SURMODICS INC
Form 4
December 05, 2013

FORM 4

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

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL
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(Print or Type Responses)

1. Name and Address of Reporting Person *
Phillips Bryan K
(Last) (First) (Middle)
9924 WEST 74TH STREET
(Street)
EDEN PRAIRIE, MN 55344
(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
SURMODICS INC [SRDX]

3. Date of Earliest Transaction (Month/Day/Year)
12/03/2013

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer
(Check all applicable)
_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
SVP, Gen Counsel & Secretary

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	12/03/2013		M		23,243	A	$ 9.25	42,997	D	
Common Stock	12/03/2013		M		10,735	A	$ 12.4	53,732	D	
Common Stock	12/03/2013		F (1)		21,263	D	$ 23.47	32,469	D	
Common Stock	12/04/2013		S (2)		16,236	D	$ 22.9522 (3)	16,233	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8 D S (I
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares	
Stock Option (Right to Buy)	$ 9.25	12/03/2013		D			23,243	(4)	11/30/2017	Common Stock	23,243	
Stock Option (Right to Buy)	$ 12.4	12/03/2013		D			10,735	(5)	11/30/2018	Common Stock	10,735	

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Phillips Bryan K 9924 WEST 74TH STREET EDEN PRAIRIE, MN 55344			SVP, Gen Counsel & Secretary	

Signatures

/s/ Bryan K. Phillips	12/05/2013
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) The reporting person makes a payment of exercise price or tax liability by delivering or withholding securities incident to the receipt, exercise or vesting of a security issued in accordance with Rule 16b-3.

(2) The sales reported in this Form 4 were effected pursuant to a Rule 10b-5 trading plan adopted by the reporting person.

(3) Reflects the weighted average price of 16,236 shares of common stock of SurModics, Inc. sold by the reporting person in multiple transactions on December 4, 2013 with the sale prices ranging from $22.59 to $23.415 per share. The reporting person undertakes to provide upon request by the U. S. Securities and Exchange Commission staff, the issuer, or a security holder of the issuer, full information regarding the number of shares sold at each separate price.

(4) The award vests in four equal installments on each of the first four anniversaries of the November 30, 2010 grant date.

(5) The award vests in four equal installments on each of the first four anniversaries of the November 30, 2011 grant date.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. > **Amount of Capital Securities Description Issuance Date Issued Interest Rate Maturity Date**(Dollars in thousands)

Century Trust
March 23, 2000 $8,800 10.875% Fixed March 8, 2030
Sequoia Trust I
March 28, 2001 $7,000 10.18% Fixed June 8, 2031
United Statutory Trust II
December 19, 2002 $10,000 3-month LIBOR + 3.35% January 7, 2033
United Statutory Trust III
December 17, 2003 $20,000 3-month LIBOR + 2.85% December 17, 2033
United Statutory Trust IV
December 19, 2003 $25,000 3-month LIBOR + 2.85% January 23, 2034
United Statutory Trust V
July 12, 2007 $50,000 6.67% Fixed, until October 2012 October 1,2037
United Statutory Trust VI
September 20, 2007 $30,000 6.60% Fixed, until October 2012 December 15, 2037
Premier Statutory Trust II
September 25, 2003 $6,000 3-month LIBOR + 3.10% October 8, 2033
Premier Statutory Trust III
May 16, 2005 $8,000 3-month LIBOR + 1.74% June 15, 2035
Premier Statutory Trust IV
June 20, 2006 $14,000 3-month LIBOR + 1.55% September 23, 2036
Premier Statutory Trust V
December 14, 2006 $10,000 6.62% Fixed, until March 2012 March 1, 2037

At December 31, 2007 and 2006, the Debentures and their related weighted-average interest rates were as follows:

	2007		**2006**	
(Dollars in thousands)	**Amount**	**Weighted-Average Rate**	**Amount**	**Weighted-Average Rate**
Century Trust	$ 8,809	10.88%	$ 8,817	10.88%
Sequoia Trust I	8,961	10.18%	9,471	10.18%
United Statutory Trust I			10,310	8.62%
United Statutory Trust II	10,310	8.59%	10,310	8.72%
United Statutory Trust III	20,619	8.54%	20,619	8.21%
United Statutory Trust IV	25,774	7.83%	25,774	8.23%
United Statutory Trust V	51,547	6.67%		
United Statutory Trust VI	30,928	6.60%		
Premier Statutory Trust II	5,951	8.34%		
Premier Statutory Trust III	8,248	6.73%		
Premier Statutory Trust IV	14,433	6.43%		
Premier Statutory Trust V	10,310	6.62%		

Total	$ 195,890	$ 85,301

At December 31, 2007, the scheduled maturities of long-term borrowings were as follows:

Year	**Amount**
(In thousands)	
2008	$ 110,864
2009	80,425
2010	335,130
2011	10,211
2012 and thereafter	237,532
Total	$ 774,162

Interest paid on long-term borrowings approximated $34,343,000, $33,629,000 and $33,099,000 in 2007, 2006 and 2005, respectively.

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NOTE L INCOME TAXES

The income tax provisions included in the consolidated statements of income are summarized as follows:

	Year Ended December 31		
(In thousands)	**2007**	**2006**	**2005**
Current expense:			
Federal	$ 36,378	$ 30,173	$ 46,242
State	1,201	1,008	750
Deferred (benefit) expense:			
Federal and State	1,656	9,586	(727)
Total income taxes	$ 39,235	$ 40,767	$ 46,265

Below is a reconciliation of income tax expense to the amount computed by applying the statutory federal income tax rate to income before income taxes:

	Year Ended December 31					
	2007		**2006**		**2005**	
(Dollars in thousands)	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
Tax on income before taxes at statutory federal rate	$ 45,468	35.0%	$ 45,506	35.0%	$ 51,336	35.0%
Plus: State income taxes net of federal tax benefits	800	0.6	1,309	1.0	515	0.4
	46,268	35.6	46,815	36.0	51,851	35.4
Increase (decrease) resulting from:						
Tax-exempt interest income	(3,843)	(3.0)	(3,474)	(2.7)	(3,062)	(2.1)
Tax reserve adjustment	(955)	(0.7)	(317)	(0.2)	(138)	(0.1)
Other items-net	(2,235)	(1.7)	(2,257)	(1.7)	(2,386)	(1.7)
Income taxes	$ 39,235	30.2%	$ 40,767	31.4%	$ 46,265	31.5%

For years ended 2007 and 2006, United recognized a federal income tax benefit applicable to securities transactions of $24,000 and $1,112,000, respectively. For the years ended 2005, United incurred federal income tax expense applicable to securities transactions of approximately $243,000. Income taxes paid approximated $48,563,000, $27,805,000 and $47,565,000 in 2007, 2006 and 2005, respectively. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Taxes not on income, which consists mainly of business franchise taxes, were $4,516,000, $3,827,000 and $3,281,000 for the years ended December 31, 2007, 2006 and 2005, respectively.

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NOTE L INCOME TAXES continued

Significant components of United s deferred tax assets and liabilities (included in other assets) at December 31, 2007 and 2006 are as follows:

(In thousands)	2007	2006
Deferred tax assets:		
Allowance for credit losses	$ 23,343	$ 21,005
Accrued benefits payable	660	
Other accrued liabilities	343	821
Unrecognized components of net periodic pension costs	5,038	5,206
Unrealized loss on cash flow hedge		818
Unrealized loss on securities available for sale	2,773	3,375
Premises and equipment		458
Other	2,538	
Total deferred tax assets	34,695	31,683
Deferred tax liabilities:		
Purchase accounting intangibles	7,762	3,832
Deferred mortgage points	1,020	1,158
Accrued benefits payable	9,019	9,019
Unrealized gain on cash flow hedge	230	
Premises and equipment	1,459	
Other		4,295
Total deferred tax liabilities	19,490	18,304
Net deferred tax assets	$ 15,205	$ 13,379

At December 31, 2007, United had state net operating loss carryforwards of $82,118,000 (for which no tax benefit has been recorded) that are subject to limitation imposed by tax laws and, if not used, will expire from 2023 to 2026.

In July 2006, the FASB issued FASB Interpretation (FIN) No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes , to address concerns regarding comparability in reporting tax assets and liabilities resulting in an enterprise s financial statements resulting from a lack of specific guidance in FASB Statement No. 109 (SFAS 109), Accounting for Income Taxes . FIN 48 prescribes a recognition threshold of more-likely-than-not, and a measurement attribute for all tax positions taken on a tax return, in order for those tax positions to be recognized in the financial statements. United has adopted FIN 48 as of January 1, 2007, as required. The cumulative effect of adopting FIN 48 was $300,000 which was recorded in retained earnings. Also, certain amounts have been reclassified in the statement of financial position in order to comply with the requirements of the statement.

Below is a reconciliation of the total amounts of unrecognized tax benefits:

(In thousands)	December 31, 2007
Unrecognized tax benefits at beginning of year	$ 9,148
Increases in unrecognized tax benefits as a result of tax positions taken during the current period	1,795
Decreases in the unrecognized tax benefits as a result of a lapse of the applicable statute of limitations	(3,398)

Unrecognized tax benefits at end of year	$	7,545

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NOTE L INCOME TAXES continued

The entire amount of unrecognized tax benefits, if recognized, would impact United s effective tax rate. Over the next 12 months, the statute of limitations will close on certain income tax returns. However, at this time, United cannot reasonably estimate the amount of tax benefits it may recognize over the next 12 months.

United is currently open to audit under the statute of limitations by the Internal Revenue Service and State Taxing authorities for the years ended December 31, 2004 through 2006. During the third quarter of 2007, United reduced its income tax reserve by $1,055,000 due to the expiration of the statute of limitations for examination of certain years. Also in the third quarter of 2007, United reduced its goodwill by $2,278,000 due to the expiration of the statute of limitations for income tax matters related to a prior acquisition that was previously recorded as a part of the purchase price allocation.

As of December 31, 2007, the total amount of accrued interest related to uncertain tax positions was $730,000. United accounts for interest and penalties related to uncertain tax positions as part of its provision for federal and state income taxes.

NOTE M EMPLOYEE BENEFIT PLANS

United has a defined benefit retirement plan covering substantially all employees. Pension benefits are based on years of service and the average of the employee s highest five consecutive plan years of basic compensation paid during the ten plan years preceding the date of determination. United s funding policy is to contribute annually the maximum amount that can be deducted for federal income tax purposes. Contributions are intended to provide not only for benefits attributed to service to date, but also for those expected to be earned in the future.

In September of 2007, after a recommendation by United s Pension Committee and approval by United s Board of Directors, the United Bankshares, Inc. Pension Plan (the Plan) was amended to change the participation rules. The decision to change the participation rules for the Plan follows current industry trends, as many large and medium size companies have taken similar steps. The amendment provides that employees hired on or after October 1, 2007, will not be eligible to participate in the Plan. However, new employees will continue to be eligible to participate in United s Savings and Stock Investment 401(k) plan. This change has no impact on current employees (those hired prior to October 1, 2007). They will continue to participate in the Plan, with no change in benefit provisions, and will continue to be eligible to participate in United s Saving and Stock Investment 401(k) Plan.

On December 31, 2006, United adopted the recognition and disclosure provision of Statement No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans . SFAS 158 requires United to recognize the funded status of its defined benefit post-retirement plan in the statement of financial position, with a corresponding adjustment to accumulated other comprehensive income, net of tax. The adjustment to accumulated other comprehensive income at adoption represents the net unrecognized actuarial losses, unrecognized prior service costs, and unrecognized transition obligation remaining from the initial adoption of SFAS 87, all of which were previously netted against the plan s funded status in United s statement of financial positions pursuant to the provisions of SFAS 87. These amounts were subsequently recognized as net periodic pension cost pursuant to United s historical accounting policy for amortizing such amounts.

Further, actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic pension cost in the same periods are recognized as a component of other comprehensive income. Those amounts are subsequently recognized as a component of net periodic pension cost on the same basis as the amounts recognized in accumulated other comprehensive income at adoption of Statement 158.

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NOTE M EMPLOYEE BENEFIT PLANS continued

The incremental effects of adopting the provision of Statement 158 on United s statement of financial position at December 31, 2006 are presented in the following table. The adoption of Statement 158 had no effect on United s consolidated statements of income for the years ended December 31, 2006 and 2005, and it will not affect United s operating results in future periods.

(In thousands)	At December 31, 2006		
	Prior to Adopting Statement 158	**Effect of Adopting Statement 158**	**As Reported at December 31, 2006**
Net pension asset	40,165	(13,217)	$ 26,948
Deferred income taxes	8,058	5,206	13,264
Accumulated other comprehensive income	(7,780)	(8,011)	(15,791)

Included in accumulated other comprehensive income at December 31, 2007 are the following amounts that have not yet been recognized in net periodic pension cost: unrecognized transition asset of $526 ($319 net of tax), unrecognized prior service costs of $8 ($5 net of tax) and unrecognized actuarial losses of $10,899 ($6,604 net of tax). The amortization of these items expected to be recognized in net periodic pension cost during the fiscal year ended December 31, 2008 is $175 ($105 net of tax), $1 ($1 net of tax), and $193 ($119 net of tax), respectively.

Net consolidated periodic pension cost included the following components:

(In thousands)	Year Ended December 31,		
	2007	**2006**	**2005**
Service cost	$ 2,154	$ 2,141	$ 1,882
Interest cost	3,474	3,245	3,034
Expected return on plan assets	(7,213)	(4,749)	(4,468)
Amortization of transition asset	(175)	(175)	(175)
Recognized net actuarial loss	593	926	682
Amortization of prior service cost	1	1	1
Net periodic pension cost	$ (1,166)	$ 1,389	$ 956
Weighted-Average Assumptions:			
Discount rate	6.25%	6.00%	6.25%
Expected return on assets	8.50%	8.50%	9.00%
Rate of compensation increase	3.25%	3.25%	3.25%

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NOTE M EMPLOYEE BENEFIT PLANS continued

The reconciliation of the beginning and ending balances of the projected benefit obligation and the fair value of plan assets for the year ended December 31, 2007 and the accumulated benefit obligation at December 31, 2006 is as follows:

(In thousands)	December 31, 2007	2006
Change in Projected Benefit Obligation		
Projected Benefit Obligation at the Beginning of the Year	$ 58,750	$ 54,830
Service Cost	2,154	2,141
Interest Cost	3,475	3,245
Actuarial (Gain) Loss	(1,898)	42
Benefits Paid	(1,791)	(1,508)
Projected Benefit at the End of the Year	$ 60,690	$ 58,750
Accumulated Benefit Obligation at the End of the Year	$ 52,471	$ 50,749
Change in Plan Assets		
Fair Value of Plan Assets at the Beginning of the Year	$ 85,698	$ 56,613
Actual Return on Plan Assets	7,733	3,915
Benefits Paid	(1,791)	(1,508)
Employer Contributions		26,679
Fair value of plan assets at end of year	$ 91,640	$ 85,699
Net Amount Recognized		
Funded Status	$ 30,950	$ 26,948
Unrecognized Transition Asset	(526)	(701)
Unrecognized Prior Service Cost	8	9
Unrecognized Net Loss	10,899	13,909
Net Amount Recognized	$ 41,331	$ 40,165
Weighted-Average Assumptions at the End of the Year		
Discount Rate	6.25%	6.00%
Rate of Compensation Increase	3.25%	3.25%

Currently, the plan s measurement date is September 30th of each year. For the fiscal year ending December 31, 2008, United is required to measure the funded status of the plan as of the end of the fiscal year in accordance with FAS 158. Asset allocation for the defined benefit pension plan as of the measurement date, by asset category, is as follows:

Plan Assets	Target Allocation 2008	Allowable Allocation Range	Percentage of Plan Assets at September 30, 2007	2006
Equity Securities	70%	50-80%	55%	33%
Debt Securities	25%	20-40%	43%	20%
Other	5%	3-10%	2%	47%

Total	100%	100%

Equity securities include United common stock in the amounts of $3,221,000 (4%) and $3,939,000 (5%) at September 30, 2007 and 2006, respectively.

The policy, as established by the Pension Committee, primarily consisting of United s Executive Management, is to invest assets based upon the target allocations stated above. The assets are reallocated periodically to meet the above target allocations. The investment policy is reviewed at least annually, subject to the approval of the Pension Committee, to determine if the policy should be changed. Prohibited investments include, but are not limited to, futures contracts, private

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NOTE M EMPLOYEE BENEFIT PLANS continued

placements, uncovered options, real estate, the use of margin, short sales, derivatives for speculative purposes, and other investments that are speculative in nature. In order to achieve a prudent level of portfolio diversification, the securities of any one company are not to exceed 10% of the total plan assets, and no more than the 15% of total plan assets is to be invested in any one industry (other than securities of U.S. Government or Agencies). Additionally, no more than 15% of the plan assets is to be invested in foreign securities, both equity and fixed. The expected long-term rate of return for the plan s total assets is based on the expected return of each of the above categories, weighted based on the median of the target allocation for each class.

At December 31, 2007, the benefits expected to be paid in each of the next five fiscal years, and in the aggregate for the five years thereafter are as follows:

Year	**Amount**
(In thousands)	
2008	$ 1,862
2009	1,921
2010	1,999
2011	2,203
2012	2,598
2013 through 2017	18,642

During the third quarter of 2006, United contributed to the plan $26.64 million, its maximum allowable contribution by law. As a result, employer contributions were not paid to the plan for the fiscal year ending December 31, 2007.

The United Savings and Stock Investment Plan (the Plan) is a defined contribution plan under Section 401(k) of the Internal Revenue Code. Each employee of United, who completes ninety (90) days of qualified service, is eligible to participate in the Plan. Each participant may contribute from 1% to 100% of compensation to his/her account, subject to Internal Revenue Service maximum deferral limits. After one year of eligible service, United matches 100% of the first 2% of salary deferred and 25% of the second 2% of salary deferred with United stock. Vesting is 100% for employee deferrals and the company match at the time the employee makes his/her deferral. United s expense relating to the Plan approximated $776,000, $723,000 and $738,000 in 2007, 2006 and 2005, respectively.

The assets of United s defined benefit plan and 401(k) Plan each include investments in United common stock. At December 31, 2007 and 2006, the combined plan assets included 732,732 and 731,120 shares, respectively, of United common stock
with an approximate fair value of $20,531,000 and $28,257,000, respectively. Dividends paid on United common stock held by the plans approximated $822,000, $795,000 and $764,000 for the years ended December 31, 2007, 2006, and 2005, respectively.

United has certain other supplemental deferred compensation plans covering various key employees. Periodic charges are made to operations so that the liability due each employee is fully recorded as of the date of their retirement. Amounts charged to expense have not been significant in any year.

NOTE N STOCK BASED COMPENSATION

United has stock option plans (the Plans) for certain employees that were accounted for under the intrinsic value method prior to January 1, 2006. Because the exercise price at the date of the grant was equal to the market value of the stock, no compensation expense was recognized. In December 2004, FASB issued Statement of Financial Accounting Standards 123R (SFAS 123R). SFAS 123R requires the measurement of all employee share-based payments to employees, including grants of employee stock options, using a fair-value based method and the recording of such expense in our consolidated statements of income.

NOTE N STOCK BASED COMPENSATION continued

On January 1, 2006, United adopted SFAS 123R, as required, using the modified prospective transition method. Under this transition method, compensation cost to be recognized beginning in the first quarter of 2006 would include: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123, and (b) compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123R. Results for prior periods were not restated.

On December 30, 2005, the Executive Committee of the Board of Directors of United approved the accelerated vesting of all unvested stock options granted prior to December 30, 2005 to United employees, including Executive Officers, under the 2001 Stock Option Plan. As a result of the vesting acceleration, options to purchase 547,626 shares of United common stock became exercisable immediately. United recognized a pre-tax expense of approximately $21 thousand in the fourth quarter of 2005 for those accelerated options that were in-the-money , that is, the option s exercise price was less than the market value of United s stock. Due to the modification to accelerate the unvested options, United did not recognize any compensation cost for the year 2006. In addition, no new options were granted in 2006. Accordingly, the adoption of SFAS 123R had no impact on United s consolidated statements of income or net income per share in 2005 and 2006. In the year of 2007, 244,550 options were granted resulting in the recognition of compensation expense of $91,000.

At its March 20, 2006 regular meeting, United s Board of Directors approved the adoption of the 2006 Stock Option Plan and directed that the 2006 Stock Option Plan be submitted to United s shareholders for approval at its Annual Meeting of Shareholders (the 2006 Annual Meeting). At the 2006 Annual Meeting, held on May 15, 2006, United s shareholders approved the 2006 Stock Option Plan. The 2006 Stock Option Plan thus became effective at the time of the shareholders approval. A total of 1,500,000 shares of United s authorized but unissued common stock are allocated for the 2006 Stock Option Plan. Each plan year, 400,000 options will be available for award to eligible employees; however, not all 400,000 options are required to be awarded in that year. All options granted under the 2006 Stock Option Plan will be non-statutory stock options (NSOs), i.e. options that do not qualify as incentive stock options under Section 422 of the Internal Revenue Code. Subject to certain change in control provisions, recipients of options will be fully vested in and permitted to exercise options granted under the 2006 Stock Option Plan three years from the grant date. As of December 31, 2007, 244,550 shares have been granted under the 2006 Stock Option Plan.

United currently has options outstanding from various option plans other than the 2006 Stock Option Plan (the Prior Plans); however, no common shares of United stock are available for grants under the Prior Plans as these plans have expired. Awards outstanding under the Prior Plans will remain in effect in accordance with their respective terms. The maximum term for options granted under the plans is ten (10) years.

The fair value of the options for 2007 and 2005 was estimated at the date of grant using a binomial lattice option pricing model with the following weighted-average assumptions: risk-free interest rates of 4.09% and 4.47%; dividend yield of 3.00%; volatility factors of the expected market price of United s common stock of 0.2954 and 0.2226; and a weighted-average expected option life of 5.89 years and 6.06 years, respectively. The estimated fair value of the options at the date of grant was $7.06 and $7.26 for the options granted during 2007 and 2005, respectively. As mentioned before, no options were granted in 2006. SFAS 123R defines a lattice model as a model that produces an estimated fair value based on the assumed changes in prices of a financial instrument over successive periods of time. A binomial lattice model assumes at least two price movements are possible in each period of time.

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NOTE N STOCK BASED COMPENSATION continued

The following table reflects the estimated impact the fair value method would have had on United s net income and net income per share if SFAS 123R had been in effect during 2005. The pro forma disclosures set forth below present United s consolidated net income and diluted consolidated earnings per share, determined as if United had recognized compensation expense for its employee stock options based on the estimated fair value of the options at the date of grant amortized over the vesting period of the options:

(Dollars in thousand, except per share)		Year ended December 31, 2005
Net Income, as reported	$	100,409
Less pro forma expense related to options granted,net of tax		(3,496)
Pro forma net income	$	96,913
Pro forma net income per share:		
Basic as reported	$	2.36
Basic pro forma	$	2.28
Diluted as reported	$	2.33
Diluted pro forma	$	2.25

The following is a summary of activity of United s Incentive Stock Option Plans:

	Year ended December 31, 2007					
				Weighted Average		
	Shares		Aggregate Intrinsic Value	Remaining Contractual Term (Yrs.)		Exercise Price
Outstanding at January 1, 2007	1,732,200				$	28.00
Granted	244,550					27.77
Exercised	238,671					18.59
Assumed in acquisition of subsidiary	224,528					13.95
Forfeited or expired	41,150					33.38
Outstanding at December 31, 2007	1,921,457	$	6,603	5.6	$	27.38
Exercisable at December 31, 2007	1,676,907	$	6,542	5.0	$	27.32

The following table summarizes the status of United s nonvested awards for the year ended December 31, 2007:

	Shares		Weighted-Average Grant Date Fair Value Per Share
Nonvested at January 1, 2007			
Granted	244,550	$	7.06
Vested			
Forfeited or expired			

Nonvested at December 31, 2007	244,550	$	7.06

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NOTE N STOCK BASED COMPENSATION continued

As of December 31, 2007, the total unrecognized compensation cost related to nonvested awards was $1.64 million with a weighted-average expense recognition period of 2.83 years. The total fair value of awards vested during the year ended December 31, 2007, was zero as none of the awards granted in 2007 have vested.

In addition to the stock options detailed above, United has outstanding stock options related to a deferred compensation plan assumed in the 1998 merger with George Mason Bankshares, Inc. (GMBS). The stock options granted under this deferred compensation plan were to former directors of GMBS. These options carry no exercise cost, contain no expiration date, and are eligible for dividends. Other than additional options granted through reinvestment of dividends received, United does not issue additional options under this deferred compensation plan. Options outstanding at December 31, 2007, 2006 and 2005 were 19,717, 19,087 and 23,794, respectively. Options granted through the reinvestment of dividends during 2007, 2006 and 2005 were 630, 639 and 689, respectively. No options were exercised during 2007 while 5,346 options were exercised in 2006. No options were exercised under this plan during 2005. United records compensation expense for this plan based on the number of options outstanding and United s quoted market price of its common stock with an equivalent adjustment to the associated liability. For the years of 2007, 2006, and 2005, compensation expense from these stock options was not significant. At December 2007 and 2006, the associated liability from these stock options was not significant.

Cash received from options exercised under the Plans for the years ended December 31, 2007, 2006 and 2005 was $3.37 million, $7.26 million, and $3.23 million, respectively. During 2007 and 2006, 238,671 and 348,469 shares, respectively, were issued in connection with stock option exercises. All shares issued in connection with stock option exercises were issued from available treasury stock for 2007 and 2006. The weighted-average grant-date fair value of options granted in the year of 2007 was $7.06. No options were granted in the year of 2006; therefore, the weighted-average grant-date fair value was zero. The weighted-average grant-date fair value of options granted during the year 2005 was $7.26. The total intrinsic value of options exercised under the Plans during the years ended December 31, 2007, 2006, and 2005 was $3.35 million, $5.12 million, and $3.05 million, respectively.

SFAS 123R also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under previous standards. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption. While the company cannot estimate what those amounts will be in the future (because they depend on, among other things, the date employees exercise stock options), United recognized cash flows from financing activities of $914 thousand and $880 thousand from excess tax benefits related to share-based compensation for the year of 2007 and 2006, respectively. Cash flows of $441 thousand from excess tax benefits related to share-based compensation were reported as operating activities for the year ended 2005.

NOTE O COMMITMENTS AND CONTINGENT LIABILITIES

United is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers and to alter its own exposure to fluctuations in interest rates. These financial instruments include loan commitments, standby letters of credit, and interest rate swap agreements. The instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the financial statements.

United s maximum exposure to credit loss in the event of nonperformance by the counterparty to the financial instrument for the loan commitments and standby letters of credit is the contractual or notional amount of those instruments. United uses the same policies in making commitments and conditional obligations as it does for on-balance sheet instruments. Collateral may be obtained, if deemed necessary, based on management s credit evaluation of the counterparty.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the commitment contract. Commitments generally have fixed expiration dates or other termination clauses and may require the payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily, and historically do not, represent future cash requirements. The amount of collateral obtained, if deemed necessary upon the extension of credit, is based on management s credit evaluation of the counterparty.

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NOTE O COMMITMENTS AND CONTINGENT LIABILITIES continued

United had approximately $1,945,818,000 and $1,734,299,000 of loan commitments outstanding as of December 31, 2007 and 2006, respectively, substantially all of which expire within one year.

Commercial and standby letters of credit are agreements used by United s customers as a means of improving their credit standing in their dealings with others. Under these agreements, United guarantees certain financial commitments of its customers. A commercial letter of credit is issued specifically to facilitate trade or commerce. Typically, under the terms of a commercial letter of credit, a commitment is drawn upon when the underlying transaction is consummated as intended between the customer and a third party. United has issued commercial letters of credit of $1,580,000 and $525,000 as of December 31, 2007 and 2006, respectively. A standby letter of credit is generally contingent upon the failure of a customer to perform according to the terms of an underlying contract with a third party. United has issued standby letters of credit of $144,314,000 and $112,367,000 as of December 31, 2007 and 2006, respectively. In accordance with FIN 45, United has determined that substantially all of its letters of credit are renewed on an annual basis and the fees associated with these letters of credit are immaterial.

In the normal course of business, United and its subsidiaries are currently involved in various legal proceedings. Management is vigorously pursuing all its legal and factual defenses and, after consultation with legal counsel, believes that all such litigation will be resolved with no material effect on United s financial position.

NOTE P DERIVATIVE FINANCIAL INSTRUMENTS

United uses derivative instruments to help aid against adverse prices or interest rate movements on the value of certain assets or liabilities and on future cash flows. These derivatives may consist of interest rate swaps, caps, floors, collars, futures, forward contracts, written and purchased options. United also executes derivative instruments with its commercial banking customers to facilitate its risk management strategies.

Under the provisions of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities , derivative instruments designated in a hedge relationship to mitigate exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges under SFAS No.133. Derivative instruments designated in a hedge relationship to mitigate exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. As of December 31, 2007, United has both fair value hedges and cash flow hedges.

In December 2007, United terminated a fixed interest rate swap designated as a cash flow hedge associated with the repayment of a $228.9 million variable interest rate FHLB advance that was being hedged. United recognized an $8.90 million before-tax loss on the termination of the swap. United replaced the $228.9 million of debt with a 3-year variable-interest rate FHLB advance and an associated fixed interest rate swap designated as a cash flow hedge.

In June 2007, United terminated two fixed interest rate swaps designated as cash flow hedges associated with the repayment of two $100 million variable interest rate FHLB advances that were being hedged. United recognized a $787 thousand before-tax gain on the termination of the swaps. In addition, United prepaid approximately $28.9 million of a $100 million long-term convertible FHLB advance. United replaced the $228.9 million of debt with a 3-year variable-interest rate FHLB advance and an associated fixed interest rate swap designated as a cash flow hedge.

During the first quarter of 2006, as part of a balance sheet repositioning strategy, United terminated a fixed interest rate swap designated as a cash flow hedge associated with the repayment of $50 million variable interest rate FHLB advance that was being hedged. United recognized a $3.06 million before-tax gain on the termination of the swap.

During the third quarter of 2006, United prepaid two $100 million convertible FHLB advances and terminated an interest rate swap designated as a fair value hedge associated with one of the advances. The termination of the interest rate swap resulted in a before-tax loss of

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NOTE P DERIVATIVE FINANCIAL INSTRUMENTS continued

approximately $7.66 million. United replaced the $200 million of debt with two $100 million advances and associated interest rate swaps which qualify as cash flow hedges.

The following tables set forth certain information regarding interest rate derivatives portfolio used for interest-rate risk management purposes and designated as accounting hedges under SFAS 133 at December 31, 2007 and 2006:

Derivative Classifications and Hedging Relationships

	December 31, 2007			**December 31, 2006**		
	Notional	**Derivative**		**Notional**	**Derivative**	
(In thousands)	**Amount**	**Asset**	**Liability**	**Amount**	**Asset**	**Liability**
Derivatives Designated as Fair Value Hedges:						
Hedging Commercial Loans	$ 14,155		$ 588	$ 14,281	$ 84	$ 135
Total Derivatives Designated as Fair Value Hedges:	$ 14,155		$ 588	$ 14,281	$ 84	$ 135
Derivatives Designated as Cash Flow Hedges:						
Hedging FHLB Borrowings	$ 234,685	$ 657		$ 200,000		$ 2,336
Total Derivatives Designated as Cash Flow Hedges:	$ 234,685	$ 657		$ 200,000		$ 2,336
Total Derivatives Used in Interest Rate Risk Management and Designated in SFAS 133 Relationships:	$ 248,840	$ 657	$ 588	$ 214,281	$ 84	$ 2,471

Derivative Hedging Instruments

	December 31, 2007				**December 31, 2006**			
		Average	**Average**			**Average**	**Average**	
	Notional	**Receive**	**Pay**	**Estimated Fair**	**Notional**	**Receive**	**Pay**	**Estimated Fair**
(In thousands)	**Amount**	**Rate**	**Rate**	**Value**	**Amount**	**Rate**	**Rate**	**Value**
Fair Value Hedges:								
Pay Fixed Swap (Commercial Loans)	$ 14,155		6.27%	$ (588)	$ 14,281		6.27%	$ (51)
Total Derivatives Used in Fair Value Hedges	$ 14,155			$ (588)	$ 14,281			$ (51)

Cash Flow Hedges:						
Pay Fixed Swap (FHLB Borrowing)	$ 234,685	3.79%	$ 657	$ 200,000	5.28%	$ (2,336)
Total Derivatives Used in Cash Flow Hedges	$ 234,685		$ 657	$ 200,000		$ (2,336)
Total Derivatives Used for Interest Rate Risk Management and Designated in SFAS 133 Relationships	$ 248,840		$ 69	$ 214,281		$ (2,387)

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NOTE P DERIVATIVE FINANCIAL INSTRUMENTS continued

For the years ended December 31, 2007 and 2006, changes in the fair value of any interest rate swaps attributed to hedge ineffectiveness were not significant to United s Consolidated Statements of Income. As of December 31, 2007 and 2006, $2,545,000 and $1,518,000, respectively, in net deferred losses, net of tax, related to cash flow hedges were recorded in accumulated other comprehensive income. During the next 12 months, United does not expect to reclassify into earnings any of the net deferred loss reported in other comprehensive income at December 31, 2007.

For the year of 2007 and 2005, the derivative portfolio also included derivative financial instruments not included in hedge relationships. These derivatives consist of interest rate swaps used for interest rate management purposes and derivatives executed with commercial banking customers to facilitate their interest rate management strategies. Gains and losses on other derivative financial instruments are included in noninterest income and noninterest expense, respectively. A summary of derivative financial instruments not in hedge relationships by type of activity are as follows:

	Net Derivative Asset (Liability) As of December 31		**Net Gains (Losses) For the Year Ended December 31**		
(In thousands)	**2007**	**2006**	**2007**	**2006**	**2005**
Other Derivative Instruments:					
Interest Rate Risk Management	$ 196		$ 196		$ 35
Customer Risk Management	(196)		(196)		(35)
Total Other Derivative Instruments	$		$		$

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NOTE Q COMPREHENSIVE INCOME

The changes in accumulated other comprehensive income are as follows:

	For the Years Ended December 31		
(In thousands)	**2007**	**2006**	**2005**
Net Income	$ 90,674	$ 89,249	$ 100,409
Securities available for sale:			
Net change in unrealized gains (losses) gains on available for sale securities arising during the period	65	4,831	(24,125)
Related income tax (expense) benefit	(23)	(1,691)	8,444
Net reclassification adjustment for losses (gains) included in net income	68	3,176	(695)
Related income tax (benefit) expense	(24)	(1,112)	243
Net effect on other comprehensive income (loss)	86	5,204	(16,133)
Securities held to maturity:			
Unrealized loss related to the call of securities previously transferred from available for sale to the held to maturity investment portfolio	1,197		
Related income tax benefit	(419)		
Accretion on the unrealized loss for securities transferred from the available for sale to the held to maturity investment portfolio	383	671	758
Related income tax expense	(134)	(235)	(265)
Net effect on other comprehensive income	1,027	436	493
Cash flow hedge derivatives:			
Unrealized (loss) gain on cash flow hedge	(3,915)	(2,336)	2,077
Related income tax expense (benefit)	1,370	817	(727)
Termination of cash flow hedge	6,909	(2,077)	
Related income tax (benefit) expense	(2,418)	727	
Net effect on other comprehensive income (loss)	1,946	(2,869)	1,350
FASB 158 pension plan:			
Amortization of transition asset	(175)		
Related income tax expense	70		
Amortization of prior service cost	1		
Related income tax benefit			
Recognized net actuarial loss	593		
Related income tax benefit	(237)		
Net effect on other comprehensive income	252		
Total change in other comprehensive income	3,311	2,771	(14,290)
Total Comprehensive Income	$ 93,985	$ 92,020	$ 86,119

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NOTE R UNITED BANKSHARES, INC. (PARENT COMPANY ONLY) FINANCIAL INFORMATION
Condensed Balance Sheets

	December 31	
(In thousands)	**2007**	**2006**
Assets		
Cash and due from banks	$ 23,848	$ 23,636
Securities available for sale	6,999	7,257
Securities held to maturity	6,110	6,130
Other investment securities	1,247	1,317
Loans		457
Investment in subsidiaries:		
Bank subsidiaries	879,228	681,693
Nonbank subsidiaries	6,638	4,677
Other assets	6,027	5,503
Total Assets	$ 930,097	$ 730,670
Liabilities and Shareholders Equity		
Junior subordinated debentures of subsidiary trusts	$ 139,178	$ 67,013
Accrued expenses and other liabilities	29,720	29,565
Shareholders equity (including other accumulated comprehensive loss of $12,480 and $15,791 at December 31, 2007 and 2006, respectively)	761,199	634,092
Total Liabilities and Shareholders Equity	$ 930,097	$ 730,670

Condensed Statements of Income

	Year Ended December 31		
(In thousands)	**2007**	**2006**	**2005**
Income			
Dividends from banking subsidiaries	$ 101,294	$ 89,854	$ 87,340
Net interest income	683	696	561
Management fees:			
Bank subsidiaries	10,050	10,128	9,292
Nonbank subsidiaries	22	15	14
Other income	186	253	453
Total Income	112,235	100,946	97,660
Expenses			
Interest paid on short-term borrowings			16
Operating expenses	18,226	14,889	12,715
Income Before Income Taxes and Equity in Undistributed Net Income of Subsidiaries	94,009	86,057	84,929
Applicable income tax benefit	(3,219)	(1,176)	(864)

Income Before Equity in Undistributed Net Income of Subsidiaries	97,228	87,233	85,793
Equity in undistributed net income of subsidiaries:			
Bank subsidiaries	(6,350)	1,965	14,539
Nonbank subsidiaries	(204)	51	77
Net Income	$ 90,674	$ 89,249	$ 100,409

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NOTE R UNITED BANKSHARES, INC. (PARENT COMPANY ONLY) FINANCIAL INFORMATION - continued

Condensed Statements of Cash Flows

	Year Ended December 31		
(In thousands)	**2007**	**2006**	**2005**
Operating Activities			
Net income from continuing operations	$ 90,674	$ 89,249	$ 100,409
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed net income of subsidiaries	6,553	(2,016)	(14,616)
Depreciation and net amortization	(1)	(14)	2
Amortization of net periodic pension costs	20		
Stock-based compensation	91		21
Net loss on securities transactions	(235)	(322)	(453)
Net change in other assets and liabilities	(2,005)	(1,903)	(593)
Net Cash Provided by Operating Activities	95,097	84,994	84,770
Investing Activities			
Net (purchases of) proceeds from sales of securities	(315)	789	2,410
Net cash paid in acquisition of subsidiary	(98,142)		
Increases in investment in subsidiaries	(2,474)		
Repayment on loan balances by customers	457	570	540
Change in other investment securities	70	59	(315)
Net Cash (Used in) Provided by Investing Activities	(100,404)	1,418	2,635
Financing Activities			
Net repayment of from subsidiary trusts	(10,000)		
Net advances from subsidiary trusts	82,475		
Cash dividends paid	(46,424)	(45,067)	(44,409)
Acquisition of treasury stock	(24,889)	(47,607)	(41,289)
Distribution of treasury stock for deferred compensation plan	76	35	39
Excess tax benefits from stock-based compensation arrangements	914	880	
Proceeds from exercise of stock options	3,367	7,261	3,233
Net Cash Provided by (Used in) Financing Activities	5,519	(84,498)	(82,426)
Increase in Cash and Cash Equivalents	212	1,914	4,979
Cash and Cash Equivalents at Beginning of Year	23,636	21,722	16,743

Cash and Cash Equivalents at End of Year	$ 23,848	$ 23,636	$ 21,722

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NOTE S REGULATORY MATTERS

The subsidiary banks are required to maintain average reserve balances with their respective Federal Reserve Bank. The average amount of those reserve balances maintained and required for the year ended December 31, 2007, were approximately $19,018,000 and $15,674,000, respectively. The average amount of those reserve balances maintained and required for the year ended December 31, 2006, was approximately $43,340,000 and $40,862,000, respectively.

The primary source of funds for the dividends paid by United Bankshares, Inc. to its shareholders is dividends received from its subsidiary banks. Dividends paid by United s subsidiary banks are subject to certain regulatory limitations. Generally, the most restrictive provision requires regulatory approval if dividends declared in any year exceed that year s net income, as defined, plus the retained net profits of the two preceding years.

During 2008, the retained net profits available for distribution to United Bankshares, Inc. by its banking subsidiaries as dividends without regulatory approval, are approximately $11,397,000, plus net income for the interim period through the date of declaration.

Under Federal Reserve regulation, the banking subsidiaries are also limited as to the amount they may loan to affiliates, including the parent company. Loans from the banking subsidiaries to the parent company are limited to 10% of the banking subsidiaries capital and surplus, as defined, or $58,354,000 at December 31, 2007, and must be secured by qualifying collateral.

United s subsidiary banks are subject to various regulatory capital requirements administered by federal banking agencies. Pursuant to capital adequacy guidelines, United s subsidiary banks must meet specific capital guidelines that involve various quantitative measures of the banks assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. United s subsidiary banks capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require United to maintain minimum amounts and ratios of total and Tier I capital, as defined in the regulations, to risk-weighted assets, as defined, and of Tier I capital, as defined, to average assets, as defined. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on United s financial statements. As of December 31, 2007, United exceeds all capital adequacy requirements to which it is subject.

At December 31, 2007, the most recent notification from its regulators, United and its subsidiary banks were categorized as well-capitalized. To be categorized as well-capitalized, United must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the following table. There are no conditions or events since that notification that management believes would impact United s well-capitalized status.

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NOTE S REGULATORY MATTERS continued

United s and its subsidiary banks , United Bank (WV) and United Bank (VA), capital amounts (in thousands of dollars) and ratios are presented in the following table.

	Actual		For Capital Adequacy Purposes		To Be Well-Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2007:						
Total Capital (to Risk-Weighted Assets):						
United Bankshares	$697,951	10.8%	$519,046	≥8.0%	$648,807	≥10.0%
United Bank (WV)	336,173	10.3%	260,296	≥8.0%	325,370	≥10.0%
United Bank (VA)	336,037	10.2%	263,010	≥8.0%	328,762	≥10.0%
Tier I Capital (to Risk-Weighted Assets):						
United Bankshares	630,407	9.7%	259,523	≥4.0%	389,284	≥6.0%
United Bank (WV)	305,114	9.4%	130,148	≥4.0%	195,222	≥6.0%
United Bank (VA)	302,852	9.2%	131,505	≥4.0%	197,257	≥6.0%
Tier I Capital (to Average Assets):						
United Bankshares	630,407	8.5%	297,864	≥4.0%	372,331	≥5.0%
United Bank (WV)	305,114	7.7%	157,916	≥4.0%	197,395	≥5.0%
United Bank (VA)	302,852	8.4%	144,547	≥4.0%	180,684	≥5.0%
As of December 31, 2006:						
Total Capital (to Risk-Weighted Assets):						
United Bankshares	$613,171	11.2%	$439,760	≥8.0%	$549,699	≥10.0%
United Bank (WV)	329,701	10.8%	244,230	≥8.0%	305,288	≥10.0%
United Bank (VA)	263,874	10.9%	194,077	≥8.0%	242,597	≥10.0%
Tier I Capital (to Risk-Weighted Assets):						
United Bankshares	551,822	10.0%	219,880	≥4.0%	329,820	≥6.0%
United Bank (WV)	297,963	9.8%	122,115	≥4.0%	183,173	≥6.0%
United Bank (VA)	237,741	9.8%	97,039	≥4.0%	145,558	≥6.0%
Tier I Capital (to Average Assets):						
United Bankshares	551,822	8.6%	256,490	≥4.0%	320,613	≥5.0%
United Bank (WV)	297,963	8.0%	148,400	≥4.0%	185,500	≥5.0%
United Bank (VA)	237,741	8.6%	110,279	≥4.0%	137,849	≥5.0%

NOTE T FAIR VALUES OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used by United in estimating its fair value disclosures for financial instruments:

Cash and Cash Equivalents: The carrying amounts reported in the balance sheet for cash and cash equivalents approximate those assets fair values.

Securities: The estimated fair values of securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

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NOTE T FAIR VALUES OF FINANCIAL INSTRUMENTS - continued

Loans: The fair values of certain mortgage loans (e.g., one-to-four family residential), credit card loans, and other consumer loans are based on quoted market prices of similar loans sold in conjunction with securitization transactions, adjusted for differences in loan characteristics. The fair values of other loans (e.g., commercial real estate and rental property mortgage loans, commercial and industrial loans, financial institution loans and agricultural loans) are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar creditworthiness. The estimated fair value of loans held for sale is based upon the market price of similar loans which is not materially different than cost due to the short time duration between origination and sale.

Derivative Financial Instruments: The estimated fair value of derivative financial instruments is based upon the current market price for similar instruments.

Off-Balance Sheet Instruments: Fair values of United s loan commitments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties credit standing. The estimated fair values of these commitments approximate their carrying values.

Deposits: The fair values of demand deposits (e.g., interest and noninterest checking, regular savings and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). The carrying amounts of variable-rate, fixed-term money market accounts and certificates of deposit approximate their fair values at the reporting date. Fair values of fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Short-term Borrowings: The carrying amoun