

UNITED COMMUNITY BANKS INC
Form 10-Q/A
February 10, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

Amendment No. 2

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

For the Quarterly Period Ended June 30, 2011

OR

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

For the Transition Period from to

Commission file number 001-35095

UNITED COMMUNITY BANKS, INC.

(Exact name of registrant as specified in its charter)

Edgar Filing: UNITED COMMUNITY BANKS INC - Form 10-Q/A

Georgia
(State of Incorporation)

58-1807304
(I.R.S. Employer

Identification No.)

125 Highway 515 East

Blairsville, Georgia
Address of Principal Executive Offices

30512
(Zip Code)

(706) 781-2265

(Telephone Number)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES ☒ NO ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☒

Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES ☐ NO ☒

Common stock, par value \$1 per share 41,568,707 shares voting and 15,914,209 shares non-voting

outstanding as of July 31, 2011

Explanatory Note

This Amendment No. 2 to the Form 10-Q/A (this Amendment) of United Community Banks, Inc. (United) amends and restates United's Form 10-Q/A for the quarter ended June 30, 2011 that was originally filed with the Securities and Exchange Commission on August 9, 2011 (collectively with Amendment, this Form 10-Q/A).

This Amendment is filed to reflect United's establishment of a full deferred tax asset valuation allowance as of December 31, 2010 and the effects thereof on certain related disclosures contained in this Form 10-Q/A, including (i) United's previously reported income tax expense, other comprehensive income in shareholders' equity and net loss for the first and second quarter of 2011 and full year 2010, tangible book value, tangible equity and tangible common equity to asset ratios and regulatory capital ratios as of June 30, 2011, March 31, 2011 and December 31, 2010, and (ii) United's disclosure in Item 4 Controls and Procedures.

Unless otherwise indicated, this Amendment does not reflect events occurring after August 9, 2011.

INDEX

PART I - Financial Information

Item 1. Financial Statements

Consolidated Statement of Operations (unaudited) for the Three and Six Months Ended June 30, 2011 and 2010 3

Consolidated Balance Sheet at June 30, 2011 (unaudited), December 31, 2010 (audited) and June 30, 2010 (unaudited) 4

Consolidated Statement of Changes in Shareholders' Equity (unaudited) for the Six Months Ended June 30, 2011 and 2010 5

Consolidated Statement of Cash Flows (unaudited) for the Six Months Ended June 30, 2011 and 2010 6

Notes to Consolidated Financial Statements 7

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations 31

Item 3. Quantitative and Qualitative Disclosures About Market Risk 57

Item 4. Controls and Procedures 57

PART II - Other Information

Item 1. Legal Proceedings 57

Item 1A. Risk Factors 57

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds 58

Item 3. Defaults Upon Senior Securities 58

Item 4. (Removed and Reserved) 58

Item 5. Other Information 58

Item 6. Exhibits 58

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

	September 30, Three Months Ended June 30, (As restated) 2011		September 30, Three Months Ended June 30, (As restated) 2010		September 30, Six Months Ended June 30, (As restated) 2011		September 30, Six Months Ended June 30, (As restated) 2010	
(in thousands, except per share data)								
Interest revenue:								
Loans, including fees	\$	60,958	\$	70,611	\$	122,065	\$	142,826
Investment securities, including tax exempt of \$251, \$295, \$510 and \$606		14,792		15,829		28,396		32,032
Federal funds sold, commercial paper and deposits in banks		752		759		1,571		1,697
Total interest revenue		76,502		87,199		152,032		176,555
Interest expense:								
Deposits:								
NOW		1,036		1,745		2,360		3,599
Money market		1,499		1,829		3,527		3,586
Savings		64		83		141		167
Time		10,995		17,718		22,727		37,916
Total deposit interest expense		13,594		21,375		28,755		45,268
Federal funds purchased, repurchase agreements and other short-term borrowings		1,074		1,056		2,116		2,094
Federal Home Loan Bank advances		570		974		1,160		1,951
Long-term debt		2,747		2,667		5,527		5,329
Total interest expense		17,985		26,072		37,558		54,642
Net interest revenue		58,517		61,127		114,474		121,913
Provision for loan losses		11,000		61,500		201,000		136,500
Net interest revenue after provision for loan losses		47,517		(373)		(86,526)		(14,587)
Fee revenue:								
Service charges and fees		7,608		7,993		14,328		15,440
Mortgage loan and other related fees		952		1,601		2,446		3,080
Brokerage fees		691		586		1,368		1,153
Securities gains, net		783				838		61
Loss from prepayment of debt		(791)				(791)		
Other		4,662		1,399		7,554		3,511
Total fee revenue		13,905		11,579		25,743		23,245
Total revenue		61,422		11,206		(60,783)		8,658
Operating expenses:								
Salaries and employee benefits		26,436		23,590		51,360		47,950

Edgar Filing: UNITED COMMUNITY BANKS INC - Form 10-Q/A

Communications and equipment	3,378	3,511	6,722	6,784
Occupancy	3,805	3,836	7,879	7,650
Advertising and public relations	1,317	1,352	2,295	2,395
Postage, printing and supplies	1,085	765	2,203	1,990
Professional fees	2,350	2,178	5,680	4,121
Foreclosed property	1,891	14,540	66,790	25,353
FDIC assessments and other regulatory charges	3,644	3,566	9,057	7,192
Amortization of intangibles	760	794	1,522	1,596
Other	4,062	4,176	10,491	8,097
Loss on sale of nonperforming assets		45,349		45,349
Total operating expenses	48,728	103,657	163,999	158,477
Income (loss) from continuing operations before income taxes	12,694	(92,451)	(224,782)	(149,819)
Income tax expense (benefit)	666	(32,919)	526	(55,829)
Net income (loss) from continuing operations	12,028	(59,532)	(225,308)	(93,990)
Loss from discontinued operations, net of income taxes				(101)
Gain from sale of subsidiary, net of income taxes and selling costs				1,266
Net income (loss)	12,028	(59,532)	(225,308)	(92,825)
Preferred stock dividends and discount accretion	3,016	2,577	5,794	5,149
Net income (loss) available to common shareholders	\$ 9,012	\$ (62,109)	\$ (231,102)	\$ (97,974)
Earnings (loss) from continuing operations per common share Basic	\$.35	\$ (3.29)	\$ (10.52)	\$ (5.25)
Earnings (loss) from continuing operations per common share Diluted	.16	(3.29)	(10.52)	(5.25)
Earnings (loss) per common share Basic	.35	(3.29)	(10.52)	(5.19)
Earnings (loss) per common share Diluted	.16	(3.29)	(10.52)	(5.19)
Weighted average common shares outstanding Basic	25,427	18,905	21,965	18,891
Weighted average common shares outstanding Diluted	57,543	18,905	21,965	18,891

See accompanying notes to consolidated financial statements.

UNITED COMMUNITY BANKS, INC.**Consolidated Balance Sheet**

(in thousands, except share and per share data)	September 30, (As restated) June 30, 2011 (unaudited)	September 30, (As restated) December 31, 2010 (audited)	September 30, June 30, 2010 (unaudited)
ASSETS			
Cash and due from banks	\$ 163,331	\$ 95,994	\$ 115,088
Interest-bearing deposits in banks	41,863	111,901	105,183
Federal funds sold, commercial paper and short-term investments	174,996	441,562	148,227
Cash and cash equivalents	380,190	649,457	368,498
Securities available for sale	1,816,613	1,224,417	1,165,776
Securities held to maturity (fair value \$379,231, 267,988 and \$327,497)	371,578	265,807	322,148
Mortgage loans held for sale	19,406	35,908	22,705
Loans, net of unearned income	4,163,447	4,604,126	4,873,030
Less allowance for loan losses	127,638	174,695	174,111
Loans, net	4,035,809	4,429,431	4,698,919
Assets covered by loss sharing agreements with the FDIC	95,726	131,887	156,611
Premises and equipment, net	178,208	178,239	180,125
Accrued interest receivable	21,291	24,299	29,650
Goodwill and other intangible assets	9,922	11,446	223,600
Foreclosed property	47,584	142,208	123,910
Net deferred tax asset			111,485
Other assets	175,968	183,160	249,057
Total assets	\$ 7,152,295	\$ 7,276,259	\$ 7,652,484
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities:			
Deposits:			
Demand	\$ 899,017	\$ 793,414	\$ 779,934
NOW	1,306,109	1,424,781	1,326,861
Money market	989,600	891,252	756,370
Savings	197,927	183,894	185,176
Time:			
Less than \$100,000	1,508,444	1,496,700	1,575,211
Greater than \$100,000	981,154	1,002,359	1,093,975
Brokered	300,964	676,772	611,985
Total deposits	6,183,215	6,469,172	6,329,512
Federal funds purchased, repurchase agreements, and other short-term borrowings	103,666	101,067	104,127
Federal Home Loan Bank advances	40,625	55,125	104,138
Long-term debt	150,186	150,146	150,106
Unsettled securities purchases	35,634		20,941
Accrued expenses and other liabilities	36,368	32,171	39,243
Total liabilities	6,549,694	6,807,681	6,748,067
Shareholders' equity:			
Preferred stock, \$1 par value; 10,000,000 shares authorized;			
Series A; \$10 stated value; 21,700 shares issued and outstanding	217	217	217
Series B; \$1,000 stated value; 180,000 shares issued and outstanding	176,392	175,711	175,050
Series D; \$1,000 stated value; 16,613 shares issued and outstanding	16,613		
	41,555	18,937	18,856

Edgar Filing: UNITED COMMUNITY BANKS INC - Form 10-Q/A

Common stock, \$1 par value; 100,000,000 shares authorized; 41,554,874, 18,937,001 and 18,856,185 shares issued and outstanding			
Common stock, non-voting, \$1 par value; 30,000,000 shares authorized; 15,914,209 shares issued and outstanding			
Common stock issuable; 83,575, 67,287 and 56,954 shares	15,914		
Capital surplus	3,574	3,894	3,898
Accumulated deficit	1,052,482	741,244	739,261
Accumulated other comprehensive income	(723,378)	(492,276)	(77,590)
	19,232	20,851	44,725
Total shareholders equity	602,601	468,578	904,417
Total liabilities and shareholders equity	\$ 7,152,295	\$ 7,276,259	\$ 7,652,484

See accompanying notes to consolidated financial statements.

[illegible]

Comprehensive income (loss) for the second quarters of 2011 and 2010 was \$16,309,000 and \$(60,133,000), respectively.

See accompanying notes to consolidated financial statements.

UNITED COMMUNITY BANKS, INC.**Consolidated Statement of Cash Flows (Unaudited)**

	September 30, Six Months Ended June 30, (As restated) 2011	September 30, Six Months Ended June 30, 2010
(in thousands)		
Operating activities:		
Net loss	\$ (225,308)	\$ (92,825)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation, amortization and accretion	9,374	7,747
Provision for loan losses	201,000	136,500
Stock based compensation	758	1,428
Securities gains, net	(838)	(61)
Losses and write downs on sales of other real estate owned	60,505	19,289
Gain from sale of subsidiary		(2,110)
Loss on sale of nonperforming assets		45,349
Loss on prepayment of borrowings	791	
Changes in assets and liabilities:		
Other assets and accrued interest receivable	41,184	(55,249)
Accrued expenses and other liabilities	1,078	(6,888)
Mortgage loans held for sale	16,502	7,521
Net cash provided by operating activities	105,046	60,701
Investing activities:		
Investment securities held to maturity:		
Proceeds from maturities and calls	34,742	12,059
Purchases	(141,862)	(19,617)
Investment securities available for sale:		
Proceeds from sales	106,603	40,817
Proceeds from maturities and calls	220,018	432,436
Purchases	(875,250)	(398,877)
Net decrease in loans	64,778	50,600
Proceeds from loan sales	99,298	22,331
Proceeds from sales of premises and equipment	534	39
Purchases of premises and equipment	(5,276)	(3,601)
Net cash received from sale of subsidiary		290
Net cash received from sale of nonperforming assets		20,618
Proceeds from sale of other real estate	60,310	80,898
Net cash (used in) provided by investing activities	(436,105)	237,993
Financing activities:		
Net change in deposits	(285,957)	(295,729)
Net change in federal funds purchased, repurchase agreements, and other short-term borrowings	2,599	2,738
Repayments of FHLB advances	(15,291)	(10,000)
Proceeds from issuance of common stock for dividend reinvestment and employee benefit plans	744	935
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	(5,113)	(4,507)
Net cash provided by (used in) financing activities	61,792	(306,563)
Net change in cash and cash equivalents	(269,267)	(7,869)

Edgar Filing: UNITED COMMUNITY BANKS INC - Form 10-Q/A

Cash and cash equivalents at beginning of period	649,457	376,367
Cash and cash equivalents at end of period	\$ 380,190	\$ 368,498
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$ 36,703	\$ 60,083
Income taxes	1,527	819
Unsettled securities purchases	35,634	20,941
See accompanying notes to consolidated financial statements.		

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Note 1 Accounting Policies

The accounting and financial reporting policies of United Community Banks, Inc. (United) and its subsidiaries conform to accounting principles generally accepted in the United States of America (GAAP) and general banking industry practices. The accompanying interim consolidated financial statements have not been audited. All material intercompany balances and transactions have been eliminated. A more detailed description of United s accounting policies is included in the 2010 annual report filed on Form 10-K.

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

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 Topic 360, Subtopic 20, *Real Estate Sales* (ASC 360-20).

Note 2 Restatement of Consolidated Financial Statements

Subsequent to filing United s quarterly report on Form 10-Q, for the period ended June 30, 2011, United determined that a full valuation allowance on its deferred tax asset should be recognized as of December 31, 2010. Management decided to establish a valuation allowance against the net deferred tax asset after reconsidering the positive and negative evidence regarding the ultimate realization of the net deferred tax asset. Realization of the net deferred tax asset is dependent upon United s ability to generate future taxable income. Management has concluded that the objective and verifiable negative evidence represented by United s recent losses outweighs the more subjective positive evidence. As a result of this conclusion, United has established a full valuation allowance against its deferred tax asset.

On June 17, 2011, United completed a 1-for-5 reverse stock split, whereby each 5 shares of United s common stock was reclassified into one share of common stock, and each 5 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.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Accordingly, the June 30, 2011 consolidated financial statements have been restated to account for this determination. The effect of this change in the consolidated financial statements was as follows (*in thousands except per share amounts*).

	September 30, Three Months Ended June 30, 2011 As Reported	September 30, June 30, 2011 Adjustment	September 30, June 30, 2011 As Restated	September 30, Six Months Ended June 30, 2011 As Reported	September 30, June 30, 2011 Adjustment	September 30, June 30, 2011 As Restated
<i>Consolidated Statement of Operations</i>						
Income tax expense (benefit)	\$ 5,077	\$ (4,411)	\$ 666	\$ (89,913)	\$ 90,439	\$ 526
Net income (loss) from continuing operations	7,617	4,411	12,028	(134,869)	(90,439)	(225,308)
Net income (loss)	7,617	4,411	12,028	(134,869)	(90,439)	(225,308)
Net income (loss) available to common shareholders	4,601	4,411	9,012	(140,663)	(90,439)	(231,102)
Income (loss) from continuing operations per common share basic	0.18	0.17	0.35	(6.40)	(4.12)	(10.52)
Income (loss) from continuing operations per common share diluted	0.08	0.08	0.16	(6.40)	(4.12)	(10.52)
Income (loss) per common share basic	0.18	0.17	0.35	(6.40)	(4.12)	(10.52)
Income (loss) per common share diluted	0.08	0.08	0.16	(6.40)	(4.12)	(10.52)
<i>Consolidated Statement of Changes in Shareholders Equity</i>						
Net loss				\$ (134,869)	\$ (90,439)	\$ (225,308)
Unrealized holding losses on available for sale securities				5,133	2,870	8,003
Unrealized losses on derivative financial instrument qualifying as cash flow hedges				(5,879)	(3,743)	(9,622)
Comprehensive loss				(135,615)	(91,312)	(226,927)
<i>Consolidated Statement of Cash Flows</i>						
Operating activities:						
Net loss				\$ (134,869)	\$ (90,439)	\$ (225,308)
Net change in other assets and accrued interest receivable				(49,255)	90,439	41,184
	September 30, As Reported	September 30, As of June 30, 2011 Adjustment	September 30, As Restated	September 30, As Reported	September 30, As of December 31, 2010 Adjustment	September 30, As Restated
<i>Consolidated Balance Sheet</i>						
Net deferred tax asset	\$ 261,268	\$ (261,268)	\$	\$ 166,937	\$ (166,937)	\$

Edgar Filing: UNITED COMMUNITY BANKS INC - Form 10-Q/A

Other assets	172,074	3,894	175,968	183,160		183,160
Total assets	7,409,669	(257,374)	7,152,295	7,443,196	(166,937)	7,276,259
Capital surplus	1,051,607	875	1,052,482	741,244		741,244
(Accumulated deficit) retained earnings	(476,230)	(247,148)	(723,378)	(335,567)	(156,709)	(492,276)
Accumulated other comprehensive income	30,333	(11,101)	19,232	31,079	(10,228)	20,851
Total shareholders' equity	859,975	(257,374)	602,601	635,515	(166,937)	468,578
Total liabilities and shareholders' equity	7,409,669	(257,374)	7,152,295	7,443,196	(166,937)	7,276,259

Note 3 Accounting Standards Updates

In May 2011, the FASB issued Accounting Standards Update No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS* (ASU No. 2011-04). ASU No. 2011-04 primarily represents clarification to existing guidance. It does change the concepts of the valuation premise and highest and best use, stating that they are only relevant for nonfinancial assets. The guidance also changes the application of premiums and discounts and includes new disclosures. ASU No. 2011-04 is effective for United in the first quarter of 2012. Although evaluation of the impact is not complete, it is not expected to have a material impact on United's results of operations, financial position, or disclosures.

In June 2011, the FASB issued Accounting Standards Update No. 2011-05, *Presentation of Comprehensive Income* (ASU No. 2011-05). ASU No. 2011-05 requires entities to present net income and other comprehensive income in either a single continuous statement or in two separate, but consecutive statements of net income and other comprehensive income. The option to present items of other comprehensive income in the statement of changes in equity is eliminated. The guidance is effective for United for the first quarter of 2012, and will not have a material impact on United's results of operations or financial position. It will result in a change of disclosure, as United currently presents other comprehensive income in the statement of changes in shareholders' equity. United will apply these disclosure changes retrospectively as required by the standard.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Note 4 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 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, 2011 (*in thousands*).

(in thousands)	September 30, Purchased Impaired Loans	September 30, Other Purchased Loans	September 30, Other	September 30, Total
Commercial (secured by real estate)	\$	\$ 43,179	\$	\$ 43,179
Commercial (commercial and industrial)		3,133		3,133
Construction and land development	1,729	13,505		15,234
Residential mortgage	186	8,913		9,099
Installment	6	188		194
Total covered loans	1,921	68,918		70,839
Covered foreclosed property			8,270	8,270
Estimated loss reimbursement from the FDIC			16,617	16,617
Total covered assets	\$ 1,921	\$ 68,918	\$ 24,887	\$ 95,726

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Note 5 Securities

During the second quarter of 2010, securities available for sale with a fair value of \$315 million were transferred to held to maturity. The securities were transferred at their fair value on the date of transfer. The unrealized gain of \$7.1 million on the transferred securities on the date of transfer is being amortized into interest revenue as an adjustment to the yield on those securities over the remaining life of the transferred securities. Securities are classified as held to maturity when management has the positive intent and ability to hold them until maturity. Securities held to maturity are carried at amortized cost.

The amortized cost, gross unrealized gains and losses and fair value of securities held to maturity at June 30, 2011, December 31, 2010 and June 30, 2010 are as follows (*in thousands*).

	September 30, Amortized Cost	September 30, Gross Unrealized Gains	September 30, Gross Unrealized Losses	September 30, Fair Value
<u>As of June 30, 2011</u>				
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
<u>As of December 31, 2010</u>				
U.S. Government agencies	\$ 11,939	\$ 79	\$	\$ 12,018
State and political subdivisions	47,007	416	1,005	46,418
Mortgage-backed securities ⁽¹⁾	206,861	2,700	9	209,552
Total	\$ 265,807	\$ 3,195	\$ 1,014	\$ 267,988
<u>As of June 30, 2010</u>				
U.S. Government agencies	\$ 70,284	\$ 1,076	\$	\$ 71,360
State and political subdivisions	26,246	252	7	26,491
Mortgage-backed securities ⁽¹⁾	225,618	4,046	18	229,646
Total	\$ 322,148	\$ 5,374	\$ 25	\$ 327,497

⁽¹⁾ All are residential type mortgage-backed securities

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The cost basis, unrealized gains and losses, and fair value of securities available for sale at June 30, 2011, December 31, 2010 and June 30, 2010 are presented below (*in thousands*).

	September 30, Amortized Cost	September 30, Gross Unrealized Gains	September 30, Gross Unrealized Losses	September 30, Fair Value
<u>As of June 30, 2011</u>				
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
Other	121,473	100	1,827	119,746
Total	\$ 1,781,882	\$ 37,359	\$ 2,628	\$ 1,816,613
<u>As of December 31, 2010</u>				
U.S. Government agencies	\$ 99,969	\$ 67	\$ 1,556	\$ 98,480
State and political subdivisions	27,600	878	36	28,442
Mortgage-backed securities ⁽¹⁾	963,475	29,204	1,671	991,008
Other	107,811	192	1,516	106,487
Total	\$ 1,198,855	\$ 30,341	\$ 4,779	\$ 1,224,417
<u>As of June 30, 2010</u>				
U.S. Government agencies	\$ 216,759	\$ 936	\$	\$ 217,695
State and political subdivisions	32,998	1,001	14	33,985
Mortgage-backed securities ⁽¹⁾	864,141	37,730	1,103	900,768
Other	13,160	168		13,328
Total	\$ 1,127,058	\$ 39,835	\$ 1,117	\$ 1,165,776

⁽¹⁾ All are residential type mortgage-backed securities

The following table summarizes held to maturity securities in an unrealized loss position as of June 30, 2011, December 31, 2010 and June 30, 2010 (*in thousands*).

	September 30, Less than 12 Months Fair Value	September 30, Unrealized Loss	September 30, 12 Months or More Fair Value	September 30, Unrealized Loss	September 30, Total Fair Value	September 30, Unrealized Loss
<u>As of June 30, 2011</u>						
State and political subdivisions	\$ 10,160	\$ 292	\$	\$	\$ 10,160	\$ 292
Mortgage-backed securities	25,160	60	1,937	2	27,097	62

Edgar Filing: UNITED COMMUNITY BANKS INC - Form 10-Q/A

Total unrealized loss position	\$	35,320	\$	352	\$	1,937	\$	2	\$	37,257	\$	354
--------------------------------	----	--------	----	-----	----	-------	----	---	----	--------	----	-----

As of December 31, 2010

State and political subdivisions	\$	28,949	\$	1,005	\$		\$		\$	28,949	\$	1,005
----------------------------------	----	--------	----	-------	----	--	----	--	----	--------	----	-------

Mortgage-backed securities		1,951		9						1,951		9
----------------------------	--	-------	--	---	--	--	--	--	--	-------	--	---

Total unrealized loss position	\$	30,900	\$	1,014	\$		\$		\$	30,900	\$	1,014
--------------------------------	----	--------	----	-------	----	--	----	--	----	--------	----	-------

As of June 30, 2010

State and political subdivisions	\$	1,145	\$	7	\$		\$		\$	1,145	\$	7
----------------------------------	----	-------	----	---	----	--	----	--	----	-------	----	---

Mortgage-backed securities		1,963		18						1,963		18
----------------------------	--	-------	--	----	--	--	--	--	--	-------	--	----

Total unrealized loss position	\$	3,108	\$	25	\$		\$		\$	3,108	\$	25
--------------------------------	----	-------	----	----	----	--	----	--	----	-------	----	----

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The following table summarizes available for sale securities in an unrealized loss position as of June 30, 2011, December 31, 2010 and June 30, 2010 (*in thousands*).

	September 30, Less than 12 Months Fair Value	September 30, Unrealized Loss	September 30, 12 Months or More Fair Value	September 30, Unrealized Loss	September 30, Total Fair Value	September 30, Unrealized Loss
<u>As of June 30, 2011</u>						
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
Other	97,145	1,827			97,145	1,827
Total unrealized loss position	\$ 321,835	\$ 2,624	\$ 10	\$ 4	\$ 321,845	\$ 2,628
<u>As of December 31, 2010</u>						
U.S. Government agencies	\$ 68,412	\$ 1,556	\$	\$	\$ 68,412	\$ 1,556
State and political subdivisions	1,082	30	12	6	1,094	36
Mortgage-backed securities	59,505	1,630	2,799	41	62,304	1,671
Other	69,985	1,516			69,985	1,516
Total unrealized loss position	\$ 198,984	\$ 4,732	\$ 2,811	\$ 47	\$ 201,795	\$ 4,779
<u>As of June 30, 2010</u>						
State and political subdivisions	\$ 300	\$ 2	\$ 401	\$ 12	\$ 701	\$ 14
Mortgage-backed securities	19,499	456	25,639	647	45,138	1,103
Total unrealized loss position	\$ 19,799	\$ 458	\$ 26,040	\$ 659	\$ 45,839	\$ 1,117

At June 30, 2011, there were 28 available for sale securities and 13 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, 2011 were primarily attributable to changes in interest rates.

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, among other factors. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analyst's reports. During the six months ended June 30, 2010, United recorded impairment losses of \$950,000 on

Edgar Filing: UNITED COMMUNITY BANKS INC - Form 10-Q/A

investments in financial institutions that showed evidence of other-than-temporary impairment. No impairment losses were identified in the first six months of 2011.

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, 2011 and 2010 (*in thousands*).

	September 30, Three Months Ended June 30,		September 30, Six Months Ended June 30,	
	2011	2010	2011	2010
Proceeds from sales	\$ 55,363	\$	\$ 106,603	\$ 40,817
Gross gains on sales	\$ 838	\$	\$ 1,169	\$ 1,260
Gross losses on sales	55		331	249
Impairment losses				950
Net gains on sales of securities	\$ 783	\$	\$ 838	\$ 61
Income tax expense attributable to sales	\$ 305	\$	\$ 326	\$ 24

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Securities with a carrying value of \$2.11 billion, \$1.43 billion, and \$1.12 billion were pledged to secure public deposits, FHLB advances and other secured borrowings at June 30, 2011, December 31, 2010 and June 30, 2010.

The amortized cost and fair value of held to maturity and available for sale securities at June 30, 2011, by contractual maturity, are presented in the following table (*in thousands*).

	September 30, Amortized Cost	September 30, Available for Sale Fair Value	September 30, Held to Maturity Amortized Cost	September 30, Held to Maturity Fair Value
U.S. Government agencies:				
5 to 10 years	\$ 64,350	\$ 64,034	\$	\$
More than 10 years	13,580	13,443	5,000	5,000
	77,930	77,477	5,000	5,000
State and political subdivisions:				
Within 1 year	4,715	4,781		
1 to 5 years	14,682	15,485	2,025	2,078
5 to 10 years	5,324	5,627	21,273	22,336
More than 10 years	848	879	25,824	26,239
	25,569	26,772	49,122	50,653
Other:				
1 to 5 years	18,475	17,962		
5 to 10 years	99,546	99,033		
More than 10 years	3,452	2,751		
	121,473	119,746		
Total securities other than mortgage-backed securities:				
Within 1 year	4,715	4,781		
1 to 5 years	33,157	33,447	2,025	2,078
5 to 10 years	169,220	168,694	21,273	22,336
More than 10 years	17,880	17,073	30,824	31,239
Mortgage-backed securities	1,556,910	1,592,618	317,456	323,578
	\$ 1,781,882	\$ 1,816,613	\$ 371,578	\$ 379,231

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.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Note 6 Loans and Allowance for Loan Losses

Major classifications of loans as of June 30, 2011, December 31, 2010 and June 30, 2010, are summarized as follows (*in thousands*).

	September 30, June 30, 2011	September 30, December 31, 2010	September 30, June 30, 2010
Commercial (secured by real estate)	\$ 1,741,754	\$ 1,761,424	\$ 1,780,142
Commercial construction	195,190	296,582	342,140
Commercial (commercial and industrial)	428,058	441,518	441,097
Total commercial	2,365,002	2,499,524	2,563,379
Residential construction	501,909	695,166	819,930
Residential mortgage	1,177,226	1,278,780	1,355,582
Consumer installment	119,310	130,656	134,139
Total loans	4,163,447	4,604,126	4,873,030
Less allowance for loan losses	127,638	174,695	174,111
Loans, net	\$ 4,035,809	\$ 4,429,431	\$ 4,698,919

The Bank makes loans and extensions of credit to individuals and a variety of firms and corporations located primarily in counties in north Georgia, the Atlanta, Georgia MSA, the Gainesville, Georgia MSA, coastal Georgia, western North Carolina and east Tennessee. Although the Bank has a diversified loan portfolio, a substantial portion of the loan portfolio is collateralized by improved and unimproved real estate and is dependent upon the real estate market.

Changes in the allowance for loan losses for the three and six months ended June 30, 2011 and 2010 are summarized as follows (*in thousands*).

	September 30, Three Months Ended June 30, 2011	September 30, Three Months Ended June 30, 2010	September 30, Six Months Ended June 30, 2011	September 30, Six Months Ended June 30, 2010
Balance beginning of period	\$ 133,121	\$ 173,934	\$ 174,695	\$ 155,602
Provision for loan losses	11,000	61,500	201,000	136,500
Charge-offs:				
Commercial (secured by real estate)	3,433	9,791	52,140	12,727
Commercial construction	980	1,460	50,695	3,671
Commercial (commercial and industrial)	604	1,764	4,966	6,318
Residential construction	6,769	41,781	99,024	85,971
Residential mortgage	4,667	6,752	41,343	11,392
Consumer installment	883	1,417	1,979	2,546
Total loans charged-off	17,336	62,965	250,147	122,625
Recoveries:				
Commercial (secured by real estate)	174	34	274	1,006
Commercial construction	111		111	5
Commercial (commercial and industrial)	81	897	403	1,341

Edgar Filing: UNITED COMMUNITY BANKS INC - Form 10-Q/A

Residential construction	140	266	257	1,356
Residential mortgage	78	235	371	324
Consumer installment	269	210	674	602
Total recoveries	853	1,642	2,090	4,634
Net charge-offs	16,483	61,323	248,057	117,991
Balance end of period	\$ 127,638	\$ 174,111	\$ 127,638	\$ 174,111

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

At June 30, 2011, December 31, 2010 and June 30, 2010, loans with a carrying value of \$991 million, \$1.02 billion and \$1.50 billion were pledged as collateral to secure FHLB advances and other contingent funding sources.

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 impairment method as of June 30, 2011, December 31, 2010 and June 30, 2010 (*in thousands*).

	00000	00000	00000	00000	00000	00000	00000	00000
	Commercial (Secured by Real Estate)	Commercial Construction	Commercial (Commercial and Industrial)	Residential Construction	Residential Mortgage	Consumer Installment	Unallocated	Total
Six Months Ended June 30, 2011								
Allowance for loan losses:								
Beginning balance	\$ 31,191	\$ 6,780	\$ 7,580	\$ 92,571	\$ 22,305	\$ 3,030	\$ 11,238	\$ 174,695
Charge-offs	(52,140)	(50,695)	(4,966)	(99,024)	(41,343)	(1,979)		(250,147)
Recoveries	274	111	403	257	371	674		2,090
Provision	42,671	51,256	4,016	55,249	49,063	498	(1,753)	201,000
Ending balance	\$ 21,996	\$ 7,452	\$ 7,033	\$ 49,053	\$ 30,396	\$ 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	7,002	7,033	49,053	29,757	2,223	9,485	126,471
Total ending allowance balance	\$ 21,996	\$ 7,452	\$ 7,033	\$ 49,053	\$ 30,396	\$ 2,223	\$ 9,485	\$ 127,638
Loans:								
Individually evaluated for impairment	\$ 14,780	\$ 1,015	\$	\$ 12,611	\$ 7,247	\$	\$	\$ 35,653
Collectively evaluated for impairment	1,726,974	194,175	428,058	489,298	1,169,979	119,310		4,127,794
Total loans	\$ 1,741,754	\$ 195,190	\$ 428,058	\$ 501,909	\$ 1,177,226	\$ 119,310	\$	\$ 4,163,447
December 31, 2010								
Allowance for loan losses:								
Ending allowance attributable to loans:								
Individually evaluated for impairment	\$ 268	\$	\$	\$ 644	\$ 137	\$	\$	\$ 1,049
Collectively evaluated for impairment	30,923	6,780	7,580	91,927	22,168	3,030	11,238	173,646
Total ending allowance balance	\$ 31,191	\$ 6,780	\$ 7,580	\$ 92,571	\$ 22,305	\$ 3,030	\$ 11,238	\$ 174,695
Loans:								
Individually evaluated for impairment	\$ 41,818	\$ 20,311	\$ 5,874	\$ 39,505	\$ 15,468	\$	\$	\$ 122,976
Collectively evaluated for impairment	1,719,606	276,271	435,644	655,661	1,263,312	130,656		4,481,150
Total loans	\$ 1,761,424	\$ 296,582	\$ 441,518	\$ 695,166	\$ 1,278,780	\$ 130,656	\$	\$ 4,604,126
Six Months Ended June 30, 2010								
Allowance for loan losses:								
Beginning balance	\$ 19,208	\$ 5,861	\$ 6,892	\$ 93,585	\$ 17,266	\$ 2,545	\$ 10,245	\$ 155,602
Charge-offs	(12,727)	(3,671)	(6,318)	(85,971)	(11,392)	(2,546)		(122,625)
Recoveries	1,006	5	1,341	1,356	324	602		4,634

Edgar Filing: UNITED COMMUNITY BANKS INC - Form 10-Q/A

Provision	11,726	6,209	7,365	95,794	13,005	2,171	230	136,500
Ending balance	\$ 19,213	\$ 8,404	\$ 9,280	\$ 104,764	\$ 19,203	\$ 2,772	\$ 10,475	\$ 174,111
Ending allowance attributable to loans:								
Individually evaluated for impairment	\$	\$ 203	\$ 30	\$ 685	\$ 222	\$	\$	\$ 1,140
Collectively evaluated for impairment	19,213	8,201	9,250	104,079	18,981	2,772	10,475	172,971
Total ending allowance balance	\$ 19,213	\$ 8,404	\$ 9,280	\$ 104,764	\$ 19,203	\$ 2,772	\$ 10,475	\$ 174,111
Loans:								
Individually evaluated for impairment	\$ 48,018	\$ 16,917	\$ 7,909	\$ 65,622	\$ 24,106	\$	\$	\$ 162,572
Collectively evaluated for impairment	1,732,124	325,223	433,188	754,308	1,331,476	134,139		4,710,458
Total loans	\$ 1,780,142	\$ 342,140	\$ 441,097	\$ 819,930	\$ 1,355,582	\$ 134,139	\$	\$ 4,873,030

United reviews all loans that are on nonaccrual with a balance of \$500,000 or greater for impairment. 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. 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 loans are applied as a reduction of the outstanding principal balance.

In the first quarter 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.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The recorded investments in individually evaluated impaired loans at June 30, 2011, December 31, 2010 and June 30, 2010 were as follows (*in thousands*).

	September 30, June 30, 2011	September 30, December 31, 2010	September 30, June 30, 2010
Period-end loans with no allocated allowance for loan losses	\$ 32,791	\$ 115,338	\$ 150,083
Period-end loans with allocated allowance for loan losses	2,862	7,638	12,489
Total	\$ 35,653	\$ 122,976	\$ 162,572

Amount of allowance for loan losses allocated	\$ 1,167	\$ 1,049	\$ 1,140
---	----------	----------	----------

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, 2011 and 2010 (*in thousands*).

	September 30, Three Months Ended June 30, 2011	September 30, Three Months Ended June 30, 2010	September 30, Six Months Ended June 30, 2011	September 30, Six Months Ended June 30, 2010
Average balance of individually evaluated impaired loans during period	\$ 42,099	\$ 171,469	\$ 68,631	\$ 191,161

Interest income recognized during impairment

Cash-basis interest income recognized

The following table presents loans individually evaluated for impairment by class of loans as of June 30, 2011, December 31, 2010 and June 30, 2010 (*in thousands*).

	00000 June 30, 2011			00000 December 31, 2010			00000 June 30, 2010		
	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)	\$ 19,653	\$ 13,572	\$	\$ 60,238	\$ 39,588	\$	\$ 63,663	\$ 48,018	\$
Commercial construction									