants. Basic earnings (loss) per common share is based on the weighted average number of common shares outstanding during the period while the effects of potential common shares outstanding during the period are included in diluted earnings per common share. During the three and six months ended June 30, 2012 and 2011, United accrued dividends on preferred stock, including accretion of discounts, as shown in the following table *(in thousands).*

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	**2011**	**2012**	**2011**
Series A - 6% fixed	$ 3	$ 4	$ 6	$ 7
Series B - 5% fixed until December 6, 2013, 9% thereafter	2,614	2,598	5,222	5,200
Series D - LIBOR plus 9.6875%, resets quarterly	415	414	834	587
Total preferred stock dividends	$ 3,032	$ 3,016	$ 6,062	$ 5,794

All preferred stock dividends are payable quarterly.

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

The preferred stock dividends were subtracted from net income (loss) in order to arrive at net income (loss) available to common shareholders. There is no dilution from potentially dilutive securities for the six months ended June 30, 2011, due to the anti-dilutive effect of the net loss for that period.

The following table sets forth the computation of basic and diluted loss per share for the three and six months ended June 30, 2012 and 2011 *(in thousands, except per share data).*

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	**2011**	**2012**	**2011**
Net income (loss) available to common shareholders	$ 3,467	$ 9,012	$ 11,965	$ (231,102)
Weighted average shares outstanding:				
Basic	57,840	25,427	57,803	21,965
Effect of dilutive securities				
Convertible securities		32,116		
Stock options				
Warrants				
Diluted	57,840	57,543	57,803	21,965
Earnings (loss) per common share:				
Basic	$ .06	$ .35	$ .21	$ (10.52)

Diluted	$	.06	$	.16	$	.21	$	(10.52)

At June 30, 2012, United had the following potentially dilutive stock options and warrants outstanding: a warrant to purchase 219,908.49 common shares at $61.39 per share issued to the U.S. Treasury in conjunction with the issuance of United s fixed rate cumulative preferred perpetual stock, Series B; 129,670 common shares issuable upon exercise of warrants attached to trust preferred securities with an exercise price of $100 per share; 502,743 common shares issuable upon exercise of stock options granted to employees with a weighted average exercise price of $97.92; 414,045 shares issuable upon completion of vesting of restricted stock awards; 1,411,765 common shares issuable upon exercise of warrants exercisable at a price equivalent to $21.25 per share granted to Fletcher International Ltd. (Fletcher) in connection with a 2010 asset purchase and sale agreement; 2,476,191 common shares issuable upon conversion of preferred stock if Fletcher or its purported assignee exercises its option to purchase $65 million in convertible preferred stock, convertible at $26.25 per share; 1,162,791 common shares issuable upon exercise of warrants, exercisable at a price equivalent to $30.10 per share to be granted to Fletcher or its purported assignee upon exercise of its option to acquire preferred stock; and 1,551,126 common shares issuable upon exercise of warrants owned by Elm Ridge Off Shore Master Fund, Ltd. and Elm Ridge Value Partners, L.P. (collectively, the Elm Ridge Parties), exercisable at $12.50 per share.

UNITED COMMUNITY BANKS, INC. AND SUBSDIARIES

Notes to Consolidated Financial Statements

Note 9 Derivatives and Hedging Activities

Risk Management Objective of Using Derivatives

United is exposed to certain risks arising from both its business operations and economic conditions. United principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. United manages interest rate risk primarily by managing the amount, sources, and duration of its investment securities portfolio and debt funding and through the use of derivative financial instruments. Specifically, United enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. United s derivative financial instruments are used to manage differences in the amount, timing, and duration of United s known or expected cash receipts and its known or expected cash payments principally related to United s loans, wholesale borrowings and deposits.

In conjunction with the FASB s fair value measurement guidance, United made an accounting policy election to measure the credit risk of its derivative financial instruments that are subject to master netting agreements on a net basis by counterparty portfolio.

The table below presents the fair value of United s derivative financial instruments as well as their classification on the consolidated balance sheet as of June 30, 2012, December 31, 2011 and June 30, 2011 *(in thousands)*.

Derivatives accounted for as hedges under ASC 815

Interest Rate Products	Balance Sheet Location	Fair Value June 30, 2012	December 31, 2011	June 30, 2011
Asset derivatives	Other assets	$ 68	$	$
Liability derivatives	Other liabilities	$ 5,987	$ 422	$

Derivatives not accounted for as hedges under ASC 815

Interest Rate Products	Balance Sheet Location	Fair Value June 30, 2012	December 31, 2011	June 30, 2011
Asset derivatives	Other assets	$ 155	$	$
Liability derivatives	Other liabilities	$ 155	$	$

Derivative contracts that are not accounted for as hedges under ASC 815 are between United and certain commercial loan customers with offsetting positions to dealers under a back-to-back swap program.

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. At June 30, 2012, United s interest rate swaps designated as cash flow hedges involve the payment of fixed-rate amounts to a counterparty in exchange for United receiving variable-rate payments over the life of the agreements without exchange of the underlying notional amount. United s current cash flow hedges are for the purpose of converting variable rate deposits and wholesale borrowings to a fixed rate to protect the company in a rising rate environment. The swaps are forward starting and do not become effective until 2014. At June 30, 2012, United had five swap contracts outstanding with a total notional amount of $400 million that were designated as cash flow hedges. United had no active derivative contracts outstanding at December 31, 2011 or June 30, 2011 that were designated as cash flow hedges of interest rate risk.

Table of Contents

UNITED COMMUNITY BANKS, INC. AND SUBSDIARIES

Notes to Consolidated Financial Statements

The effective portion of changes in the fair value of derivatives designated, and that qualify as cash flow hedges is recorded in accumulated other comprehensive income and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense when the swaps become effective in 2014 as interest payments are made on United s LIBOR based variable-rate wholesale borrowings and indexed deposit accounts. At June 30, 2012, a portion of the amount included in other comprehensive income represents deferred gains from terminated cash flow hedges where the forecasted hedging transaction is expected to remain effective over the remaining unexpired term of the original contract. Such gains are being deferred and recognized over the remaining life of the contract on a straight line basis. During the three and six months ended June 30, 2012, United accelerated the reclassification of $43,000 and $124,000, respectively, in gains from terminated positions as a result of the forecasted transactions becoming probable not to occur. During the next twelve months, United estimates that an additional $2.23 million of the deferred gains on terminated cash flow hedging positions will be reclassified as an increase to interest revenue.

Fair Value Hedges of Interest Rate Risk

United is exposed to changes in the fair value of certain of its fixed rate obligations due to changes in LIBOR, a benchmark interest rate. United uses interest rate swaps to manage its exposure to changes in fair value on these instruments attributable to changes in the benchmark interest rate. Interest rate swaps designated as fair value hedges involve the receipt of fixed-rate amounts from a counterparty in exchange for United making variable rate payments over the life of the agreements without the exchange of the underlying notional amount. At June 30, 2012, United had seven interest rate swaps with an aggregate notional amount of $104 million that were designated as fair value hedges of interest rate risk. As of June 30, 2011, United had no active derivatives 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, 2012, United recognized net losses of $223,000 and $189,000, respectively, related to ineffectiveness of the fair value hedging relationships. United also recognized a net reduction of interest expense of $550,000 and $828,000 for the three and six months ended June 30, 2012, related to United s fair value hedges, which includes net settlements on the derivatives. There were no active fair value hedges during the first six months of 2011.

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

The tables below present the effect of United s derivative financial instruments on the consolidated statement of operations for the three and six months ended June 30, 2012 and 2011.

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	
	2012	2011	2012	2011
Three Months Ended June 30,				
Other fee revenue	$ 2,087	$	$ (2,310)	$
Six Months Ended June 30,				
Other fee revenue	$ 823	$	$ (1,012)	$

Table of Contents

UNITED COMMUNITY BANKS, INC. AND SUBSDIARIES

Notes to Consolidated Financial Statements

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)		
	2012	2011	Location	2012	2011
Three Months Ended June 30,					
			Interest revenue	$ 671	$ 2,589
			Other income	43	2,809
Interest rate products	$ (4,855)	$	Total	$ 714	$ 5,398
Six Months Ended June 30,					
			Interest revenue	$ 2,190	$ 5,512
			Other income	124	4,112
Interest rate products	$ (4,855)	$	Total	$ 2,314	$ 9,624

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 or is subject to a prompt corrective action directive, the counterparty could terminate the derivative positions and United would be required to settle its obligations under the agreements.

Note 10 Stock-Based Compensation

United has an equity compensation plan that allows for grants of incentive stock options, nonqualified stock options, restricted stock awards (also referred to as nonvested stock awards), stock awards, performance share awards or stock appreciation rights. Options granted under the plan can have an exercise price no less than the fair market value of the underlying stock at the date of grant. The general terms of the plan include a vesting period (usually four years) with an exercisable period not to exceed ten years. Certain option and restricted stock awards provide for accelerated vesting if there is a change in control (as defined in the plan). As of June 30, 2012, 1,351,000 additional awards could be granted under the plan. Through June 30, 2012, incentive stock options, nonqualified stock options, restricted stock awards and units and base salary stock grants had been granted under the plan.

The following table shows stock option activity for the first six months of 2012.

Options	Shares

		Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinisic Value ($000)
Outstanding at December 31, 2011	583,647	$ 94.48		
Forfeited	(2,472)	48.22		
Expired	(78,432)	73.89		
Outstanding at June 30, 2012	502,743	97.92	4.0	$
Exercisable at June 30, 2012	478,452	101.71	3.8	

Table of Contents

UNITED COMMUNITY BANKS, INC. AND SUBSDIARIES

Notes to Consolidated Financial Statements

The fair value of each option is estimated on the date of grant using the Black-Scholes model. No stock options were granted during the six month periods ended June 30, 2012 or 2011.

Compensation expense relating to stock options of $131,000 and $465,000 was included in earnings for the six months ended June 30, 2012 and 2011, respectively. Deferred tax benefits of $50,000 and $181,000, respectively, were included in the determination of income tax expense for the six month periods ended June 30, 2012 and 2011. The amount of compensation expense for both periods was determined based on the fair value of the options at the time of grant, multiplied by the number of options granted that are expected to vest, which was then amortized over the vesting period. The forfeiture rate for options is estimated to be approximately 3% per year. No options were exercised during the first six months of 2012 or 2011.

The table below presents the activity in restricted stock awards for the first six months of 2012.

Restricted Stock	Shares	Weighted-Average Grant-Date Fair Value
Outstanding at December 31, 2011	414,644	$ 12.19
Granted	29,491	9.36
Excercised	(18,690)	39.13
Cancelled	(11,400)	10.25
Outstanding at June 30, 2012	414,045	11.43
Vested at June 30, 2012	15,490	35.62

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, 2012 and 2011, compensation expense of $815,000 and $293,000, respectively, was recognized related to restricted stock awards. The total intrinsic value of the restricted stock was $3.55 million at June 30, 2012.

As of June 30, 2012, there was $3.10 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 1.93 years. The aggregate grant date fair value of options and restricted stock awards that vested during the six months ended June 30, 2012, was $1.54 million.

Note 11 Common and Preferred Stock Issued / Common Stock Issuable

United sponsors a Dividend Reinvestment and Share Purchase Plan (DRIP) that allows participants who already own United s common stock to purchase additional shares directly from the company. The DRIP also allows participants to automatically reinvest their quarterly dividends in additional shares of common stock without a commission. The DRIP is currently suspended. 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, 2012 and 2011, United issued 60,982 and 78,584 shares, respectively, and increased capital by $501,000 and $744,000, 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. The deferred compensation plan does not allow for diversification once an election is made to invest in United stock and settlement must be accomplished in shares at the time the deferral period is completed. At June 30, 2012 and 2011, 94,657 and 83,575 shares, respectively, were

issuable under the deferred compensation plan.

On February 22, 2011, United entered into a Share Exchange Agreement with the Elm Ridge Parties. Under the Share Exchange Agreement, the Elm Ridge Parties agreed to transfer to United 1,551,126 shares of United s common stock in exchange for 16,613 shares of United s cumulative perpetual preferred stock, Series D, and warrants to purchase 1,551,126 common shares with an exercise price of $12.50 per share that expires on August 22, 2013. This exchange transaction did not result in a net increase or decrease to total shareholder s equity for the year ended December 31, 2011.

Table of Contents

UNITED COMMUNITY BANKS, INC. AND SUBSDIARIES

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, 2012, December 31, 2011 and June 30, 2011, aggregated by the level in the fair value hierarchy within which those measurements fall *(in thousands)*.

	Level 1	Level 2	Level 3	Total
June 30, 2012				
Assets				
Securities available for sale:				
U.S. Government agencies	$	$ 43,874	$	$ 43,874
State and political subdivisions		27,159		27,159
Mortgage-backed securities		1,433,431		1,433,431
Corporate bonds		109,688	350	110,038
Asset-backed securities		84,498		84,498
Other		2,583		2,583
Deferred compensation plan assets	2,895			2,895
Derivative financial instruments		223		223
Total	$ 2,895	$ 1,701,456	$ 350	$ 1,704,701
Liabilities				
Deferred compensation plan liability	$ 2,895	$	$	$ 2,895
Brokered certificates of deposit		102,879		102,879
Derivative financial instruments		6,142		6,142
Total liabilities	$ 2,895	$ 109,021	$	$ 111,916

	Level 1	Level 2	Level 3	Total
December 31, 2011				
Assets				
Securities available for sale:				
U.S. Government agencies	$	$ 43,750	$	$ 43,750
State and political subdivisions		26,339		26,339
Mortgage-backed securities		1,609,909		1,609,909
Corporate bonds		107,328	350	107,678
Other		2,371		2,371
Deferred compensation plan assets	2,859			2,859
Total	$ 2,859	$ 1,789,697	$ 350	$ 1,792,906
Liabilities				
Deferred compensation plan liability	$ 2,859	$	$	$ 2,859
Brokered certificates of deposit		13,107		13,107
Derivative financial instruments		422		422

	Level 1	Level 2	Level 3	Total
Total liabilities	$ 2,859	$ 13,529	$	$ 16,388

	Level 1	Level 2	Level 3	Total
June 30, 2011				
Assets				
Securities available for sale:				
U.S. Government agencies	$	$ 77,477	$	$ 77,477
State and political subdivisions		26,772		26,772
Mortgage-backed securities		1,588,489	4,129	1,592,618
Corporate bonds		116,944	350	117,294
Other		2,452		2,452
Deferred compensation plan assets	3,025			3,025
Total	$ 3,025	$ 1,812,134	$ 4,479	$ 1,819,638
Liabilities				
Deferred compensation plan liability	$ 3,025	$	$	$ 3,025
Total liabilities	$ 3,025	$	$	$ 3,025

26

Table of Contents

UNITED COMMUNITY BANKS, INC. AND SUBSDIARIES

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 Three Months Ended June 30,		Securities Available for Sale Six Months Ended June 30,	
	2012	2011	2012	2011
Balance at beginning of period	$ 350	$ 4,784	$ 350	$ 5,284
Amounts included in earnings		(5)		(13)
Paydowns		(300)		(792)
Balance at end of period	$ 350	$ 4,479	$ 350	$ 4,479

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

United may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis. These include assets that are measured at the lower of cost or market that were recognized at fair value below cost at the end of the period. The table below presents United s assets and liabilities measured at fair value on a nonrecurring basis as of June 30, 2012, December 31, 2011 and June 30, 2011, aggregated by the level in the fair value hierarchy within which those measurements fall *(in thousands)*.

	Level 1	Level 2	Level 3	Total
June 30, 2012				
Assets				
Loans	$	$	$ 160,266	$ 160,266
Foreclosed properties			25,253	25,253
Total	$	$	$ 185,519	$ 185,519
December 31, 2011				
Assets				
Loans	$	$	$ 133,828	$ 133,828
Foreclosed properties			29,102	29,102
Total	$	$	$ 162,930	$ 162,930
June 30, 2011				
Assets				
Loans	$	$	$ 27,810	$ 27,810
Foreclosed properties			41,922	41,922
Total	$	$	$ 69,732	$ 69,732

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.

27

Table of Contents

UNITED COMMUNITY BANKS, INC. AND SUBSDIARIES

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 on a recurring basis in United s balance sheet at June 30, 2012, December 31, 2011, and June 30, 2011 are as follows *(in thousands)*.

	June 30, 2012				
	Carrying	Fair Value Level			
	Amount	Level 1	Level 2	Level 3	Total
Assets:					
Securities held to maturity	$ 282,750	$	$ 299,971	$	$ 299,971
Loans, net	4,006,530			3,830,187	3,830,187
Liabilities:					
Deposits	5,822,467		5,863,885		5,863,885
Federal Home Loan Bank advances	125,125		125,125		125,125
Long-term debt	120,265			114,679	114,679

	December 31, 2011		June 30, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:				
Securities held to maturity	$ 330,203	$ 343,531	$ 371,578	$ 379,231
Loans, net	3,995,146	3,800,343	4,035,809	3,889,669
Liabilities:				
Deposits	6,097,983	6,093,772	6,183,215	6,174,117
Federal Home Loan Bank advances	40,625	43,236	40,625	43,763
Long-term debt	120,225	115,327	150,186	140,771

Note 13 Reclassification and Reverse Stock Split

Certain 2011 amounts have been reclassified to conform to the 2012 presentation. On June 17, 2011, United completed a 1-for-5 reverse stock split, or recombination, whereby each five shares of United s common stock was reclassified into one share of common stock and each five shares of United s non-voting common stock was reclassified into one share of non-voting common stock. All share and per share amounts for all periods presented have been adjusted to reflect the reverse split as though it had occurred prior to the earliest period presented.

Note 14 Bulk Loan Sale

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

Table of Contents

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

Forward-looking Statements

This Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended, (the Exchange Act), about United and its subsidiaries. These forward-looking statements are intended to be covered by the safe harbor for forward-looking statements provided by the Private Securities Litigation Reform Act of 1995. Forward-looking statements are not statements of historical fact, and can be identified by the use of forward-looking terminology such as believes , expects , may , will , could , should , projects , plans , goal , targets , potential , seeks , intends , or anticipates or the negative thereof or comparable terminology. Forward-looking statements include discussions of strategy, financial projections, guidance and estimates (including their underlying assumptions), statements regarding plans, objectives, expectations or consequences of various transactions, and statements about the future performance, operations, products and services of United and its subsidiaries. We caution our shareholders and other readers not to place undue reliance on such statements.

Our businesses and operations are and will be subject to a variety of risks, uncertainties and other factors. Consequently, actual results and experiences may differ materially from those contained in any forward-looking statements. Such risks, uncertainties and other factors that could cause actual results and experience to differ from those projected include, but are not limited to, the risk factors set forth in our Annual Report on Form 10-K for the year ended December 31, 2011, as well as the following factors:

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

- the accounting and reporting policies of United;
- if our allowance for loan losses is not sufficient to cover actual loan losses;
- we may be subject to losses due to fraudulent and negligent conduct of our loan customers, third party service providers or employees;
- competition from financial institutions and other financial service providers;
- the U.S. Treasury may change the terms of our fixed rate cumulative perpetual preferred stock, Series B (the Series B preferred stock);
- risks with respect to future expansion and acquisitions;
- if the conditions in the stock market, the public debt market and other capital markets deteriorate;
- the impact of the Dodd-Frank Wall Street Reform Act of 2010 and related regulations and other changes in financial services laws and regulations;
- the failure of other financial institutions;
- a special assessment that may be imposed by the Federal Deposit Insurance Corporation (the FDIC) on all FDIC-insured institutions in the future, similar to the assessment in 2009 that decreased our earnings;
- the formal investigation by the Securities and Exchange Commission or any penalty, sanction or further restatement of our previously issued financial statements that may result from such investigation;
- the costs and effects of litigation, examinations, investigations, or similar matters, or adverse facts and developments related thereto, including possible dilution;
- regulatory or judicial proceedings, board resolutions, informal memorandums of understanding or formal enforcement actions imposed by regulators that may occur, or any such proceedings or enforcement actions that is more severe than we anticipate.

Additional information with respect to factors that may cause actual results to differ materially from those contemplated by such forward-looking statements may also be included in other reports that United files with the Securities and Exchange Commission. United cautions that the foregoing list of factors is not exclusive and not to place undue reliance on forward-looking statements. United does not intend to update any forward-looking statement, whether written or oral, relating to the matters discussed in this Form 10-Q.

Table of Contents

Overview

The following discussion is intended to provide insight into the results of operations and financial condition of United Community Banks, 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 Board of Governors of 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, 2012 United had total consolidated assets of $6.74 billion, total loans of $4.12 billion, excluding the loans acquired from Southern Community Bank (SCB) that are covered by loss sharing agreements and therefore have a different risk profile. United also had total deposits of $5.82 billion and shareholders equity of $576 million.

United s activities are primarily conducted by its wholly owned Georgia banking subsidiary, United Community Bank (the Bank). The Bank s operations are conducted under a community bank model that operates 27 community banks with local bank presidents and boards in north Georgia, the Atlanta, Georgia metropolitan statistical area (the Atlanta MSA), the Gainesville, Georgia metropolitan statistical area (the Gainesville MSA), coastal Georgia, western North Carolina, and east Tennessee.

Included in management s discussion and analysis are certain non-GAAP (accounting principles generally accepted in the United States of America (GAAP)) performance measures. United s management believes that non-GAAP performance measures are useful in analyzing United s financial performance trends and therefore this section will refer to non-GAAP performance measures. A reconciliation of these non-GAAP performance measures to GAAP performance measures is included in the table on page 33.

United reported a net income of $6.50 million for the second quarter of 2012. This compared to net income of $12.0 million for the second quarter of 2011. Diluted earnings per common share was $.06 for the second quarter of 2012, compared to diluted earnings per common share of $.16 for the second quarter of 2011.

For the six months ended June 30, 2012, United reported net income of $18.0 million. This compared to a net loss of $225 million for the first six months of 2011, which reflects the credit losses taken in the first quarter associated with United s problem asset disposition plan (the Problem Asset Disposition Plan). United s Board of Directors adopted the Problem Asset Disposition Plan in the first quarter of 2011 following a private placement transaction that raised $380 million in new capital (the Private Placement). Diluted earnings per common share was $.21 for the six months ended June 30, 2012, compared with a loss per common share of $10.52 for the same period in 2011.

United s provision for loan losses was $18.0 million for the three months ended June 30, 2012, compared to $11.0 million for the same period in 2011. Net charge-offs for the second quarter of 2012 were $18.9 million, compared to $16.5 million for the second quarter of 2011. For the six months ended June 30, 2012, United s provision for loan losses was $33.0 million, compared to $201 million for the same period of 2011. Net charge-offs for the first six months of 2012 were $34.8 million, compared to $248 million for the first six months of 2011. During the first quarter of 2011, performing substandard loans with a pre-charge down carrying amount of $166 million and nonperforming loans with a pre-charge down carrying amount of $101 million were collectively written down to the expected sales proceeds of $80.6 million, in conjunction with a bulk loan sale that was part of the Problem Asset Disposition Plan (the Bulk Loan Sale). United recognized net charge-offs of $186 million related to the transfer of loans to the held for sale classification in the first quarter. The Bulk Loan Sale was completed on April 18, 2011. Proceeds from the sale were greater than originally estimated, resulting in a reduction of second quarter charge-offs of $7.27 million.

As of June 30, 2012, United s allowance for loan losses was $113 million, or 2.74% of loans, compared to $128 million, or 3.07% of loans, at June 30, 2011. Nonperforming assets of $146 million, which excludes assets of Southern Community Bank (SCB) that are covered by loss sharing agreements with the FDIC, increased to 2.16% of total assets at June 30, 2012 from 1.66% as of June 30, 2011. Nonperforming asset levels are impacted significantly by the inflow of new nonperforming loans and United s ability to liquidate foreclosed properties. During the third quarter of 2011, United classified its largest lending relationship of $76.6 million, which caused nonperforming assets to increase from 1.66% of total assets at June 30, 2011. Since that time, nonperforming assets have trended down.

Taxable equivalent net interest revenue was $56.8 million for the second quarter of 2012, compared to $58.9 million for the same period of 2011. The decrease in net interest revenue was primarily the result of the lower yield on the securities portfolio, which was significantly impacted by heavy prepayment activity in the mortgage market. Prepayment activity suppressed the securities portfolio yield by accelerating the amortization of bond purchase premiums and the yields at which the proceeds were reinvested fell short of the yields of the bonds they replaced. Average loans for the quarter declined $110 million from the second quarter of 2011. The impact of the decrease in average loan balances was substantially offset by lower deposit rates. Net interest margin increased from 3.41% for the three months ended June 30, 2011 to 3.43% for the same period in 2012. For the six months ended June 30, 2012, taxable equivalent net interest revenue was $116 million, compared to $115 million for the same period of 2011. Net interest margin increased from 3.36% for the six months ended June 30, 2011 to 3.48% for the same

period in 2012. Over the past year, United has maintained above normal levels of liquidity.

Operating fee revenue decreased $1.04 million, or 7%, from the second quarter of 2011 and increased $2.50 million, or 10%, from the first six months of 2011. The quarterly decrease was due to a decline in hedge ineffectiveness gains. The second quarter of 2011 included $2.8 million in hedge ineffectiveness gains. In contrast, the second quarter of 2012 included $180,000 in hedge ineffectiveness losses. The year to date increase in operating fee revenue was due to an 81% increase in mortgage loan and related fees as well as a 9% increase in service charges and fees. The increase in service charges and fees is due to new service fees on demand deposit accounts that became effective January 1, 2012. These increases, along with a $2.86 million increase in other fee revenue that resulted mostly from $1.1 million in interest on a prior year Federal tax refund and $728,000 in gains from the sale of state low income housing tax credits that were included in the first quarter of 2012, more than offset the decline in hedge ineffectiveness gains for the period.

For the second quarter of 2012, operating expenses of $44.3 million were down $4.42 million from the second quarter of 2011. Lower salary and employee benefits accounted for $2.14 million of the decrease and lower FDIC assessments and other regulatory charges accounted for $1.10 million of the decrease. For the six months ended June 30, 2012, operating expenses of $91.3 million were down $72.7 million from the same period of 2011. Foreclosed property costs were down $61.1 million from the first six months of 2011, due to the writedowns taken in 2011 associated with the Problem Asset Disposition Plan.

Recent Developments

In the first quarter of 2012, following detailed discussions with the Division of Corporation Finance and the Office of the Chief Accountant of the Securities and Exchange Commission (the SEC), United recorded an additional income tax expense of $156.7 million and a charge to other comprehensive income in shareholders equity of $10.2 million to establish a full deferred tax asset valuation allowance as of December 31, 2010. Based on these discussions with the SEC, United believes that establishing the full valuation allowance was responsive to the previously disclosed comments made by the SEC regarding United s net deferred tax assets. As a result of increasing the valuation allowance for its deferred tax assets as of December 31, 2010, United restated its financial statements for the fourth quarter and year ended December 31, 2010 and the first three quarters of 2011, and revised the disclosures contained in its periodic reports filed with the SEC for those periods.

As previously disclosed on United s Current Report on Form 8-K filed on May 16, 2012, United received from the SEC s Division of Enforcement a notice of formal investigation that included a subpoena seeking information relating primarily to United s deferred tax asset valuation allowances, the establishment of which resulted in the restatements described above, and United s 2009 and 2010 goodwill impairment charges. The notice of investigation stated that it should not be construed as an indication that any violations of law have occurred. United is cooperating fully with the SEC in response to the subpoena.

As previously disclosed on United s Current Report on Form 8-K filed on July 6, 2012, United has been served with a lawsuit filed by FILB Co-Investments LLC (FILB) against United in New York federal court. The lawsuit relates to purported contractual rights that FILB claims were assigned to it by Fletcher International, Ltd (Fletcher). United believes the lawsuit is meritless for several reasons, and will defend it aggressively.

The purported assignment to FILB from Fletcher relates to a dispute between those two entities emanating from a redemption request to Fletcher by several investors in one of Fletcher s funds. That dispute involves judicial proceedings in the Cayman Islands that resulted in the Grand Court of the Cayman Islands ordering the liquidation of a Fletcher fund, with FILB now being managed by a court-appointed liquidator. Fletcher has now filed for bankruptcy protection and is seeking to prevent the liquidation from continuing. United believes that FILB has filed this lawsuit in an attempt to preserve all possible rights, regardless of merit, that might be pursued as a result of the liquidation.

FILB alleges that, among other things, United breached its obligation to deliver 76 shares of preferred stock of United to FILB and that the investment period with respect to FILB s purportedly assigned right to purchase United s preferred stock is continuing. FILB also claimed that United s 2011 reclassification of its common stock in the form of a 1-for-5 reverse stock split, or recombination, should be ignored for purposes of calculating the number of shares of United s common stock issuable upon the redemption of United s preferred stock.

United strongly disagrees with each of these claims and fully expects its position to prevail if the litigation proceeds.

Critical Accounting Policies

The accounting and reporting policies of United are in accordance with GAAP and conform to general practices within the banking industry. The more critical accounting and reporting policies include United s accounting for the allowance for loan losses, fair value measurements, and income taxes. In particular, United s accounting policies related to allowance for loan losses, fair value measurements and income taxes involve the use of estimates and require significant judgment to be made by management. Different assumptions in the application of these policies could result in material changes in United s consolidated financial position or consolidated results of operations. See Asset Quality and Risk

Elements herein for additional discussion of United s accounting methodologies related to the allowance for loan losses.

GAAP Reconciliation and Explanation

This Form 10-Q contains non-GAAP financial measures, which are performance measures determined by methods other than in accordance with GAAP. Such non-GAAP financial measures include, among others the following: taxable equivalent interest revenue, taxable equivalent net interest revenue, tangible book value per share, tangible equity to assets, tangible common equity to assets and tangible common equity to risk-weighted assets. 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 33.

Table of Contents

Table 1 - Financial Highlights

Selected Financial Information

(in thousands, except per share data; taxable equivalent)	2012 Second Quarter	2012 First Quarter	2011 Fourth Quarter	2011 Third Quarter	2011 Second Quarter	Second Quarter 2012-2011 Change	For the Six Months Ended 2012	For the Six Months Ended 2011	YTD 2012-2011 Change
INCOME SUMMARY									
Interest revenue	$ 66,780	$ 70,221	$ 71,905	$ 74,543	$ 76,931		$ 137,001	$ 152,896	
Interest expense	9,944	11,357	12,855	15,262	17,985		21,301	37,558	
Net interest revenue	56,836	58,864	59,050	59,281	58,946	(4)%	115,700	115,338	%
Provision for loan losses	18,000	15,000	14,000	36,000	11,000		33,000	201,000	
Fee revenue	12,867	15,379	12,667	11,498	13,905	(7)	28,246	25,743	10
Total revenue	51,703	59,243	57,717	34,779	61,851		110,946	(59,919)	
Operating expenses	44,310	46,955	51,080	46,520	48,728	(9)	91,265	163,999	(44)
Income (loss) before income taxes	7,393	12,288	6,637	(11,741)	13,123		19,681	(223,918)	
Income tax expense (benefit)	894	760	(3,264)	(402)	1,095		1,654	1,390	
Net income (loss)	6,499	11,528	9,901	(11,339)	12,028	(46)	18,027	(225,308)	
Preferred dividends and discount accretion	3,032	3,030	3,025	3,019	3,016		6,062	5,794	
Net income (loss) available to common shareholders	$ 3,467	$ 8,498	$ 6,876	$ (14,358)	$ 9,012	(62)	$ 11,965	$ (231,102)	
PERFORMANCE MEASURES									
Per common share:									
Diluted income (loss)	$ .06	$ .15	$ .12	$ (.25)	$ .16	(63)	$ .21	$ (10.52)	
Book value	6.61	6.68	6.62	6.77	7.11	(7)	6.61	7.11	(7)
Tangible book value (2)	6.48	6.54	6.47	6.61	6.94	(7)	6.48	6.94	(7)
Key performance ratios:									
Return on equity (1)(3)	3.51%	8.78%	7.40%	(15.06)%	42.60%		6.12%	(345.86)%	
Return on assets (3)	.37	.66	.56	(.64)	.66		.52	(6.16)	
Net interest margin (3)	3.43	3.53	3.51	3.55	3.41		3.48	3.36	
Efficiency ratio	63.84	63.31	71.23	65.73	66.88		63.56	116.28	
Equity to assets	8.33	8.19	8.28	8.55	8.06		8.26	7.11	
Tangible equity to assets (2)	8.24	8.08	8.16	8.42	7.93		8.16	7.00	
Tangible common equity to assets (2)	5.45	5.33	5.38	5.65	1.37		5.39	2.05	
Tangible common equity to risk-weighted assets (2)	8.37	8.21	8.25	8.52	8.69		8.37	8.69	
ASSET QUALITY *									
Non-performing loans	$ 115,340	$ 129,704	$ 127,479	$ 144,484	$ 71,065		$ 115,340	$ 71,065	
Foreclosed properties	30,421	31,887	32,859	44,263	47,584		30,421	47,584	
Total non-performing assets (NPAs)	145,761	161,591	160,338	188,747	118,649		145,761	118,649	
Allowance for loan losses	112,705	113,601	114,468	146,092	127,638		112,705	127,638	
Net charge-offs	18,896	15,867	45,624	17,546	16,483		34,763	248,057	
Allowance for loan losses to loans	2.74%	2.75%	2.79%	3.55%	3.07%		2.74%	3.07%	
Net charge-offs to average loans (3)	1.85	1.55	4.39	1.68	1.58		1.70	11.46	
NPAs to loans and foreclosed properties	3.51	3.88	3.87	4.54	2.82		3.51	2.82	
NPAs to total assets	2.16	2.25	2.30	2.74	1.66		2.16	1.66	
AVERAGE BALANCES *($ in millions)*									
Loans	$ 4,156	$ 4,168	$ 4,175	$ 4,194	$ 4,266	(3)	$ 4,162	$ 4,432	(6)

Investment securities	2,145	2,153	2,141	2,150	2,074	3	2,149	1,851	16
Earning assets	6,665	6,700	6,688	6,630	6,924	(4)	6,682	6,913	(3)
Total assets	6,993	7,045	7,019	7,000	7,363	(5)	7,019	7,371	(5)
Deposits	5,853	6,028	6,115	6,061	6,372	(8)	5,940	6,465	(8)
Shareholders equity	583	577	581	598	594	(2)	580	524	11
Common shares - basic *(thousands)*	57,840	57,764	57,646	57,599	25,427		57,803	21,965	
Common shares - diluted *(thousands)*	57,840	57,764	57,646	57,599	57,543		57,803	21,965	
AT PERIOD END *($ in millions)*									
Loans *	$ 4,119	$ 4,128	$ 4,110	$ 4,110	$ 4,163	(1)	$ 4,119	$ 4,163	(1)
Investment securities	1,984	2,202	2,120	2,123	2,188	(9)	1,984	2,188	(9)
Total assets	6,737	7,174	6,983	6,894	7,152	(6)	6,737	7,152	(6)
Deposits	5,822	6,001	6,098	6,005	6,183	(6)	5,822	6,183	(6)
Shareholders equity	576	580	575	583	603	(4)	576	603	(4)
Common shares outstanding *(thousands)*	57,641	57,603	57,561	57,510	57,469		57,641	57,469	

(1) 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).

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

(3) Annualized.

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

32

Table of Contents

Table 1 Continued - Non-GAAP Performance Measures Reconciliation

Selected Financial Information

(in thousands, except per share data; taxable equivalent)	2012 Second Quarter	2012 First Quarter	2011 Fourth Quarter	2011 Third Quarter	2011 Second Quarter	For the Six Months Ended 2012	For the Six Months Ended 2011
Interest revenue reconciliation							
Interest revenue - taxable equivalent	$ 66,780	$ 70,221	$ 71,905	$ 74,543	$ 76,931	$ 137,001	$ 152,896
Taxable equivalent adjustment	(444)	(446)	(423)	(420)	(429)	(890)	(864)
Interest revenue (GAAP)	$ 66,336	$ 69,775	$ 71,482	$ 74,123	$ 76,502	$ 136,111	$ 152,032
Net interest revenue reconciliation							
Net interest revenue - taxable equivalent	$ 56,836	$ 58,864	$ 59,050	$ 59,281	$ 58,946	$ 115,700	$ 115,338
Taxable equivalent adjustment	(444)	(446)	(423)	(420)	(429)	(890)	(864)
Net interest revenue (GAAP)	$ 56,392	$ 58,418	$ 58,627	$ 58,861	$ 58,517	$ 114,810	$ 114,474
Total revenue reconciliation							
Total operating revenue	$ 51,703	$ 59,243	$ 57,717	$ 34,779	$ 61,851	$ 110,946	$ (59,919)
Taxable equivalent adjustment	(444)	(446)	(423)	(420)	(429)	(890)	(864)
Total revenue (GAAP)	$ 51,259	$ 58,797	$ 57,294	$ 34,359	$ 61,422	$ 110,056	$ (60,783)
Income (loss) before taxes reconciliation							
Income (loss) before taxes	$ 7,393	$ 12,288	$ 6,637	$ (11,741)	$ 13,123	$ 19,681	$ (223,918)
Taxable equivalent adjustment	(444)	(446)	(423)	(420)	(429)	(890)	(864)
Income (loss) before taxes (GAAP)	$ 6,949	$ 11,842	$ 6,214	$ (12,161)	$ 12,694	$ 18,791	$ (224,782)
Income tax (benefit) expense reconciliation							
Income tax (benefit) expense	$ 894	$ 760	$ (3,264)	$ (402)	$ 1,095	$ 1,654	$ 1,390
Taxable equivalent adjustment	(444)	(446)	(423)	(420)	(429)	(890)	(864)
Income tax (benefit) expense (GAAP)	$ 450	$ 314	$ (3,687)	$ (822)	$ 666	$ 764	$ 526
Book value per common share reconciliation							
Tangible book value per common share	$ 6.48	$ 6.54	$ 6.47	$ 6.61	$ 6.94	$ 6.48	$ 6.94
Effect of goodwill and other intangibles	.13	.14	.15	.16	.17	.13	.17
Book value per common share (GAAP)	$ 6.61	$ 6.68	$ 6.62	$ 6.77	$ 7.11	$ 6.61	$ 7.11
Average equity to assets reconciliation							
Tangible common equity to assets	5.45%	5.33%	5.38%	5.65%	1.37%	5.39%	2.05%
Effect of preferred equity	2.79	2.75	2.78	2.77	6.56	2.77	4.95
Tangible equity to assets	8.24	8.08	8.16	8.42	7.93	8.16	7.00
Effect of goodwill and other intangibles	.09	.11	.12	.13	.13	.10	.11
Equity to assets (GAAP)	8.33%	8.19%	8.28%	8.55%	8.06%	8.26%	7.11%

Tangible common equity to risk-weighted assets reconciliation							
Tangible common equity to risk-weighted assets	8.37%	8.21%	8.25%	8.52%	8.69%	8.37%	8.69%
Effect of other comprehensive income	.28	.10	(.03)	(.29)	(.42)	.28	(.42)
Effect of trust preferred	1.19	1.15	1.18	1.19	1.15	1.19	1.15
Effect of preferred equity	4.35	4.23	4.29	4.33	4.20	4.35	4.20
Tier I capital ratio (Regulatory)	14.19%	13.69%	13.69%	13.75%	13.62%	14.19%	13.62%

Results of Operations

United reported net income of $6.50 million for the second quarter of 2012. This compared to net income of $12.0 million for the same period in 2011. For the second quarter of 2012, diluted earnings per common share was $.06. This compared to diluted earnings per common share of $.16 for the second quarter of 2011. For the six months ended June 30, 2012, United reported net income of $18.0 million compared to a net operating loss of $225 million for the same period in 2011. The loss for the six months ended June 30, 2011 reflects the Board of Directors decision in the first quarter of 2011 to adopt the Problem Asset Disposition Plan to quickly dispose of problem assets following United s private placement at the end of the first quarter. Diluted earnings per common share was $.21 for the six months ended June 30, 2012, compared with a diluted loss per common share of $10.52 for the same period in 2011.

Table of Contents

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. Taxable equivalent net interest revenue for the three months ended June 30, 2012 was $56.8 million, down $2.11 million, or 4%, from the second quarter of 2011. The decrease in net interest revenue for the second quarter of 2012 compared to the second quarter of 2011 was mostly due to lower yields on the securities and loan portfolios and a smaller balance of interest-earning assets. United continues its intense focus on loan and deposit pricing in an effort to maintain a steady level of net interest revenue.

Average loans decreased $110 million, or 3%, from the second quarter of last year. The decrease in the loan portfolio has begun to stabilize, however there is a high level of competition for quality lending relationships, which continues to put pressure on pricing. While loan balances have declined, United continues to make new loans. During the second quarter of 2012, United funded $86.5 million in new loans, primarily commercial and small business loans in north Georgia, the Atlanta MSA, east Tennessee and coastal Georgia.

Average interest-earning assets for the second quarter of 2012 decreased $259 million, or 4%, from the same period in 2011. Average loans decreased $110 million from the second quarter of 2011 however, this decrease was offset by a $71.6 million increase in average investment securities. The increase in the securities portfolio was due to purchases of floating rate mortgage-backed securities in an effort to temporarily invest excess liquidity, including the proceeds from the new capital raised at the end of the first quarter of 2011. The average yield on interest earning assets for the three months ended June 30, 2012, was 4.03%, down 42 basis points from 4.45% for the same period of 2011. The most significant factors in the lower earning asset yield were the lower average yields on the loan and securities portfolios. For the second quarter of 2012, the yield on total securities decreased 79 basis points from the same period a year ago. The securities portfolio was significantly impacted by heavy prepayment activity in the mortgage market during 2012. Prepayment activity suppressed the securities portfolio yield by accelerating the amortization of bond purchase premiums and the yields at which the proceeds were reinvested fell short of the yields of the bonds they replaced. Partially offsetting the lower loan and securities yields was a higher average yield on other interest-earnings assets due to the use of reverse repurchase agreements including collateral swap transactions where United enters into a repurchase agreement and reverse repurchase agreement simultaneously with the same counterparty subject to a master netting agreement.

Average interest-bearing liabilities decreased $558 million, or 10%, from the second quarter of 2011 due to the rolling off of higher-cost brokered deposits and certificates of deposit as funding needs decreased. The average cost of interest-bearing liabilities for the second quarter of 2012 was .76% compared to 1.24% for the same period of 2011, reflecting 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.

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, 2012 and 2011, the net interest spread was 3.27% and 3.21%, respectively, while the net interest margin was 3.43% and 3.41%, respectively.

For the first six months of 2012, net interest revenue was $116 million, an increase of $362,000, or less than 1%, from the first six months of 2011. Average earning assets decreased $231 million, or 3%, during the first six months of 2012 compared to the same period a year earlier. The yield on earning assets decreased 33 basis points from 4.45% for the six months ended June 30, 2011 to 4.12% for the six months ended June 30, 2012 due to declining average loan balances and a declining average loan yield and the abnormally high prepayment activity on mortgage-backed securities in the securities portfolio during 2012. The cost of interest bearing liabilities over the same period decreased 47 basis points. The combined effect of the lower yield on interest-earning assets, which was more than offset by the lower cost of interest-bearing liabilities resulted in the net interest margin increasing 12 basis points from the six months ended June 30, 2011 to the six months ended June 30, 2012.

Table of Contents

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, 2012 and 2011.

Table 2 - Average Consolidated Balance Sheets and Net Interest Analysis

For the Three Months Ended June 30,

	2012			2011		
(dollars in thousands, taxable equivalent)	**Average Balance**	**Interest**	**Avg. Rate**	**Average Balance**	**Interest**	**Avg. Rate**
Assets:						
Interest-earning assets:						
Loans, net of unearned income [1][2]	$ 4,155,619	$ 54,296	5.25%	$ 4,266,211	$ 60,958	5.73%
Taxable securities [3]	2,121,053	10,800	2.04	2,048,683	14,541	2.84
Tax-exempt securities [1][3]	24,242	429	7.08	25,044	411	6.56
Federal funds sold and other interest-earning assets	364,099	1,255	1.38	583,832	1,021	.70
Total interest-earning assets	6,665,013	66,780	4.03	6,923,770	76,931	4.45
Non-interest-earning assets:						
Allowance for loan losses	(115,955)			(139,744)		
Cash and due from banks	51,907			119,801		
Premises and equipment	173,792			178,949		
Other assets [3]	218,347			280,204		
Total assets	$ 6,993,104			$ 7,362,980		
Liabilities and Shareholders Equity:						
Interest-bearing liabilities:						
Interest-bearing deposits:						
NOW	$ 1,279,686	503	.16	$ 1,310,441	1,036	.32
Money market	1,132,548	661	.23	979,432	1,499	.61
Savings	216,175	38	.07	195,946	64	.13
Time less than $100,000	1,183,845	2,520	.86	1,541,909	4,990	1.30
Time greater than $100,000	778,477	2,063	1.07	988,810	3,873	1.57
Brokered time deposits	150,449	490	1.31	473,161	2,132	1.81
Total interest-bearing deposits	4,741,180	6,275	.53	5,489,699	13,594	.99
Federal funds purchased and other borrowings	97,134	904	3.74	103,156	1,074	4.18
Federal Home Loan Bank advances	278,971	390	.56	52,735	570	4.34
Long-term debt	120,256	2,375	7.94	150,178	2,747	7.34
Total borrowed funds	496,361	3,669	2.97	306,069	4,391	5.75
Total interest-bearing liabilities	5,237,541	9,944	.76	5,795,768	17,985	1.24
Non-interest-bearing liabilities:						
Non-interest-bearing deposits	1,112,128			882,151		
Other liabilities	60,726			91,353		
Total liabilities	6,410,395			6,769,272		

Shareholders equity	582,709		593,708	
Total liabilities and shareholders equity	$ 6,993,104		$ 7,362,980	
Net interest revenue		$ 56,836		$ 58,946
Net interest-rate spread		3.27%		3.21%
Net interest margin [4]		3.43%		3.41%

(1) 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.

(2) Included in the average balance of loans outstanding are loans where the accrual of interest has been discontinued and loans that are held for sale.

(3) Securities available for sale are shown at amortized cost. Pretax unrealized gains of $25.7 million in 2012 and $32.2 million in 2011 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.

Table of Contents

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, 2012 and 2011.

Table 3 - Average Consolidated Balance Sheets and Net Interest Analysis

For the Six Months Ended June 30,

	2012			2011		
(dollars in thousands, taxable equivalent)	**Average Balance**	**Interest**	**Avg. Rate**	**Average Balance**	**Interest**	**Avg. Rate**
Assets:						
Interest-earning assets:						
Loans, net of unearned income [1][2]	$ 4,162,030	$ 110,138	5.32%	$ 4,431,617	$ 122,028	5.55%
Taxable securities [3]	2,124,422	23,554	2.22	1,825,322	27,886	3.06
Tax-exempt securities [1][3]	24,840	839	6.76	25,434	835	6.57
Federal funds sold and other interest-earning assets	371,044	2,470	1.33	630,384	2,147	.68
Total interest-earning assets	6,682,336	137,001	4.12	6,912,757	152,896	4.45
Non-interest-earning assets:						
Allowance for loan losses	(116,879)			(154,347)		
Cash and due from banks	53,286			127,031		
Premises and equipment	174,321			179,150		
Other assets [3]	226,013			306,495		
Total assets	$ 7,019,077			$ 7,371,086		
Liabilities and Shareholders Equity:						
Interest-bearing liabilities:						
Interest-bearing deposits:						
NOW	$ 1,368,900	1,140	.17	$ 1,341,618	2,360	.35
Money market	1,101,103	1,302	.24	954,128	3,527	.75
Savings	210,789	75	.07	191,708	141	.15
Time less than $100,000	1,227,599	5,546	.91	1,541,130	10,441	1.37
Time greater than $100,000	799,821	4,478	1.13	989,840	8,024	1.63
Brokered time deposits	155,892	1,208	1.56	585,103	4,262	1.47
Total interest-bearing deposits	4,864,104	13,749	.57	5,603,527	28,755	1.03
Federal funds purchased and other borrowings	99,696	1,949	3.93	102,132	2,116	4.18
Federal Home Loan Bank advances	208,672	856	.82	53,923	1,160	4.34
Long-term debt	120,246	4,747	7.94	150,169	5,527	7.42
Total borrowed funds	428,614	7,552	3.54	306,224	8,803	5.80
Total interest-bearing liabilities	5,292,718	21,301	.81	5,909,751	37,558	1.28
Non-interest-bearing liabilities:						
Non-interest-bearing deposits	1,076,358			861,864		
Other liabilities	70,330			75,083		
Total liabilities	6,439,406			6,846,698		

Shareholders equity	579,671			524,388		
Total liabilities and shareholders equity	$ 7,019,077			$ 7,371,086		
Net interest revenue		$ 115,700			$ 115,338	
Net interest-rate spread			3.31%			3.17%
Net interest margin [4]			3.48%			3.36%

[1] 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.

[2] Included in the average balance of loans outstanding are loans where the accrual of interest has been discontinued and loans that are held for sale.

[3] Securities available for sale are shown at amortized cost. Pretax unrealized gains of $24.7 million in 2012 and $29.7 million in 2011 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.

Table of Contents

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, 2012 Compared to 2011 Increase (decrease) Due to Changes in			Six Months Ended June 30, 2012 Compared to 2011 Increase (decrease) Due to Changes in		
	Volume	Rate	Total	Volume	Rate	Total
Interest-earning assets:						
Loans	$ (1,549)	$ (5,113)	$ (6,662)	$ (7,247)	$ (4,643)	$ (11,890)
Taxable securities	498	(4,239)	(3,741)	4,101	(8,433)	(4,332)
Tax-exempt securities	(13)	31	18	(20)	24	4
Federal funds sold and other interest-earning assets	(488)	722	234	(1,137)	1,460	323
Total interest-earning assets	(1,552)	(8,599)	(10,151)	(4,303)	(11,592)	(15,895)
Interest-bearing liabilities:						
NOW accounts	(23)	(510)	(533)	47	(1,267)	(1,220)
Money market accounts	205	(1,043)	(838)	475	(2,700)	(2,225)
Savings deposits	6	(32)	(26)	13	(79)	(66)
Time deposits less than $100,000	(999)	(1,471)	(2,470)	(1,856)	(3,039)	(4,895)
Time deposits greater than $100,000	(718)	(1,092)	(1,810)	(1,358)	(2,188)	(3,546)
Brokered deposits	(1,167)	(475)	(1,642)	(3,310)	256	(3,054)
Total interest-bearing deposits	(2,696)	(4,623)	(7,319)	(5,989)	(9,017)	(15,006)
Federal funds purchased & other borrowings	(61)	(109)	(170)	(50)	(117)	(167)
Federal Home Loan Bank advances	675	(855)	(180)	1,227	(1,531)	(304)
Long-term debt	(578)	206	(372)	(1,160)	380	(780)
Total borrowed funds	36	(758)	(722)	17	(1,268)	(1,251)
Total interest-bearing liabilities	(2,660)	(5,381)	(8,041)	(5,972)	(10,285)	(16,257)
Increase (decrease) in net interest revenue	$ 1,108	$ (3,218)	$ (2,110)	$ 1,669	$ (1,307)	$ 362

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 $18.0 million and $33 million for the second quarter and the first six months of 2012, respectively, compared to $11.0 million and $201 million for the same periods in 2011. The amount of provision recorded in each period was the amount required such that the total allowance for loan losses reflected the appropriate balance, in the estimation of management, and was sufficient to cover inherent losses in the loan portfolio. For the three and six months ended June 30, 2012, net loan charge-offs as an annualized percentage of average outstanding loans were 1.85% and 1.70%, compared to 1.58% and 11.46%, respectively, for the same periods in 2011.

As the residential construction and housing markets have struggled, it has been difficult for many builders and developers to produce cash flow needed to service debt from selling lots and houses. 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 four years. Although a majority of the charge-offs have

been within the residential construction and development portion of the portfolio, credit quality deterioration migrated to other loan categories as pressure resulting from economic conditions has persisted and 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 42.

37

Table of Contents

Fee Revenue

Operating fee revenue for the three and six months ended June 30, 2012 was $12.9 million and $28.2 million, respectively, a decrease of $1.04 million, or 7%, compared to second quarter of 2011, and an increase of $2.50 million, or 10%, from the year-to-date period of 2011. The following table presents the components of fee revenue for the second quarters and first six months of 2012 and 2011.

Table 5 Fee Revenue

(in thousands)

	Three Months Ended June 30,		Change		Six Months Ended June 30,		Change	
	2012	2011	Amount	Percent	2012	2011	Amount	Percent
Overdraft fees	$ 3,232	$ 3,657	$ (425)	(12)	$ 6,477	$ 7,168	$ (691)	(10)
Debit card fees	3,242	3,279	(37)	(1)	6,344	5,809	535	9
Other service charges and fees	1,342	672	670	100	2,778	1,351	1,427	106
Service charges and fees	7,816	7,608	208	3	15,599	14,328	1,271	9
Mortgage loan and related fees	2,322	952	1,370	144	4,421	2,446	1,975	81
Brokerage fees	809	691	118	17	1,622	1,368	254	19
Securities gains, net	6,490	783	5,707		7,047	838	6,209	
Losses from prepayment of debt	(6,199)	(791)	(5,408)		(6,681)	(791)	(5,890)	
Hedge ineffectiveness	(180)	2,809	(2,989)		(65)	4,112	(4,177)	
Other	1,809	1,853	(44)	(2)	6,303	3,442	2,861	83
Total fee revenue	$ 12,867	$ 13,905	$ (1,038)	(7)	$ 28,246	$ 25,743	$ 2,503	10

Service charges and fees of $7.82 million were up $208,000, or 3%, from the second quarter of 2011. For the first six months of 2012, service charges and fees of $15.6 million were up $1.27 million, or 9%, from the same period in 2011. The increase was primarily due to new charges on deposit accounts that more than offset a decline in overdraft fees resulting from decreased utilization of our courtesy overdraft services.

Mortgage loans and related fees for the second quarter and first six months of 2012 were up $1.37 million, or 144%, and $1.98 million, or 81%, respectively, from the same periods in 2011. In the second quarter of 2012, United closed 507 loans totaling $79.8 million compared with 349 loans totaling $50.5 million in the second quarter of 2011. Origination volumes were driven by the changing interest rate environment which had a significant impact on refinancing activity. Year-to-date mortgage production in 2012 amounted to 1,024 loans totaling $161 million, compared to 830 loans totaling $125 million for the same period in 2011.

United recognized net securities gains of $6.49 million and $7.05 million for the three and six months ended June 30, 2012. Net securities gains totaled $783,000 in the second quarter of 2011 and $838,000 for the first six months of 2011. United also recognized charges from the prepayment of Federal Home Loan Bank advances and structured repurchase agreements in the second quarter and first six months of 2012 and 2011. The losses were part of the same balance sheet management activities that resulted in the securities gains. The balance sheet management activities included the sale of $175 million in securities and the prepayment of $75 million in fixed rate borrowings, the effect of which was to reduce sensitivity to rising interest rates and improve the net interest margin. The securities gains and prepayment losses were mostly offsetting and had little net impact on financial results in the periods incurred.

In the second quarter of 2012, United recognized $180,000 in losses from hedge ineffectiveness compared with $2.81 million in gains from hedge ineffectiveness in the second quarter of 2011. For the first six months of 2012, United recognized $65,000 in losses from hedge ineffectiveness compared with $4.11 million in gains for the same period of 2011. Much of the hedge ineffectiveness relates to terminated cash flow hedges where the gains realized on the terminated positions are being deferred over the original term of the derivative instrument. The ineffectiveness, which is caused by a decrease in qualifying prime-based loans, results in the accelerated recognition of the deferred gains. In 2012, a portion of the hedge ineffectiveness gains and losses resulted from ineffectiveness on fair value hedges of brokered deposits. The second quarter of 2012 included $223,000 in hedge ineffectiveness losses on fair value hedges. The first six months of 2012 included $189,000 of net hedge ineffectiveness losses on fair value hedges of brokered deposits.

Other fee revenue of $1.81 million for the second quarter of 2012 was down $44,000, or 2%. For the first six months of 2012, other fee revenue of $6.30 million was up 2.86 million, or 83%, from the same period in 2011. The first quarter of 2012 included $1.1 million in interest received for 2008 s federal tax refund and $728,000 in gains from the sale of low income housing tax credits.

Table of Contents

Operating Expenses

The following table presents the components of operating expenses for the three and six months ended June 30, 2012 and 2011.

Table 6 Operating Expenses

(in thousands)

	Three Months Ended June 30,		Change		Six Months Ended June 30,		Change	
	2012	2011	Amount	Percent	2012	2011	Amount	Percent
Salaries and employee benefits	$ 24,297	$ 26,436	$ (2,139)	(8)	$ 49,522	$ 51,360	$ (1,838)	(4)
Communications and equipment	3,211	3,378	(167)	(5)	6,366	6,722	(356)	(5)
Occupancy	3,539	3,805	(266)	(7)	7,310	7,879	(569)	(7)
Advertising and public relations	1,088	1,317	(229)	(17)	1,934	2,295	(361)	(16)
Postage, printing and supplies	916	1,085	(169)	(16)	1,895	2,203	(308)	(14)
Professional fees	1,952	2,350	(398)	(17)	3,927	5,680	(1,753)	(31)
FDIC assessments and other regulatory charges	2,545	3,644	(1,099)	(30)	5,055	9,057	(4,002)	(44)
Amortization of intangibles	730	760	(30)	(4)	1,462	1,522	(60)	(4)
Other	4,181	4,062	119	3	8,118	10,491	(2,373)	(23)
Total excluding foreclosed property expenses	42,459	46,837	(4,378)	(9)	85,589	97,209	(11,620)	(12)
Net (gains) losses on sales of foreclosed properties	(269)	(3,218)	2,949		(176)	8,802	(8,978)	
Foreclosed property write downs	1,008	3,118	(2,110)		3,119	51,703	(48,584)	
Foreclosed property maintenance expenses	1,112	1,991	(879)	(44)	2,733	6,285	(3,552)	(57)
Total operating expenses	$ 44,310	$ 48,728	$ (4,418)	(9)	$ 91,265	$ 163,999	$ (72,734)	(44)

Operating expenses for the second quarter of 2012 totaled $44.3 million, down $4.42 million, or 9%, from the second quarter of 2011. For the six months ended June 30, 2012, operating expenses totaled $91.3 million, down $72.7 million, or 44%, from the same period in 2011. Higher foreclosed property losses incurred in connection with United s Problem Asset Disposition Plan were reflected in the six months ended June 30, 2011. Excluding foreclosed property costs, total operating expenses were $42.5 million and $85.6 million for the three and six months ended June 30, 2012, down $4.38 million, or 9%, from the second quarter of 2011 and down $11.6 million, or 12%, from a year ago. Decreases in operating expenses occurred in nearly every category reflecting management s focused efforts in reducing costs and improving operating efficiency.

Salaries and employee benefits for the second quarter of 2012 were $24.3 million, down $2.14 million, or 8%, from the same period of 2011. For the first six months of 2012, salaries and employee benefits of $49.5 million were down $1.84 million, or 4%, from the first six months of 2011. The decrease was due to a combination of reduced staffing, lower group medical insurance costs and a 50% reduction in the matching contribution on United s 401(k) and profit sharing plan that became effective on April 1, 2012. Headcount totaled 1,614 at June 30, 2012, compared to 1,767 at June 30, 2011.

Occupancy expense of $3.53 million and $7.31 million, respectively, for the second quarter and first six months of 2012 was down $266,000, or 7%, and down $569,000, or 7%, respectively, compared to the same periods of 2011. The decrease was across all subcategories of occupancy expense including building maintenance, insurance and depreciation.

Advertising and public relations expense for the second quarter of 2012 totaled $1.09 million, down $229,000, or 17%, from the second quarter of 2011. For the six months ended June 30, 2012 and 2011, advertising and public relations expense totaled $1.93 million and $2.30 million, respectively. The decrease for both periods is due to efforts to reduce discretionary spending.

Postage, printing and supplies expense for the second quarter of 2012 totaled $916,000, down $169,000, or 16%, from the same period of 2011. For the six months ended June 30, 2012 and 2011, postage, printing and supplies expense totaled $1.90 million and $2.20 million, respectively. The decrease was primarily due to lower office supplies and outside courier expenses.

Professional fees for the second quarter of 2012 of $1.95 million were down $398,000, or 17%, from the same period in 2011. For the six months ended June 30, 2012 professional fees of $3.93 million were down $1.75 million, or 31%, primarily due to professional service costs associated with the Bulk Loan Sale that were incurred in the first quarter of 2011.

FDIC assessments and other regulatory charges of $2.55 million and $5.06 million for the second quarter and first six months of 2012, decreased $1.10 million, or 30%, from the second quarter of 2011 and decreased $4.00 million, or 44%, compared to the first six months of 2011. The FDIC s change to an asset based formula effective April 1, 2011 was more favorable to United and lowered United s assessment. United s assessment rate was reduced further late in the second quarter of 2011.

Other expense of $4.18 million for the second quarter of 2012 increased $119,000 from the second quarter of 2011. Year-to-date, other expense of $8.12 million decreased $2.37 million from the first six months of 2011. The year-to-date decrease was primarily due to $2.60 million of property taxes and other loan collateral costs incurred to prepare loans for the Bulk Loan Sale. The decrease for the quarter was primarily due to lower loan collection costs.

39

Table of Contents

Net gains on sales of foreclosed property totaled $269,000 for the second quarter of 2012, compared to net gains on sale of $3.22 million for the second quarter of 2011. For the six months ended June 30, 2012, net gains on sale were $176,000 compared to net losses on sale of $8.80 million for the same period of the prior year. Foreclosed property write-downs for the second quarter and first six months of 2012 were $1.01 million and $3.12 million compared to $3.12 million and $51.7 million a year ago. The year to date decrease reflected higher write downs in the first half of 2011 on foreclosed properties to expedite sales under the Problem Asset Disposition Plan. Foreclosed property maintenance expenses include legal fees, property taxes, marketing costs, utility services, maintenance and repair charges that totaled $1.11 million and $2.73 million, respectively, for the second quarter and first six months of 2012 compared with $1.99 million and $6.29 million, respectively, a year ago. Foreclosed property costs in general are down in the second quarter from a year ago due to lower balances of foreclosed property after execution of United s Problem Asset Disposition Plan beginning in the first quarter of 2011.

Income Taxes

Income tax expense for the second quarter of 2012 was $450,000 as compared with income tax expense of $666,000 for the second quarter of 2011, representing an effective tax rate of approximately 6.48% and 5.25%, respectively. Because of the full valuation allowance on United s net deferred tax asset, United s tax expense on its pre-tax earnings represents adjustments to its reserve for uncertain tax positions and amounts payable under the Federal Alternative Minimum Tax.

At June 30, 2012, United reported no net deferred tax asset due to a full valuation allowance of $277 million. The Financial Accounting Standard s Board Accounting Standards Codification (ASC) 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. 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. The deferred tax assets are analyzed quarterly for changes affecting realizability. Because management has determined that the objective negative evidence outweighs the positive evidence, management has established a full valuation allowance against its net deferred tax asset.

As of February 22, 2011, United adopted a tax benefits preservation plan designed to protect its ability to utilize its substantial tax assets. Those tax assets include net operating losses that it could utilize in certain circumstances to offset taxable income and reduce its federal income tax liability and the future tax benefits from potential net unrealized built in losses. United s ability to use its tax benefits would be substantially limited if it were to experience an ownership change as defined under Section 382. In general, an ownership change would occur if United s 5-percent shareholders, as defined under Section 382, collectively increase their ownership in United by more than 50% over a rolling three-year period. The tax benefits preservation plan is designed to reduce the likelihood that United will experience an ownership change by discouraging any person or group from becoming a beneficial owner of 4.99% or more of United s common stock then outstanding.

In connection with the tax benefits preservation plan, on February 22, 2011, United entered into a share exchange agreement with the Elm Ridge Parties to transfer to the Company 1,551,126 shares of United s common stock, in exchange for 16,613 shares of the Company s series D preferred shares and warrants to purchase 1,551,126 shares of common stock. Prior to entering into the share exchange agreement, collectively, the Elm Ridge Parties were United s largest shareholder. By exchanging the Elm Ridge Parties common stock for the Series D Preferred Shares and warrants, United eliminated its only 5-percent shareholder and, as a result, obtained further protection against an ownership change under Section 382.

Additional information regarding income taxes, including a reconciliation of the differences between the recorded income tax provision and the amount of income tax computed by applying the statutory federal income tax rate to income before income taxes, can be found in Note 15 to the consolidated financial statements filed with United s Annual Report on Form 10-K for the year ended December 31, 2011.

Balance Sheet Review

Total assets at June 30, 2012, December 31, 2011 and June 30, 2011 were $6.74 billion, $6.98 billion and $7.15 billion, respectively. Average total assets for the second quarter of 2012 were $6.99 billion, down from $7.36 billion in the second quarter of 2011.

Table of Contents

The following table presents a summary of the loan portfolio.

Table 7 Loans Outstanding (excludes loans covered by loss share agreement)

(in thousands)

	June 30, 2012	December 31, 2011	June 30, 2011
By Loan Type			
Commercial (secured by real estate)	$ 1,836,477	$ 1,821,414	$ 1,741,754
Commercial & industrial	450,222	428,249	428,058
Commercial construction	169,338	164,155	195,190
Total commercial	2,456,037	2,413,818	2,365,002
Residential mortgage	1,128,336	1,134,902	1,177,226
Residential construction	408,966	448,391	501,909
Consumer installment	125,896	112,503	119,310
Total loans	$ 4,119,235	$ 4,109,614	$ 4,163,447
As a percentage of total loans:			
Commercial (secured by real estate)	45%	44%	42%
Commercial & industrial	11	10	10
Commercial construction	4	4	5
Total commercial	60	58	57
Residential mortgage	27	28	28
Residential construction	10	11	12
Consumer installment	3	3	3
Total	100%	100%	100%
By Geographic Location			
North Georgia	$ 1,387,204	$ 1,425,811	$ 1,499,687
Atlanta MSA	1,252,140	1,219,652	1,188,262
North Carolina	576,141	597,446	626,230
Coastal Georgia	369,280	346,189	325,650
Gainesville MSA	258,916	264,567	274,744
East Tennessee	275,554	255,949	248,874
Total loans	$ 4,119,235	$ 4,109,614	$ 4,163,447

Substantially all of United s loans are to customers (including customers who have a seasonal residence in United s market areas) located in the immediate market areas of its community banks in Georgia, North Carolina, and Tennessee, and more than 85% of the loans are secured by real estate. At June 30, 2012, total loans, excluding loans acquired from SCB that are covered by loss sharing agreements with the FDIC, were $4.12 billion, a decrease of $44.2 million, or 1%, from June 30, 2011. The rate of loan growth began to decline in the first quarter of 2007 and the balances have continued to decline over the last four years. The decrease in the loan portfolio began with deterioration in the residential construction and housing markets. This deterioration resulted in part as an oversupply of lot inventory, houses and land within United s markets, which further slowed construction activities and acquisition and development projects. 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. Despite the weak economy and lack of loan demand, United has continued to pursue lending opportunities which resulted in $86.5 million in new loans funded during the second quarter of 2012 and net positive loan growth of $9.62 million in the first six months of 2012. The rate of decrease in the loan portfolio dropped significantly following the execution of the Problem Asset Disposition Plan in the first quarter of 2011 and has continued to stabilize resulting in the modest growth in the first half of 2012.

Table of Contents

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 for the year ended December 31, 2011.

United classifies performing loans as substandard 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

(in thousands)

	June 30, 2012	March 31, 2012	December 31, 2011	September 30, 2011	June 30, 2011
By Category					
Commercial (sec. by RE)	$ 148,418	$ 133,840	$ 143,058	$ 134,356	$ 117,525
Commercial & industrial	15,916	17,217	15,753	24,868	16,645
Commercial construction	37,876	23,256	18,510	26,530	31,347
Total commercial	202,210	174,313	177,321	185,754	165,517
Residential mortgage	73,277	75,736	76,442	76,707	70,396
Residential construction	45,450	64,274	71,955	76,179	74,277
Consumer installment	2,706	2,610	2,751	2,703	2,923
Total	$ 323,643	$ 316,933	$ 328,469	$ 341,343	$ 313,113
By Market					
North Georgia	$ 121,358	$ 131,253	$ 134,945	$ 156,063	$ 140,886
Atlanta MSA	105,647	94,191	99,453	97,906	97,931
North Carolina	38,049	38,792	40,302	36,724	30,202
Coastal Georgia	20,164	19,342	24,985	23,966	22,945
Gainesville MSA	20,524	18,745	17,338	19,615	14,957
East Tennessee	17,901	14,610	11,446	7,069	6,192
Total loans	$ 323,643	$ 316,933	$ 328,469	$ 341,343	$ 313,113

At June 30, 2012, performing substandard loans totaled $324 million and increased $6.71 million from the prior quarter-end, and increased $10.5 million from a year ago. The increase from the second quarter of 2011 was primarily in the commercial secured by real estate and commercial construction categories, primarily in the Atlanta MSA, western North Carolina, Gainesville MSA and east Tennessee markets.

Reviews of substandard performing and non-performing loans, troubled debt restructures, past due loans and larger credits, are conducted on a regular basis with management each 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. In addition to United s internal loan review, United also uses external loan review to ensure the independence of the loan review process.

42

Table of Contents

The following table presents a summary of the changes in the allowance for loan losses for the three and six months ended June 30, 2012 and 2011.

Table 9 Allowance for Loan Losses

(in thousands)

	Three Months Ended June 30,				Six Months Ended June 30,			
	2012	2011			2012	2011		
	Total	Problem [1] Asset Disposition Plan	Other	Total	Total	Problem [1] Asset Disposition Plan	Other	Total
Balance beginning of period	$ 113,601			$ 133,121	$ 114,468			$ 174,695
Provision for loan losses	18,000			11,000	33,000			201,000
Charge-offs:								
Commercial (secured by real estate)	4,418	$ (1,713)	$ 5,146	3,433	8,346	$ 44,052	$ 8,088	52,140
Commercial (commercial and industrial)	888	(116)	720	604	1,644	3,411	1,555	4,966
Commercial construction	88	(1,332)	2,312	980	452	47,237	3,458	50,695
Residential mortgage	4,014	(1,255)	5,922	4,667	9,781	30,139	11,204	41,343
Residential construction	9,846	(2,842)	9,611	6,769	15,475	78,653	20,371	99,024
Consumer installment	408	(11)	894	883	1,161	297	1,682	1,979
Total loans charged-off	19,662	(7,269)	24,605	17,336	36,859	203,789	46,358	250,147
Recoveries:								
Commercial (secured by real estate)	69		174	174	300		274	274
Commercial (commercial and industrial)	113		81	81	200		403	403
Commercial construction			111	111	30		111	111
Residential mortgage	152		78	78	544		371	371
Residential construction	283		140	140	598		257	257
Consumer installment	149		269	269	424		674	674
Total recoveries	766		853	853	2,096		2,090	2,090
Net charge-offs	18,896	$ (7,269)	$ 23,752	16,483	34,763	$ 203,789	$ 44,268	248,057
Balance end of period	$ 112,705			$ 127,638	$ 112,705			$ 127,638
Total loans: *								
At period-end	$ 4,119,235			$ 4,163,447	$ 4,119,235			$ 4,163,447
Average	4,112,995			4,196,375	4,115,315			4,364,401
Allowance as a percentage of period-end loans	2.74%			3.07%	2.74			3.07%
As a percentage of average loans:								
Net charge-offs	1.85			1.58	1.70			11.46
Provision for loan losses	1.76			1.05	1.61			9.29
Allowance as a percentage of non-performing loans	98			180	98			180

* Excludes loans covered by loss sharing agreements with the FDIC

(1) During the first quarter of 2011, United s Problem Asset Dispostion Plan resulted in charge-offs totaling $186 million related to the Bulk Loan Sale that closed on April 18, 2011. The charge-offs were estimated based on indicative bids from prospective purchasers. Also in the first quarter related to United s Problem Asset Disposition Plan was an additional $9.5 million in charge-offs related to other bulk loan sales that were completed in the first quarter of 2011 and $15.6 million in charge-offs on foreclosed properties related to the Problem Asset Disposition Plan. The loans sold in the Bulk Loan Sale that closed April 18, 2011 were reported in the loans held for sale category at March 31, 2011 Actual losses upon closing of the Bulk Loan Sale were $179 resulting in a $7.269 million reduction in charge-offs in the second quarter. Total losses related to the Problem Asset Disposition Plan for the first six months of 2011 were $203.8 million.

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.

At June 30, 2012 the allowance for loan losses was $113 million, or 2.74% of loans, compared with $114 million, or 2.79% of loans, at December 31, 2011 and $128 million, or 3.07% of loans, at June 30, 2011. The declining balance of the allowance for loan losses over the last four quarters reflects an overall improving trend in credit quality of the loan portfolio.

Management believes that the allowance for loan losses at June 30, 2012 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. The amount of any changes could be significant if management s assessment of loan quality or collateral values change substantially with respect to one or more loan relationships or portfolios. 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 for additional information on the allowance for loan losses.

Table of Contents

Nonperforming Assets

The table below summarizes nonperforming assets, excluding SCB s assets covered by the loss-sharing agreement with the FDIC. Those assets have been excluded from nonperforming 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 Nonperforming Assets

(in thousands)

	June 30, 2012	December 31, 2011	June 30, 2011
Nonperforming loans*	$ 115,340	$ 127,479	$ 71,065
Foreclosed properties (OREO)	30,421	32,859	47,584
Total nonperforming assets	$ 145,761	$ 160,338	$ 118,649
Nonperforming loans as a percentage of total loans	2.80%	3.10%	1.71%
Nonperforming assets as a percentage of total loans and OREO	3.51	3.87	2.82
Nonperforming assets as a percentage of total assets	2.16	2.30	1.66

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

At June 30, 2012, nonperforming loans were $115 million, compared to $127 million at December 31, 2011 and $71.1 million at June 30, 2011. Contributing to the increase in the ratio of nonperforming loans to total loans from June 30, 2011 to June 30, 2012 was the classification of United s largest lending relationship. Nonperforming assets, which include nonperforming loans and foreclosed real estate, totaled $146 million at June 30, 2012, compared with $160 million at December 31, 2011 and $119 million at June 30, 2011. United sold $10.5 million and $19.1 million, respectively, of foreclosed properties during the second quarter and first six months of 2012. Both of these events helped lower the balance of foreclosed properties by 36% compared to June 30, 2011.

United s policy is to place loans on nonaccrual status when, in the opinion of management, 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 nonaccrual status, interest previously accrued but not collected is reversed against current interest revenue. Principal and interest payments received on a nonaccrual loan are applied to reduce outstanding principal.

Table of Contents

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[1]

(in thousands)

	June 30, 2012			December 31, 2011			June 30, 2011		
	Nonaccrual Loans	Foreclosed Properties	Total NPAs	Nonaccrual Loans	Foreclosed Properties	Total NPAs	Nonaccrual Loans	Foreclosed Properties	Total NPAs
BY CATEGORY									
Commercial (sec. by RE)	$ 19,115	$ 10,586	$ 29,701	$ 27,322	$ 9,745	$ 37,067	$ 17,764	$ 6,796	$ 24,560
Commercial & industrial	34,982		34,982	34,613		34,613	1,998		1,998
Commercial construction	18,175	2,732	20,907	16,655	3,336	19,991	2,782	6,764	9,546
Total commercial	72,272	13,318	85,590	78,590	13,081	91,671	22,544	13,560	36,104
Residential mortgage	16,631	5,591	22,222	22,358	6,927	29,285	24,809	9,056	33,865
Residential construction	25,530	11,512	37,042	25,523	12,851	38,374	22,643	24,968	47,611
Consumer installment	907		907	1,008		1,008	1,069		1,069
Total NPAs	$ 115,340	$ 30,421	$ 145,761	$ 127,479	$ 32,859	$ 160,338	$ 71,065	$ 47,584	$ 118,649
Balance as a % of Unpaid Principal	68.8%	39.3%	59.4%	71.3%	35.9%	59.3%	64.5%	32.6%	46.3%
BY MARKET									
North Georgia	$ 77,332	$ 13,546	$ 90,878	$ 88,600	$ 15,136	$ 103,736	$ 28,117	$ 21,278	$ 49,395
Atlanta MSA	17,593	8,651	26,244	14,480	6,169	20,649	14,700	11,239	25,939
North Carolina	10,657	3,287	13,944	15,100	5,365	20,465	15,153	8,953	24,106
Coastal Georgia	5,822	785	6,607	5,248	1,620	6,868	5,357	2,564	7,921
Gainesville MSA	991	2,998	3,989	2,069	3,760	5,829	4,505	3,174	7,679
East Tennessee	2,945	1,154	4,099	1,982	809	2,791	3,233	376	3,609
Total NPAs	$ 115,340	$ 30,421	$ 145,761	$ 127,479	$ 32,859	$ 160,338	$ 71,065	$ 47,584	$ 118,649

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

Nonperforming assets in the residential construction category were $37.0 million at June 30, 2012, compared with $47.6 million at June 30, 2011, a decrease of $10.6 million, or 22%. Commercial nonperforming assets increased from $36.1 million at June 30, 2011 to $85.6 million at June 30, 2012. Residential mortgage non-performing assets of $22.2 million decreased $11.6 million from June 30, 2011. The overall increase in nonperforming assets was concentrated in the North Georgia market and is mostly due to placing United s largest lending relationship on nonaccrual status in the third quarter of 2011. Placing this loan relationship on nonaccrual was also the cause of the increase in commercial nonperforming assets from June 30, 2011.

At June 30, 2012, December 31, 2011, and June 30, 2011 United had $168 million, $124 million and $46.2 respectively, in loans with terms that have been modified in a troubled debt restructuring (TDR). Included therein were $26.0 million, $17.9 million and $4.75 million of TDRs that were not performing in accordance with their modified terms and were included in nonperforming loans. The remaining TDRs with an aggregate balance of $142 million, $106 million and $41.5 million, respectively, were performing according to their modified terms and are therefore not considered to be nonperforming assets.

At June 30, 2012, December 31, 2011, and June 30, 2011, there were $294 million, $257 million and $35.7 million, respectively, of loans classified as impaired under the definition outlined in the ASC. Included in impaired loans at June 30, 2012, December 31, 2011 and June 30, 2011, was $215 million, $189 million and $32.8 million, respectively that did not require specific reserves or had previously been charged down to net realizable value. The balance of impaired loans at June 30, 2012, December 31, 2011 and June 30, 2011, of $78.9 million, $68.8 million and $2.86 million, respectively, had specific reserves that totaled $17.4 million, $14.8 million and $1.17 million, respectively. The average

recorded investment in impaired loans for the second quarters of 2012 and 2011 was $287 million and $42.1 million, respectively. For the three and six months ended June 30, 2012, United recognized $2.42 and $4.69, respectively, in interest revenue on impaired loans. There was no interest revenue recognized on loans while they were impaired for the first six months of 2011. United s policy is to discontinue the recognition of interest revenue for loans classified as impaired under ASC 310-10-35, *Receivables,* when a loan meets the criteria for nonaccrual status. Impaired loans increased from 2011 to 2012 due to the classification and change of accrual status of United s largest lending relationship and the increase in TDRs which are considered impaired.

Table of Contents

The table below summarizes activity in non-performing assets by quarter. Assets covered by loss sharing agreements 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 2012 [1]			Second Quarter 2011 [1]		
	Nonaccrual Loans	Foreclosed Properties	Total NPAs	Nonaccrual Loans	Foreclosed Properties	Total NPAs
Beginning Balance	$ 129,704	$ 31,887	$ 161,591	$ 83,769	$ 54,378	$ 138,147
Loans placed on non-accrual [2]	29,364		29,364	35,911		35,911
Payments received	(15,027)		(15,027)	(7,702)		(7,702)
Loan charge-offs	(19,382)		(19,382)	(18,888)		(18,888)
Foreclosures	(9,319)	9,319		(22,025)	22,025	
Capitalized costs		415	415		20	20
Note / property sales		(10,461)	(10,461)		(28,939)	(28,939)
Write downs		(1,008)	(1,008)		(3,118)	(3,118)
Net gains (losses) on sales		269	269		3,218	3,218
Ending Balance	$ 115,340	$ 30,421	$ 145,761	$ 71,065	$ 47,584	$ 118,649

	First Six Months 2012 [1]			First Six Months 2011 [1][2]		
	Nonaccrual Loans	Foreclosed Properties	Total NPAs	Nonaccrual Loans	Foreclosed Properties	Total NPAs
Beginning Balance	$ 127,479	$ 32,859	$ 160,338	$ 179,094	$ 142,208	$ 321,302
Loans placed on non-accrual [2]	61,801		61,801	90,641		90,641
Payments received	(20,972)		(20,972)	(11,252)		(11,252)
Loan charge-offs	(34,115)		(34,115)	(62,857)		(62,857)
Foreclosures	(18,853)	18,853		(39,077)	39,077	
Capitalized costs		744	744		290	290
Note / property sales		(19,092)	(19,092)	(11,400)	(73,486)	(84,886)
Loans transferred to held for sale				(74,084)		(74,084)
Write downs		(3,119)	(3,119)		(51,703)	(51,703)
Net losses on sales		176	176		(8,802)	(8,802)
Ending Balance	$ 115,340	$ 30,421	$ 145,761	$ 71,065	$ 47,584	$ 118,649

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

(2) The NPA activity shown for the first six months of 2011 is presented with all activity related to loans transferred to the held for sale classification on one line as if those loans were transferred to held for sale at the beginning of the period. During the first quarter of 2011, $27.1 million in loans transferred to held for sale were placed on nonaccrual, $1.1 million in payments were received on nonaccrual loans transferred to held for sale and $66.6 million in charge-offs were recorded on nonaccrual loans transferred to held for sale to mark them down to the expected proceeds from the sale.

Foreclosed property is initially recorded at fair value, less estimated costs to sell. If the fair value, less estimated costs to sell at the time of foreclosure, is less than the loan balance, the deficiency is charged against the allowance for loan losses. If the lesser of fair value, less estimated costs to sell or the listed selling price, less the costs to sell, of the foreclosed property decreases during the holding period, a valuation allowance is established with a charge to foreclosed property expense. 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 ASC 360-20, *Real Estate Sales*.

For the second quarter and first six months of 2012, United transferred $9.32 million and $18.9 million, respectively, of loans into foreclosed property. During the same periods, proceeds from sales of foreclosed property were $10.5 million and $19.1 million, respectively, which includes $2.54 million and $4.47 million of sales that were financed by United, respectively. During the second quarter and first six months of 2011, United transferred $22.0 million and $39.1 million, respectively, of loans into foreclosed property. During the same periods, proceeds from sales of foreclosed properties were $28.9 million and $73.5 million, respectively, which includes $4.63 million and $13.2 million, respectively, of sales that were financed by United. During the first quarter of 2011, United recorded $48.6 million in write-downs on foreclosed property in order to expedite sales in the following quarters as part of its Problem Asset Disposition Plan.

Table of Contents

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, 2012 decreased $203 million from a year ago.

At June 30, 2012, United had securities held to maturity with a carrying value of $283 million and securities available for sale totaling $1.70 billion. At June 30, 2012, December 31, 2011, and June 30, 2011, the securities portfolio represented approximately 29%, 30%, and 31% 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, corporate securities, municipal securities and asset-backed 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.

Other Intangible Assets

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 overall 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 allowing for the reduction of more costly time deposit balances as United s funding needs decreased due to lower loan demand. United has continued to pursue customer transaction deposits by stressing its high customer satisfaction scores.

Total deposits as of June 30, 2012 were $5.82 billion, a decrease of $361 million from June 30, 2011. Total non-interest-bearing demand deposit accounts of $1.15 billion increased $251 million, or 28%, due to the success of core deposit programs. Also impacted by the programs were NOW, money market and savings accounts of $2.53 billion which increased $39.1 million, or 2%, from June 30, 2011.

Total time deposits, excluding brokered deposits, as of June 30, 2012 were $1.93 billion, down $561 million from June 30, 2011. Time deposits less than $100,000 totaled $1.16 billion, a decrease of $344 million, or 23%, from a year ago. Time deposits of $100,000 and greater totaled $764 million as of June 30, 2012, a decrease of $217 million, or 22%, from June 30, 2011. United continued to offer low rates on certificates of deposit, allowing balances to decline as United s funding needs declined due to weak loan demand.

Wholesale Funding

The Bank is a shareholder in the Federal Home Loan Bank (FHLB) of Atlanta. Through this affiliation, FHLB secured advances totaled $125.1 million and $40.6 million as of June 30, 2012 and 2011, respectively. United anticipates continued use of this short and long-term source of funds. FHLB advances outstanding at June 30, 2012 had fixed interest rates ranging from .21% to .24%. During the second quarter of 2012 and 2011, United prepaid approximately $25.0 million and $14.5 million, respectively, of fixed-rate advances and incurred prepayment charges of $1.72 million and $791,000, respectively. Additional information regarding FHLB advances is provided in Note 11 to the consolidated financial statements included in United s Annual Report on Form 10-K for the year ended December 31, 2011.

At June 30, 2012 and 2011, United had $53.7 million and $104 million, respectively, in repurchase agreements and other short-term borrowings outstanding. During the second quarter of 2012, United prepaid $50 million in structured repurchase agreements and incurred prepayment charges of $4.48 million. 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.

Table of Contents

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.

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 first 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, 2012 and 2011 made use of the down 200 basis points scenario problematic. At June 30, 2012 United s simulation model indicated that a 200 basis point increase in rates would cause an approximate 1.17% increase in net interest revenue over twelve months, and a 25 basis point decrease would cause an approximate 1.23% decrease in net interest revenue over twelve months. At June 30, 2011, United s simulation model indicated that a 200 basis point increase in rates would cause an approximate .01% increase in net interest revenue and a 25 basis point decrease in rates over twelve months would cause an approximate .75% increase in net interest revenue.

Interest rate sensitivity is a function of the repricing characteristics of the portfolio of assets and liabilities. These repricing characteristics are the time frames within which the interest-earning assets and interest-bearing liabilities are subject to change in interest rates either at replacement, repricing or maturity during the life of the instruments. Interest rate sensitivity management focuses on the maturity structure of assets and liabilities and their repricing characteristics during periods of changes in market interest rates. Effective interest rate sensitivity management seeks to ensure that both assets and liabilities respond to changes in interest rates within an acceptable timeframe, thereby minimizing the effect of interest rate changes on net interest revenue.

United may have some discretion in the extent and timing of deposit repricing depending upon the competitive pressures in the markets in which it operates. Changes in the mix of earning assets or supporting liabilities can either increase or decrease the net interest margin without affecting interest rate sensitivity. The interest rate spread between an asset and its supporting liability can vary significantly even when the timing of repricing for both the asset and the liability remains the same, due to the two instruments repricing according to different indices.

Varying interest rate environments can create unexpected changes in prepayment levels of assets and liabilities that are not reflected in an interest rate sensitivity gap analysis. These prepayments may have significant effect on the net interest margin. Because of these limitations, an interest sensitivity gap analysis alone generally does not provide an accurate assessment of exposure to changes in interest rates.

In order to manage its interest rate sensitivity, United periodically enters into 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 generally consist of interest rate swaps under which United pays a variable rate (or fixed rate, as may be the case) and receives a fixed rate (or variable rate, as may be the case).

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.

Table of Contents

The following table presents United s active derivative contracts used for hedging purposes.

Table 13 Derivative Financial Instruments

(in thousands)

e of Instrument	Hedge Designation	Hedged Item	Current Notional	Trade Date	Effective Date	Maturity Date	Pay Rate	Receive Rate	Fair Value (Asset	Liabi
eive Fixed cellable Swap	Fair Value	Brokered CD	$ 15,000	10/12/11	11/10/11	11/10/31	3 mo. LIBOR minus 60 bps	(A)	$	$ 5
eive Fixed cellable Swap	Fair Value	Brokered CD	17,000	01/19/12	02/17/12	08/17/27	3 mo. LIBOR minus 45 bps	(B)		
eive Fixed cellable Swap	Fair Value	Brokered CD	17,000	02/14/12	02/27/12	08/27/27	3 mo. LIBOR minus 45 bps	(C)		
eive Fixed cellable Swap	Fair Value	Brokered CD	15,500	03/05/12	03/23/12	09/23/27	3 mo. LIBOR minus 45 bps	(D)		
eive Fixed cellable Swap	Fair Value	Brokered CD	14,000	04/04/12	04/25/12	10/25/27	3 mo. LIBOR minus 40 bps	3.00000%	68	
eive Fixed cellable Swap	Fair Value	Brokered CD	12,500	05/16/12	06/08/12	06/08/32	3 mo. LIBOR minus 43 bps	(E)		1
eive Fixed cellable Swap	Fair Value	Brokered CD	13,000	06/12/12	06/28/12	06/28/32	3 mo. LIBOR minus 38.5 bps	(F)		2
Fixed Swap	Cash Flow	Short-Term, Fixed Rate Debt	50,000	04/02/12	04/07/14	04/07/17	1.69500%	3 mo. LIBOR		8
Fixed Swap	Cash Flow	Short-Term, Fixed Rate Debt	50,000	04/02/12	04/21/14	04/21/17	1.72125%	3 mo. LIBOR		8
Fixed Swap	Cash Flow	Short-Term, Fixed Rate Debt	100,000	04/10/12	03/03/14	03/01/17	1.43750%	3 mo. LIBOR		1,0
Fixed Swap	Cash Flow	Money Market Deposts	100,000	05/02/12	05/01/14	05/01/19	1.88750%	1 mo. LIBOR		1,9
Fixed Swap	Cash Flow	Money Market Deposts	100,000	05/31/12	07/01/14	07/01/18	1.39250%	1 mo. LIBOR		1
l Hedging tions			$ 504,000						$ 68	$ 5,9

(A) Receive rate is fixed at 5.00% to November 10, 2012, then 4 * ((10-year Constant Maturity Swap rate 2-year Constant Maturity Swap rate) 50 basis points), capped at 5.00% and floored at 0.00%. Swap is callable by counterparty on November 10, 2012 and quarterly thereafter on the 10th with 15 calendar days notice.

(B) Receive rate is fixed according to the following schedule: From 2/17/12 to 2/17/20: 2.25%; From 2/17/20 to 2/17/22: 2.30%; From 2/17/22 to 2/17/23: 3.00%; From 2/17/23 to 2/17/24: 4.00%; From 2/17/24 to 2/17/25: 7.00%; From 2/17/25 to 8/17/27: 10.00%. Swap is callable by counterparty quarterly commencing on May 17, 2012 with 20 business days notice prior to the redemption date.

(C) Receive rate is fixed according to the following schedule: From 2/27/12 to 2/27/18: 2.00%; From 2/27/18 to 2/27/22: 2.50%; From 2/27/22 to 2/27/23: 3.00%; From 2/27/23 to 2/27/24: 4.00%; From 2/27/24 to 2/27/25: 7.00%; From 2/27/25 to 8/27/27: 10.00%. Swap is callable by counterparty semi-annually commencing on August 27, 2012 with 25 business days notice prior to the redemption date.

(D) Receive rate is fixed according to the following schedule: From 3/23/12 to 3/23/17: 2.25%; From 3/23/17 to 3/23/20: 2.38%; From 3/23/20 to 3/23/23: 2.50%; From 3/23/23 to 3/23/24: 3.00%; From 3/23/24 to 3/23/25: 4.00%; From 3/23/25 to 3/23/26: 6.00%; From 3/23/26 to 9/23/27: 10.00%. Swap is callable by counterparty at any time commencing on September 24, 2012 with 15 calendar days notice prior to the redemption date.

(E) Receive rate is fixed according to the following schedule: From 6/8/12 to 6/8/17: 2.25%; From 6/8/17 to 6/8/22: 2.70%; From 6/8/22 to 6/8/27: 3.20%; From 6/8/27 to 6/8/28: 4.00%; From 6/8/28 to 6/8/29: 5.00%; From 6/8/29 to 6/8/30: 6.00%; From 6/8/30 to 6/8/31: 8.00%; From 6/8/31 to 6/8/32: 10.00%. Swap is callable by counterparty at any time commencing on December 8, 2012 with 15 calendar days notice prior to the redemption date.

(F) Receive rate is fixed according to the following schedule: From 6/28/12 to 6/28/17: 2.30%; From 6/28/17 to 6/28/22: 2.50%; From 6/28/22 to 6/28/27: 3.00%; From 6/28/27 to 6/28/28: 4.00%; From 6/28/28 to 6/28/29: 5.00%; From 6/28/29 to 6/28/30: 6.00%; From 6/28/30 to 6/28/31: 8.00%; From 6/28/31 to 6/28/32: 10.00%. Swap is callable by counterparty at any time commencing on December 28, 2012 with 15 calendar days notice prior to the redemption date.

(H) Fair value does not include accrued interest

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 contract 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 contract, the resulting gain or loss 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. At June 30, 2012, United had $2.30 million in gains from terminated derivative positions included in other comprehensive income that will be amortized into earnings over their remaining original contract terms. Approximately $2.23 million is expected to be reclassified into interest revenue over the next twelve months.

United s policy requires all non-customer facing 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 our 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 a 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.

Because substantially all of United s liquidity is obtained from subsidiary service fees and dividends from the Bank, which are limited by applicable law and an informal memorandum of understanding the Bank has entered into with the FDIC and the Georgia Department of Banking and Finance (the Bank MOU), United currently has limited internal capital resources to meet these obligations. United has not received a dividend from the Bank since 2008 and does not anticipate receiving dividends from the Bank until 2013.

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 $18.6 million at June 30, 2012, and typically turn over every 45 days as the closed loans are sold to investors in the secondary market. In addition, at June 30, 2012 United held $646 million in excess liquidity including $94.5 million in cash equivalent balances, primarily balances in excess of reserve requirements at the Federal Reserve Bank and $442 million in floating rate securities.

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.

At June 30, 2012, United had sufficient qualifying collateral to increase FHLB advances by $629 million and Federal Reserve discount window capacity of $478 million. United also has the ability to raise substantial funds through brokered deposits. 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 $92.3 million for the six months ended June 30, 2012. The net income of $18.0 million for the six month period included non-cash expenses for the provision for loan losses of $33.0 million; depreciation, amortization and accretion of $16.5 million and losses and write downs on foreclosed property of $2.94 million. In addition, other assets decreased $22.8 million. Net cash provided by investing activities of $85.2 million consisted primarily of the proceeds from sales, maturities and calls of securities totaling $707 million partially offset by securities purchases of $581 million, a net increase in loans of 58.8 million, and purchases of premises and equipment of $2.58 million. Net cash used in financing activities of $251 million consisted primarily of a $276 million decrease in deposits partially offset by a net increase of $28.9 million in wholesale borrowings. In the opinion of management, United s liquidity position at June 30, 2012, was sufficient to meet its expected cash flow requirements.

Capital Resources and Dividends

Shareholders equity at June 30, 2012 was $576 million, an increase of $509,000 from December 31, 2011. Accumulated other comprehensive loss, 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 increased $14.3 million from December 31, 2011.

United accrued $3.03 million and $6.06 million, respectively, in dividends, including accretion of discounts, on Series A, Series B and Series D preferred stock in the second quarter and first six months of 2012.

United granted a warrant to Fletcher to purchase common stock equivalent junior preferred stock that would be convertible into 1,411,765 common shares exercisable at a price equivalent to $21.25 per share. United has received purported partial warrant exercise notices from Fletcher with respect to its warrants that include incorrect calculations of the number of settlement shares Fletcher would receive upon exercise. On June 17, 2011, United completed a reclassification of its common stock in the form of 1-for-5 reverse stock split, or recombination. United believes that any current exercise of Fletcher s warrant would not result in the issuance of any settlement shares because the warrant may only be exercised for net shares via a cashless exercise formula, and the reverse stock split-adjusted market price component of that formula does not exceed the exercise price to yield any net shares. United has responded to Fletcher with United s calculations related to the warrant.

In addition, in the lawsuit filed by FILB related to purported contractual rights that FILB claims were assigned to it by Fletcher, FILB alleges, like Fletcher, that United s 2011 reclassification of its common stock should be ignored for purposes of calculating the number of shares United s common stock issuable upon the redemption of United s preferred stock and thus result in increasing the number of shares of United common stock that FILB could otherwise obtain. United believes the lawsuit is meritless for several reasons, and will defend it aggressively.

Table of Contents

In November 2011, United entered into an informal memorandum of understanding with the Federal Reserve Bank and the Georgia Department of Banking and Finance (the Holding Company MOU). The Holding Company MOU provides, that United may not incur additional indebtedness, pay cash dividends, make payments on our trust preferred securities or subordinated indebtedness or repurchase outstanding stock without prior approval of the Federal Reserve. Additionally, the Holding Company MOU requires, among other things, that United ensures that the Bank functions in a safe and sound manner. United believes it is in compliance with all requirements of the Holding Company MOU.

The Bank is currently subject to the Bank MOU which requires, among other things, that the Bank maintain its Tier 1 leverage ratio at not less than 8% and its total risk-based capital ratio at not less than 10% during the life of the Bank MOU. Additionally, the Bank MOU requires, among other things, that prior to declaring or paying any cash dividends to United, the Bank must obtain the written consent of its regulators. The Bank believes it is in compliance with all requirements of the Bank MOU.

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 2012 and 2011.

Table 14 Stock Price Information

	2012				2011			
	High	Low	Close	Avg Daily Volume	High	Low	Close	Avg Daily Volume
First quarter	$ 10.30	$ 6.37	$ 9.75	142,987	$ 11.85	$ 5.95	$ 11.65	227,321
Second quarter	9.77	7.76	8.57	145,132	14.65	9.80	10.56	139,741
Third quarter					11.33	7.67	8.49	214,303
Fourth quarter					8.90	6.22	6.99	202,024

* The stock price information shown above has been adjusted to reflect United s 1-for-5 reverse stock split as though it had occurred at the beginning of the earliest reported period.

The Federal Reserve Board 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, 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.

Table of Contents

The following table shows United s capital ratios, as calculated under regulatory guidelines, at June 30, 2012, December 31, 2011 and June 30, 2011.

Table 15 Capital Ratios

(dollars in thousands)

	Regulatory Guidelines		United Community Banks, Inc. (Consolidated)			United Community Bank		
	Minimum	Well Capitalized	June 30, 2012	December 31, 2011	June 30, 2011	June 30, 2012	December 31, 2011	June 30, 2011
Risk-based ratios:								
Tier I capital	4.0%	6.0%	14.19%	13.69%	13.62%	14.30%	13.60%	13.33%
Total capital	8.0	10.0	15.93	15.41	16.16	15.56	14.87	15.12
Leverage ratio	3.0	5.0	9.09	8.83	8.52	9.16	8.78	8.35
Tier I capital			$ 634,811	$ 618,695	$ 626,485	$ 638,823	$ 614,532	$ 613,016
Total capital			712,422	696,881	742,930	695,369	671,718	695,358

United s Tier I capital excludes other comprehensive income, and consists of shareholders 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.

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, 2012 from that presented in the Annual Report on Form 10-K for the year ended December 31, 2011. The interest rate sensitivity position at June 30, 2012 is included in management s discussion and analysis on page 48 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, 2012. 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.

Table of Contents

Part II. Other Information

Item 1. Legal Proceedings

In the ordinary course of operations, United and the Bank are defendants in various legal proceedings. Additionally, in the ordinary course of business, United and the Bank are subject to regulatory examinations and investigations. Based on our current knowledge and advice of counsel, in the opinion of management there is no such pending or threatened legal matter 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

There have been no material changes from the risk factors previously disclosed in United s Annual Report on Form 10-K for the year ended December 31, 2011.

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

Item 3. Defaults upon Senior Securities None

Item 4. Mine Safety Disclosures None

Item 5. Other Information None

Table of Contents

Item 6. Exhibits

Exhibit No.	Description
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.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

Table of Contents

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 7, 2012