

UNITED COMMUNITY BANKS INC  
Form 10-Q  
May 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 March 31, 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  
(State of Incorporation)

58-1807304  
(I.R.S. Employer Identification No.)

63 Highway 515  
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 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.

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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: 47,004,223 shares  
outstanding as of March 31, 2008

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INDEX

PART I - Financial Information

Item 1.	Financial Statements.	
	Consolidated Statement of Income (unaudited) for the Three Months Ended March 31, 2008 and 2007	2
	Consolidated Balance Sheet at March 31, 2008 (unaudited), December 31, 2007 (audited) and March 31, 2007 (unaudited)	3
	Consolidated Statement of Changes in Shareholders' Equity (unaudited) for the Three Months Ended March 31, 2008 and 2007	4
	Consolidated Statement of Cash Flows (unaudited) for the Three Months Ended March 31, 2008 and 2007	5
	Notes to Consolidated Financial Statements	6
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations.	12
Item 3.	Quantitative and Qualitative Disclosures About Market Risk.	28
Item 4.	Controls and Procedures.	28

PART II - Other Information

Item 1.	Legal Proceedings.	29
Item 1A.	Risk Factors.	29
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds.	29
Item 3.	Defaults Upon Senior Securities.	29
Item 4.	Submission of Matters to a Vote of Security Holders.	29
Item 5.	Other Information.	29
Item 6.	Exhibits.	29

## Part I – Financial Information

## Item 1 – Financial Statements

UNITED COMMUNITY BANKS, INC.  
Consolidated Statement of Income (unaudited)

(in thousands, except per share data)	Three Months Ended	
	2008	2007
Interest revenue:		
Loans, including fees	\$ 109,266	\$ 114,073
Investment securities:		
Taxable	18,628	13,968
Tax exempt	394	447
Federal funds sold and deposits in banks	222	58
Total interest revenue	128,510	128,546
Interest expense:		
Deposits:		
NOW	8,587	10,627
Money market	2,913	2,540
Savings	227	309
Time	38,884	41,625
Total deposit interest expense	50,611	55,101
Federal funds purchased, repurchase agreements, & other short-term borrowings	4,318	1,817
Federal Home Loan Bank advances	5,745	4,801
Long-term debt	2,080	2,204
Total interest expense	62,754	63,923
Net interest revenue	65,756	64,623
Provision for loan losses	7,500	3,700
Net interest revenue after provision for loan losses	58,256	60,923
Fee revenue:		
Service charges and fees	7,813	7,253
Mortgage loan and other related fees	1,963	2,223
Consulting fees	1,807	1,747
Brokerage fees	1,093	944
Securities gains, net	-	207
Other	1,521	2,008
Total fee revenue	14,197	14,382
Total revenue	72,453	75,305
Operating expenses:		
Salaries and employee benefits	28,754	28,317
Communications and equipment	3,832	3,812
Occupancy	3,716	3,191
Advertising and public relations	1,351	2,016
Postage, printing and supplies	1,592	1,660

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Professional fees	1,921	1,479
Amortization of intangibles	767	564
Other	5,596	3,802
Total operating expenses	47,529	44,841
Income before income taxes	24,924	30,464
Income taxes	8,846	11,119
Net income	\$ 16,078	\$ 19,345
Net income available to common shareholders	\$ 16,074	\$ 19,340
Earnings per common share:		
Basic	\$ .34	\$ .45
Diluted	.34	.44
Dividends per common share	.09	.09
Weighted average common shares outstanding:		
Basic	46,966	43,000
Diluted	47,272	43,912

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

UNITED COMMUNITY BANKS, INC.  
Consolidated Balance Sheet

(in thousands, except share and per share data)	March 31, 2008 (unaudited)	December 31, 2007 (audited)	March 31, 2007 (unaudited)
<b>ASSETS</b>			
Cash and due from banks	\$ 169,538	\$ 157,549	\$ 159,543
Interest-bearing deposits in banks	13,417	62,074	22,644
Cash and cash equivalents	182,955	219,623	182,187
Securities available for sale	1,508,402	1,356,846	1,150,424
Mortgage loans held for sale	28,451	28,004	31,633
Loans, net of unearned income	5,967,839	5,929,263	5,402,198
Less allowance for loan losses	89,848	89,423	68,804
Loans, net	5,877,991	5,839,840	5,333,394
Premises and equipment, net	180,746	180,088	150,332
Accrued interest receivable	59,585	62,828	60,677
Goodwill and other intangible assets	324,041	325,305	166,073
Other assets	224,084	194,768	111,882
Total assets	\$ 8,386,255	\$ 8,207,302	\$ 7,186,602
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Liabilities:</b>			
<b>Deposits:</b>			
Demand	\$ 690,028	\$ 700,941	\$ 675,969
NOW	1,523,942	1,474,818	1,406,287
Money market	431,623	452,917	277,184
Savings	187,911	186,392	176,891
<b>Time:</b>			
Less than \$100,000	1,535,742	1,573,604	1,619,865
Greater than \$100,000	1,375,000	1,364,763	1,366,360
Brokered	431,523	322,516	319,131
Total deposits	6,175,769	6,075,951	5,841,687
Federal funds purchased, repurchase agreements, and other short-term borrowings	532,896	638,462	77,367
Federal Home Loan Bank advances	615,324	519,782	464,072
Long-term debt	107,996	107,996	113,151
Accrued expenses and other liabilities	82,818	33,209	51,869
Total liabilities	7,514,803	7,375,400	6,548,146
<b>Shareholders' equity:</b>			
Preferred stock, \$1 par value; \$10 stated value; 10,000,000 shares authorized;			
25,800, 25,800 and 32,200 shares issued and outstanding	258	258	322
Common stock, \$1 par value; 100,000,000 shares authorized;			

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48,809,301, 48,809,301 and 43,037,840 shares issued	48,809	48,809	43,038
Common stock issuable; 90,505, 73,250 and 35,154 shares	2,410	2,100	1,043
Capital surplus	463,095	462,881	273,575
Retained earnings	359,248	347,391	321,721
Treasury stock; 1,805,078 and 1,905,921 shares, at cost	(41,351)	(43,798)	-
Accumulated other comprehensive income (loss)	38,983	14,261	(1,243)
Total shareholders' equity	871,452	831,902	638,456
Total liabilities and shareholders' equity	\$ 8,386,255	\$ 8,207,302	\$ 7,186,602

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## UNITED COMMUNITY BANKS, INC.

## Consolidated Statement of Changes in Shareholders' Equity (Unaudited)

For the Three Months Ended March 31,

(in thousands, except share and per share data)	Preferred	Common	Common	Capital	Retained	Treasury	Accumulated Other Comprehensive	Total
	Stock	Stock	Stock Issuable	Surplus	Earnings	Stock	Income (Loss)	
Balance, December 31, 2006	\$ 322	\$ 42,891	\$ 862	\$ 270,383	\$ 306,261	\$ -	\$ (3,952)	\$ 616,767
Comprehensive income:								
Net income					19,345			19,345
Other comprehensive income:								
Unrealized holding gains on available for sale securities, net of deferred tax expense and reclassification adjustment							2,000	2,000
Unrealized gains on derivative financial instruments qualifying as cash flow hedges, net of deferred tax expense							709	709
Comprehensive income					19,345		2,709	22,054
Cash dividends declared on common stock (\$.09 per share)					(3,880)			(3,880)
Exercise of stock options (72,703 shares)		73		629				702
Common stock issued to Dividend Reinvestment		53		1,693				1,746



Plan and employee benefit plans (52,914 shares)									
Amortization of stock option and restricted stock awards				729					729
Vesting of restricted stock (21,360 shares)		21		(21)					-
Deferred compensation plan, net, including dividend equivalents			181						181
Tax benefit from options exercised				162					162
Dividends declared on preferred stock (\$.15 per share)						(5)			(5)
Balance, March 31, 2007	\$ 322	\$ 43,038	\$ 1,043	\$ 273,575	\$ 321,721	\$ -	\$ (1,243)	\$ 638,456	
Balance, December 31, 2007	\$ 258	\$ 48,809	\$ 2,100	\$ 462,881	\$ 347,391	\$ (43,798)	\$ 14,261	\$ 831,902	
Comprehensive income:									
Net income					16,078				16,078
Other comprehensive income:									
Unrealized holding gains on available for sale securities, net of deferred tax expense							12,341		12,341
Unrealized gains on derivative financial instruments qualifying as cash flow hedges, net of deferred tax expense							12,381		12,381

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Comprehensive income				16,078		24,722	40,800	
Cash dividends declared on common stock (\$ .09 per share)				(4,217)			(4,217)	
Exercise of stock options (60,271 shares)			(691)		1,470		779	
Common stock issued to Dividend Reinvestment Plan and employee benefit plans (31,944 shares)			(266)		769		503	
Amortization of stock options and restricted stock			975				975	
Vesting of restricted stock (7,912 shares issued, 3,125 shares deferred)	91		(282)		191		-	
Deferred compensation plan, net, including dividend equivalents	238						238	
Shares issued from deferred compensation plan (716 shares)	(19)		2		17		-	
Tax benefit from options exercised			476				476	
Dividends declared on preferred stock (\$ .15 per share)					(4)		(4)	
Balance, March 31, 2008	\$ 258	\$ 48,809	\$ 2,410	\$ 463,095	\$ 359,248	\$ (41,351)	\$ 38,983	\$ 871,452

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

(in thousands)	Three Months Ended	
	March 31,	
	2008	2007
Operating activities:		
Net income	\$ 16,078	\$ 19,345
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion	3,568	3,372
Provision for loan losses	7,500	3,700
Stock based compensation	975	729
Gain on sale of securities available for sale	-	(207)
Gain on sale of other assets	(7)	(207)
Changes in assets and liabilities:		
Other assets and accrued interest receivable	8,867	(1,143)
Accrued expenses and other liabilities	(4,783)	8,340
Mortgage loans held for sale	(447)	3,692
Net cash provided by operating activities	31,751	37,621
Investing activities:		
Proceeds from sales of securities available for sale	25,000	915
Proceeds from maturities and calls of securities available for sale	174,956	78,934
Purchases of securities available for sale	(296,228)	(120,125)
Net increase in loans	(63,119)	(29,622)
Proceeds from sales of premises and equipment	288	635
Purchases of premises and equipment	(3,773)	(13,549)
Proceeds from sale of other real estate	8,156	1,804
Net cash used by investing activities	(154,720)	(81,008)
Financing activities:		
Net change in deposits	99,818	68,801
Net change in federal funds purchased, repurchase agreements, and other short-term borrowings	(105,566)	11,483
Proceeds from FHLB advances	300,000	425,000
Repayments of FHLB advances	(205,000)	(450,000)
Proceeds from exercise of stock options	779	702
Proceeds from issuance of common stock for dividend reinvestment and employee benefit plans	503	1,746
Cash dividends on common stock	(4,229)	(3,437)
Cash dividends on preferred stock	(4)	(5)
Net cash provided by financing activities	86,301	54,290
Net change in cash and cash equivalents	(36,668)	10,903
Cash and cash equivalents at beginning of period	219,623	171,284
Cash and cash equivalents at end of period	\$ 182,955	\$ 182,187
Supplemental disclosures of cash flow information:		

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Cash paid during the period for:

Interest	\$	65,789	\$	65,675
Income taxes		152		1,506

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5

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United Community Banks, Inc.

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 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 2007 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.

Note 2 - Stock-Based Compensation

United has an equity compensation plan that allows for grants of incentive stock options, nonqualified stock options, restricted stock awards (also referred to as “nonvested stock” awards), stock awards, performance share awards or stock appreciation rights. Options granted under the plan can have an exercise price no less than the fair market value of the underlying stock at the date of grant. The general terms of the plan include a vesting period (usually four years) with an exercisable period not to exceed ten years. Certain option and restricted stock awards provide for accelerated vesting if there is a change in control (as defined in the plan). As of March 31, 2008, approximately 1,953,000 additional awards could be granted under the plan. Through March 31, 2008, only incentive stock options, nonqualified stock options and restricted stock awards had been granted under the plan.

The following table shows stock option activity for the first quarter of 2008.

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (\$000)
Outstanding at December 31, 2007	2,912,557	\$ 21.57		
Granted	15,000	15.32		
Exercised	(65,450)	13.54		
Forfeited	(33,875)	29.14		
Expired	(15,800)	24.65		
Outstanding at March 31, 2008	2,812,432	\$ 21.62	6.2	\$ 3,936
Exercisable at March 31, 2008	1,658,316	\$ 16.99	4.6	\$ 3,911

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The weighted average fair value of stock options granted in the first quarter of 2008 and 2007 was \$3.33 and \$8.80, respectively. The fair value of each option granted was estimated on the date of grant using the Black-Scholes model. Because United's option plan has not been in place long enough to gather sufficient information about exercise patterns to establish an expected life, United uses the formula provided by the Securities and Exchange Commission in Staff Accounting Bulletin No. 107 to determine the expected life of options. The key assumptions used to determine the fair value of stock options are presented in the table below.

	Three Months Ended March 31,	
	2008	2007
Expected volatility	23%	20%
Expected dividend yield	2.1% to 2.5%	1.1%
Expected life (in years)	6.25	6.25
Risk-free rate	2.9% to 3.5%	4.7%

United's stock trading history began in March of 2002 when United listed on the Nasdaq National Market. For 2008 and 2007, expected volatility was determined using United's historical monthly volatility over the period beginning in March of 2002 through the end of the last completed year. Compensation expense for stock options was \$549,000 and \$486,000 for the three months ended March 31, 2008 and 2007, respectively, which was net of deferred tax benefits of \$222,000 and \$114,000, respectively. The amount of compensation expense for both periods was determined based on the fair value of the options at the time of grant, multiplied by the number of options granted that were expected to vest, which was then amortized, net of any applicable tax benefit, over the vesting period. The forfeiture rate for options is estimated to be approximately 3% per year. The total intrinsic value of options exercised during the quarter ended March 31, 2008 and 2007 was \$275,000 and \$1,693,000, respectively.

The table below presents the activity in restricted stock awards for the first quarter of 2008.

Restricted Stock	Shares	Weighted-Average Grant-Date Fair Value
Outstanding at December 31, 2007	84,413	\$ 29.26
Granted	7,000	14.83
Vested	(11,037)	25.67
Cancelled	(3,000)	30.10
Outstanding at March 31, 2008	77,376	\$ 28.43

Compensation expense for restricted stock is based on the fair value of restricted stock awards at the time of grant, which is equal to the value of United's common stock on the date of grant. The value of restricted stock grants that are expected to vest is amortized into expense over the vesting period. For the three months ended March 31, 2008 and 2007, compensation expense of \$204,000 and \$129,000, respectively, was recognized related to restricted stock awards. The total intrinsic value of the restricted stock was \$1.3 million at March 31, 2008.

As of March 31, 2008, there was \$7.9 million of unrecognized compensation cost related to nonvested stock options and restricted stock awards granted under the plan. That cost is expected to be recognized over a weighted-average period of 1.4 years. The aggregate grant date fair value of options and restricted stock awards that vested during the quarter ended March 31, 2008, was \$322,000.

#### Note 3 – Common Stock Issued / Common Stock Issuable

United provides a Dividend Reinvestment and Share Purchase Plan (DRIP) to its shareholders. Under the DRIP, shareholders of record can voluntarily reinvest all or a portion of their cash dividends into shares of United's common stock, as well as purchase additional stock through the plan for cash. United's 401(k) retirement plan regularly purchases shares of United's common stock directly from United. In addition, United has an Employee Stock Purchase Program (ESPP) that allows eligible employees to purchase shares of common stock at a 5% discount, with no commission charges. For the three months ended March 31, 2008 and 2007, United issued 31,944 and 52,914 shares, respectively, and increased capital by \$503,000 and \$1.7 million, respectively, through these programs.

In the fourth quarter of 2005, United began offering its common stock as an investment option in its deferred compensation plan. The common stock component of the deferred compensation plan is accounted for as an equity instrument and is reflected in the consolidated financial statements as common stock issuable. At March 31, 2008 and 2007, 90,505 and 35,154 shares, respectively, are issuable under the deferred compensation plan.





## Note 4 - Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share for the three months ended March 31.

(in thousands, except per share data)

		Three Months Ended March 31,	
		2008	2007
Net income available to common shareholders	\$	16,074	\$ 19,340
Weighted average shares outstanding:			
Basic		46,966	43,000
Effect of dilutive securities:			
Stock options and restricted stock		220	878
Common stock issuable under deferred compensation plan		86	34
Diluted			