

UNITED COMMUNITY BANKS INC

Form 10-Q

November 07, 2008

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the Quarterly Period Ended September 30, 2008**  
**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the Transition Period from \_\_\_\_\_ to \_\_\_\_\_**  
**Commission file number 0-21656**  
**UNITED COMMUNITY BANKS, INC.**  
**(Exact name of registrant as specified in its charter)**

**Georgia**

**58-1807304**

**(State of Incorporation)**

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

**63 Highway 515  
Blairsville, Georgia**

**30512**

**Address of Principal  
Executive Offices**

**(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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

**Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller Reporting Company**   
**(Do not check if a smaller reporting company)**

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

**YES  NO**

**Common stock, par value \$1 per share: 47,596,119 shares  
outstanding as of September 30, 2008**



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<i>(in thousands, except per share data)</i>	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>Interest revenue:</b>				
Loans, including fees	\$ 93,233	\$ 127,213	\$ 299,550	\$ 361,085
Investment securities:				
Taxable	18,258	16,637	55,765	46,081
Tax exempt	348	428	1,140	1,313
Federal funds sold and deposits in banks	100	134	372	272
<b>Total interest revenue</b>	<b>111,939</b>	<b>144,412</b>	<b>356,827</b>	<b>408,751</b>
<b>Interest expense:</b>				
Deposits:				
NOW	6,778	12,046	22,581	34,143
Money market	2,296	5,002	7,519	11,082
Savings	153	553	560	1,236
Time	39,044	42,862	116,756	126,466
<b>Total deposit interest expense</b>	<b>48,271</b>	<b>60,463</b>	<b>147,416</b>	<b>172,927</b>
Federal funds purchased, repurchase agreements, & other short-term borrowings	1,116	4,738	7,254	10,226
Federal Home Loan Bank advances	2,105	5,902	10,668	15,738
Long-term debt	2,227	2,100	6,366	6,505
<b>Total interest expense</b>	<b>53,719</b>	<b>73,203</b>	<b>171,704</b>	<b>205,396</b>
<b>Net interest revenue</b>	<b>58,220</b>	<b>71,209</b>	<b>185,123</b>	<b>203,355</b>
Provision for loan losses	76,000	3,700	99,000	26,100
<b>Net interest (loss) revenue after provision for loan losses</b>	<b>(17,780)</b>	<b>67,509</b>	<b>86,123</b>	<b>177,255</b>
<b>Fee revenue:</b>				
Service charges and fees	8,171	7,855	23,941	23,083
Mortgage loan and other related fees	1,410	2,118	5,575	6,817
Consulting fees	1,727	2,381	5,786	6,369
Brokerage fees	905	895	2,812	3,031
Securities gains, net	120	225	477	1,818
Losses on prepayment of borrowings				(1,164)
Other	788	2,141	3,832	6,597

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Total fee revenue	13,121	15,615	42,423	46,551
<b>Total revenue</b>	(4,659)	83,124	128,546	223,806
<b>Operating expenses:</b>				
Salaries and employee benefits	28,626	29,698	86,133	88,037
Communications and equipment	3,909	3,936	11,593	11,593
Occupancy	3,905	3,617	11,325	10,124
Advertising and public relations	1,399	1,537	4,759	5,651
Postage, printing and supplies	1,493	1,479	4,533	4,819
Professional fees	1,596	1,920	5,196	5,409
Amortization of intangibles	752	771	2,264	1,968
Other	15,290	5,224	28,457	13,124
Total operating expenses	56,970	48,182	154,260	140,725
(Loss) income before income taxes	(61,629)	34,942	(25,714)	83,081
Income tax (benefit) expense	(21,755)	12,406	(9,011)	29,289
<b>Net (loss) income</b>	\$ (39,874)	\$ 22,536	\$ (16,703)	\$ 53,792
Net (loss) income available to common shareholders	\$ (39,878)	\$ 22,532	\$ (16,715)	\$ 53,778
(Loss) earnings per common share:				
Basic	\$ (.84)	\$ .47	\$ (.35)	\$ 1.18
Diluted	(.84)	.46	(.35)	1.16
Cash dividends per common share	.00	.09	.18	.27
Stock dividends per common share	.09	.00	.09	.00
Weighted average common shares outstanding:				
Basic	47,304	48,348	47,111	45,452
Diluted	47,304	48,977	47,111	46,235

See notes to Consolidated Financial Statements

**Table of Contents****UNITED COMMUNITY BANKS, INC.  
Consolidated Balance Sheet**

<i>(in thousands, except share and per share data)</i>	<b>September 30, 2008 <i>(unaudited)</i></b>	<b>December 31, 2007 <i>(audited)</i></b>	<b>September 30, 2007 <i>(unaudited)</i></b>
<b>ASSETS</b>			
Cash and due from banks	\$ 126,033	\$ 157,549	\$ 162,710
Interest-bearing deposits in banks	40,707	62,074	75,745
Cash and cash equivalents	166,740	219,623	238,455
Securities available for sale	1,400,827	1,356,846	1,296,826
Mortgage loans held for sale	17,763	28,004	23,717
Loans, net of unearned income	5,829,937	5,929,263	5,952,749
Less allowance for loan losses	111,299	89,423	90,935
Loans, net	5,718,638	5,839,840	5,861,814
Premises and equipment, net	179,727	180,088	174,918
Accrued interest receivable	47,920	62,828	67,385
Goodwill and other intangible assets	322,544	325,305	326,080
Other assets	218,384	194,768	191,405
<b>Total assets</b>	<b>\$ 8,072,543</b>	<b>\$ 8,207,302</b>	<b>\$ 8,180,600</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>			
Liabilities:			
Deposits:			
Demand	\$ 680,196	\$ 700,941	\$ 737,357
NOW	1,393,928	1,474,818	1,464,956
Money market	394,358	452,917	495,092
Savings	179,274	186,392	195,132
Time:			
Less than \$100,000	1,814,926	1,573,604	1,595,515
Greater than \$100,000	1,481,512	1,364,763	1,358,302
Brokered	745,141	322,516	307,954
Total deposits	6,689,335	6,075,951	6,154,308
Federal funds purchased, repurchase agreements, and other short-term borrowings	119,699	638,462	502,081
Federal Home Loan Bank advances	285,362	519,782	519,381
Long-term debt	137,996	107,996	107,996
Accrued expenses and other liabilities	23,271	33,209	63,073

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<b>Total liabilities</b>	7,255,663	7,375,400	7,346,839
Shareholders' equity:			
Preferred stock, \$1 par value; \$10 stated value; 10,000,000 shares authorized; 25,800, 25,800 and 25,800 shares issued and outstanding	258	258	258
Common stock, \$1 par value; 100,000,000 shares authorized; 48,809,301, 48,809,301 and 48,809,301 shares issued	48,809	48,809	48,809
Common stock issuable; 116,567, 73,250 and 66,366 shares	2,762	2,100	1,954
Capital surplus	457,779	462,881	462,499
Retained earnings	317,544	347,391	347,478
Treasury stock; 1,213,182, 1,905,921 and 1,266,935 shares, at cost	(27,024)	(43,798)	(30,969)
Accumulated other comprehensive income	16,752	14,261	3,732
<b>Total shareholders' equity</b>	816,880	831,902	833,761
<b>Total liabilities and shareholders' equity</b>	\$ 8,072,543	\$ 8,207,302	\$ 8,180,600

See notes to Consolidated Financial Statements

**Table of Contents****UNITED COMMUNITY BANKS, INC.****Consolidated Statement of Changes in Shareholders' Equity (Unaudited)****For the Nine Months Ended September 30,**

	Preferred	Common	Common	Capital	Retained	Treasury	Accumulated Other Comprehensive Income	Total
(in thousands, except share and per share data)	Stock	Stock	Stock Issuable	Surplus	Earnings	Stock	(Loss)	
<b>Balance, December 31, 2006</b>	\$ 322	\$ 42,891	\$ 862	\$ 270,383	\$ 306,261	\$	\$ (3,952)	\$ 616,767
Comprehensive income:								
Net income					53,792			53,792
Other comprehensive income:								
Unrealized holding gains on available for sale securities, net of deferred tax expense and reclassification adjustment							3,282	3,282
Unrealized gains on derivative financial instruments qualifying as cash flow hedges, net of deferred tax expense							4,402	4,402
Comprehensive income					53,792		7,684	61,476
Retirement of preferred stock (6,400 shares)	(64)							(64)
Cash dividends declared on common stock (\$.27 per share)					(12,561)			(12,561)
Common stock issued for acquisitions (5,691,948 shares)		5,692		185,649				191,341
Exercise of stock options (110,328 shares)		78		457		767		1,302
Common stock issued to Dividend Reinvestment Plan and employee benefit plans (123,692 shares)		118		3,360		139		3,617
Amortization of stock option and restricted stock awards				2,611				2,611
Vesting of restricted stock (30,310 shares issued, 3,125 shares deferred)		30	93	(123)				
Purchases of treasury stock (1,304,775 shares)						(31,875)		(31,875)
Deferred compensation plan, net, including dividend equivalents			999					999
Tax benefit from options exercised				162				162
Dividends declared on preferred stock (\$.45 per share)					(14)			(14)
<b>Balance, September 30, 2007</b>	\$ 258	\$ 48,809	\$ 1,954	\$ 462,499	\$ 347,478	\$ (30,969)	\$ 3,732	\$ 833,761
<b>Balance, December 31, 2007</b>	\$ 258	\$ 48,809	\$ 2,100	\$ 462,881	\$ 347,391	\$ (43,798)	\$ 14,261	\$ 831,902

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Comprehensive income:			
Net loss	(16,703)		(16,703)
Other comprehensive (loss) income:			
Unrealized holding losses on available for sale securities, net of deferred tax benefit and reclassification adjustment		(3,009)	(3,009)
Unrealized gains on derivative financial instruments qualifying as cash flow hedges, net of deferred tax expense and reclassification adjustment		5,500	5,500
Comprehensive (loss) income	(16,703)	2,491	(14,212)
Cash dividends declared on common stock (\$.18 per share)	(8,465)		(8,465)
Stock dividends declared on common stock (360,155 shares, 1 for 130 shares)	(4,279)	(4,667)	8,906
Exercise of stock options (79,935 shares)	(927)	1,947	1,020
Common stock issued to Dividend Reinvestment Plan and employee benefit plans (233,276 shares)	(2,689)	5,460	2,771