

UNITED COMMUNITY BANKS INC  
Form 10-Q/A  
February 10, 2012  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q/A**

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

For the Quarterly Period Ended September 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.**

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(Exact name of registrant as specified in its charter)

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 41,611,596 shares voting and 15,914,209 shares non-voting outstanding as of October 31, 2011

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**Explanatory Note**

This Amendment to the Form 10-Q (this Amendment) of United Community Banks, Inc. (United) amends and restates United's Form 10-Q for the quarter ended September 30, 2011 that was originally filed with the Securities and Exchange Commission on November 8, 2011 (collectively with Amendment, this Form 10-Q).

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, including (i) United's previously reported income tax expense, other comprehensive income in shareholders' equity and net loss for the first, second and third quarters of 2011 and full year 2010, tangible book value, tangible equity and tangible common equity to asset ratios, and regulatory capital ratios as of September 30, 2011, 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 November 8, 2011.

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

(in thousands, except per share data)	September 30, Three Months Ended September 30, (As restated) 2011	September 30, September 30, September 30, (As restated) 2010	September 30, Nine Months Ended September 30, (As restated) 2011	September 30, September 30, September 30, (As restated) 2010
<b>Interest revenue:</b>				
Loans, including fees	\$ 59,294	\$ 68,419	\$ 181,359	\$ 211,245
Investment securities, including tax exempt of \$244, \$279, \$754 and \$886	14,568	14,711	42,964	46,743
Federal funds sold, commercial paper and deposits in banks	261	719	1,832	2,416
<b>Total interest revenue</b>	<b>74,123</b>	<b>83,849</b>	<b>226,155</b>	<b>260,404</b>
<b>Interest expense:</b>				
Deposits:				
NOW	831	1,705	3,191	5,304
Money market	1,129	1,930	4,656	5,516
Savings	52	83	193	250
Time	9,086	16,099	31,813	54,015
<b>Total deposit interest expense</b>	<b>11,098</b>	<b>19,817</b>	<b>39,853</b>	<b>65,085</b>
Federal funds purchased, repurchase agreements and other short-term borrowings	1,081	1,068	3,197	3,162
Federal Home Loan Bank advances	441	796	1,601	2,747
Long-term debt	2,642	2,665	8,169	7,994
<b>Total interest expense</b>	<b>15,262</b>	<b>24,346</b>	<b>52,820</b>	<b>78,988</b>
<b>Net interest revenue</b>	<b>58,861</b>	<b>59,503</b>	<b>173,335</b>	<b>181,416</b>
Provision for loan losses	36,000	50,500	237,000	187,000
<b>Net interest revenue after provision for loan losses</b>	<b>22,861</b>	<b>9,003</b>	<b>(63,665)</b>	<b>(5,584)</b>
<b>Fee revenue:</b>				
Service charges and fees	7,534	7,648	21,862	23,088
Mortgage loan and other related fees	1,148	2,071	3,594	5,151
Brokerage fees	836	731	2,204	1,884
Securities gains, net		2,491	838	2,552
Loss from prepayment of debt		(2,233)	(791)	(2,233)
Other	1,980	2,153	9,534	5,664
<b>Total fee revenue</b>	<b>11,498</b>	<b>12,861</b>	<b>37,241</b>	<b>36,106</b>
<b>Total revenue</b>	<b>34,359</b>	<b>21,864</b>	<b>(26,424)</b>	<b>30,522</b>

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<b>Operating expenses:</b>				
Salaries and employee benefits	25,262	24,891	76,622	72,841
Communications and equipment	3,284	3,620	10,006	10,404
Occupancy	3,794	3,720	11,673	11,370
Advertising and public relations	1,052	1,128	3,347	3,523
Postage, printing and supplies	1,036	1,019	3,239	3,009
Professional fees	2,051	2,117	7,731	6,238
Foreclosed property	2,813	19,752	69,603	45,105
FDIC assessments and other regulatory charges	2,603	3,256	11,660	10,448
Amortization of intangibles	748	793	2,270	2,389
Other	3,877	4,610	14,368	12,707
Goodwill impairment		210,590		210,590
Loss on sale of nonperforming assets				45,349
<b>Total operating expenses</b>	<b>46,520</b>	<b>275,496</b>	<b>210,519</b>	<b>433,973</b>
Loss from continuing operations before income taxes	(12,161)	(253,632)	(236,943)	(403,451)
Income tax benefit	(822)	(17,217)	(296)	(73,046)
<b>Net loss from continuing operations</b>	<b>(11,339)</b>	<b>(236,415)</b>	<b>(236,647)</b>	<b>(330,405)</b>
Loss from discontinued operations, net of income taxes				(101)
Gain from sale of subsidiary, net of income taxes and selling costs				1,266
<b>Net loss</b>	<b>(11,339)</b>	<b>(236,415)</b>	<b>(236,647)</b>	<b>(329,240)</b>
Preferred stock dividends and discount accretion	3,019	2,581	8,813	7,730
<b>Net loss available to common shareholders</b>	<b>\$ (14,358)</b>	<b>\$ (238,996)</b>	<b>\$ (245,460)</b>	<b>\$ (336,970)</b>
Loss from continuing operations per common share Basic	\$ (.25)	\$ (12.62)	\$ (7.23)	\$ (17.89)
Loss from continuing operations per common share Diluted	(.25)	(12.62)	(7.23)	(17.89)
Loss per common share Basic	(.25)	(12.62)	(7.23)	(17.82)
Loss per common share Diluted	(.25)	(12.62)	(7.23)	(17.82)
Weighted average common shares outstanding Basic	57,599	18,936	33,973	18,905
Weighted average common shares outstanding Diluted	57,599	18,936	33,973	18,905

See accompanying notes to consolidated financial statements.

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

(in thousands, except share and per share data)	September 30, (As restated) September 30, 2011 (unaudited)	September 30, (As restated) December 31, 2010 (audited)	September 30, September 30, 2010 (unaudited)
<b>ASSETS</b>			
Cash and due from banks	\$ 57,780	\$ 95,994	\$ 104,033
Interest-bearing deposits in banks	241,440	111,901	64,408
Federal funds sold, commercial paper and short-term investments		441,562	108,579
Cash and cash equivalents	299,220	649,457	277,020
Securities available for sale	1,769,083	1,224,417	1,053,518
Securities held to maturity (fair value \$369,020, \$267,988 and \$263,012)	353,739	265,807	256,694
Mortgage loans held for sale	22,050	35,908	20,630
Loans, net of unearned income	4,109,875	4,604,126	4,759,504
Less allowance for loan losses	146,092	174,695	174,613
Loans, net	3,963,783	4,429,431	4,584,891
Assets covered by loss sharing agreements with the FDIC	83,623	131,887	144,581
Premises and equipment, net	176,839	178,239	178,842
Accrued interest receivable	19,744	24,299	24,672
Goodwill and other intangible assets	9,175	11,446	12,217
Foreclosed property	44,263	142,208	129,964
Net deferred tax asset			146,831
Other assets	152,754	183,160	183,189
<b>Total assets</b>	<b>\$ 6,894,273</b>	<b>\$ 7,276,259</b>	<b>\$ 7,013,049</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>			
Liabilities:			
Deposits:			
Demand	\$ 966,452	\$ 793,414	\$ 783,251
NOW	1,299,512	1,424,781	1,338,371
Money market	1,030,370	891,252	804,644
Savings	200,231	183,894	186,617
Time:			
Less than \$100,000	1,393,559	1,496,700	1,498,379
Greater than \$100,000	905,183	1,002,359	1,033,132
Brokered	209,998	676,772	354,243
Total deposits	6,005,305	6,469,172	5,998,637
Federal funds purchased, repurchase agreements, and other short-term borrowings	102,883	101,067	103,780
Federal Home Loan Bank advances	40,625	55,125	55,125
Long-term debt	120,206	150,146	150,126
Unsettled securities purchases	10,585		
Accrued expenses and other liabilities	31,302	32,171	42,906
<b>Total liabilities</b>	<b>6,310,906</b>	<b>6,807,681</b>	<b>6,350,574</b>
Shareholders equity:			

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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	176,739	175,711	175,378
Series D; \$1,000 stated value; 16,613 shares issued and outstanding	16,613		
Common stock, \$1 par value; 100,000,000 shares authorized;			
41,595,692, 18,937,001 and 18,886,660 shares issued and outstanding	41,596	18,937	18,887
Common stock, non-voting, \$1 par value; 30,000,000 shares authorized; 15,914,209 shares issued and outstanding	15,914		
Common stock issuable; 88,501, 67,287 and 61,119 shares	3,590	3,894	3,961
Capital surplus	1,053,565	741,244	740,151
Accumulated deficit	(737,736)	(492,276)	(316,587)
Accumulated other comprehensive income	12,869	20,851	40,468
<b>Total shareholders equity</b>	<b>583,367</b>	<b>468,578</b>	<b>662,475</b>
<b>Total liabilities and shareholders equity</b>	<b>\$ 6,894,273</b>	<b>\$ 7,276,259</b>	<b>\$ 7,013,049</b>

See accompanying notes to consolidated financial statements.



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**UNITED COMMUNITY BANKS, INC.**

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

**For the Nine Months Ended September 30,**

	September 30,	September 30,	September 30,	September 30,	September 30,	September 30,	September 30,	September 30,	September 30,	September (Accumulat
	Series B	Preferred Stock Series D	Series F	Series G	Common Stock	Non-Voting Common Stock	Common Stock Issuable	Capital Surplus	Retained Earnings	Deficit)
17	\$ 174,408	\$	\$	\$	\$ 18,809	\$	\$ 3,597	\$ 697,271	\$	20,
										(329,
										(329,
								39,813		
					73			1,326		
								1,887		
					2		607	(609)		
							227			
					3		(470)	463		
	970									(7,
17	\$ 175,378	\$	\$	\$	\$ 18,887	\$	\$ 3,961	\$ 740,151	\$	(316,
17	\$ 175,711	\$	\$	\$	\$ 18,937	\$	\$ 3,894	\$ 741,244	\$	(492,
										(236,

									(236)
									3,250
	16,613			(1,551)					(15,062)
		(195,872)	(151,185)	20,618	15,914				310,525
				114					987
		195,872	151,185	3,468					11,035
									1,485
				7			54		(61)
							183		
				3			(541)		538
									(376)
	1,028								(7)
									(1)
17	\$ 176,739	\$ 16,613	\$	\$ 41,596	\$ 15,914	\$ 3,590	\$ 1,053,565	\$	(737)

Comprehensive loss for the third quarters of 2011 and 2010 was \$17.7 million and \$241 million, respectively.

See accompanying notes to consolidated financial statements.

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

(in thousands)	September 30, Nine Months Ended September 30, (As restated) 2011	September 30, September 30, 2010
<b>Operating activities:</b>		
Net loss	\$ (236,647)	\$ (329,240)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation, amortization and accretion	14,670	11,961
Provision for loan losses	237,000	187,000
Goodwill impairment charge		210,590
Stock based compensation	1,485	1,887
Securities gains, net	(838)	(2,552)
Losses and write downs on sales of other real estate owned	61,473	33,477
Gain from sale of subsidiary		(2,110)
Loss on sale of nonperforming assets		45,349
Loss on prepayment of borrowings	791	2,233
Changes in assets and liabilities:		
Other assets and accrued interest receivable	59,841	(17,528)
Accrued expenses and other liabilities	(2,739)	(1,949)
Mortgage loans held for sale	13,858	9,596
<b>Net cash provided by operating activities</b>	<b>148,894</b>	<b>148,714</b>
<b>Investing activities:</b>		
Investment securities held to maturity:		
Proceeds from maturities and calls	52,520	81,384
Purchases	(142,777)	(24,128)
Investment securities available for sale:		
Proceeds from sales	106,603	75,528
Proceeds from maturities and calls	363,333	634,305
Purchases	(1,000,378)	(544,793)
Net decrease in loans	106,341	65,570
Proceeds from loan sales	99,298	24,723
Proceeds from sales of premises and equipment	636	81
Purchases of premises and equipment	(6,442)	(5,057)
Net cash received from sale of subsidiary		2,842
Net cash received from sale of nonperforming assets		20,618
Proceeds from sale of other real estate	70,951	110,459
<b>Net cash (used in) provided by investing activities</b>	<b>(349,915)</b>	<b>441,532</b>
<b>Financing activities:</b>		
Net change in deposits	(463,867)	(625,437)
Net change in federal funds purchased, repurchase agreements, and other short-term borrowings	1,816	2,391
Repayments of Federal Home Loan Bank advances	(15,291)	(61,181)
Repayments of long-term debt	(30,000)	
Proceeds from issuance of common stock for dividend reinvestment and employee benefit plans	1,101	1,395
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	(7,785)	(6,761)

<b>Net cash used in financing activities</b>	(149,216)	(689,593)
<b>Net change in cash and cash equivalents</b>	(350,237)	(99,347)
Cash and cash equivalents at beginning of period	649,457	376,367
<b>Cash and cash equivalents at end of period</b>	\$ 299,220	\$ 277,020
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid during the period for:		
Interest	\$ 55,580	\$ 89,359
Income taxes	179	(37,194)
	See accompanying notes to consolidated financial statements.	

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**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 September 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.

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Accordingly, the September 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 September 30, 2011 As Reported	September 30, Adjustment	September 30, September 30, 2011 As Restated	September 30, September 30, September 30, 2011 As Reported	September 30, Adjustment	September 30, September 30, 2011 As Restated
<i>Consolidated Statement of Operations</i>						
Income tax benefit	\$ (5,959)	\$ 5,137	\$ (822)	\$ (95,872)	\$ 95,576	\$ (296)
Net income (loss) from continuing operations	(6,202)	(5,137)	(11,339)	(141,071)	(95,576)	(236,647)
Net income (loss)	(6,202)	(5,137)	(11,339)	(141,071)	(95,576)	(236,647)
Net income (loss) available to common shareholders	(9,221)	(5,137)	(14,358)	(149,884)	(95,576)	(245,460)
Income (loss) from continuing operations per common share basic	(0.16)	(0.09)	(0.25)	(4.41)	(2.82)	(7.23)
Income (loss) from continuing operations per common share diluted	(0.16)	(0.09)	(0.25)	(4.41)	(2.82)	(7.23)
Income (loss) per common share basic	(0.16)	(0.09)	(0.25)	(4.41)	(2.82)	(7.23)
Income (loss) per common share diluted	(0.16)	(0.09)	(0.25)	(4.41)	(2.82)	(7.23)
<i>Consolidated Statement of Changes in Shareholders Equity</i>						
Net loss				\$ (141,071)	\$ (95,576)	\$ (236,647)
Unrealized holding losses on available for sale securities				2,910	1,678	4,588
Unrealized losses on derivative financial instrument qualifying as cash flow hedges				(7,680)	(4,890)	(12,570)
Comprehensive loss				(145,841)	(98,788)	(244,629)
<i>Consolidated Statement of Cash Flows</i>						
Operating activities:						
Net loss				\$ (141,071)	\$ (95,576)	\$ (236,647)
Net change in other assets and accrued interest receivable				(35,735)	95,576	59,841
<i>Consolidated Balance Sheet</i>						
Net deferred tax asset	\$ 264,275	\$ (264,275)	\$	\$ 166,937	\$ (166,937)	\$

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Other assets	153,329	(575)	152,754	183,160		183,160
Total assets	7,159,123	(264,850)	6,894,273	7,443,196	(166,937)	7,276,259
Capital surplus	1,052,690	875	1,053,565	741,244		741,244
(Accumulated deficit) retained earnings	(485,451)	(252,285)	(737,736)	(335,567)	(156,709)	(492,276)
Accumulated other comprehensive income	26,309	(13,440)	12,869	31,079	(10,228)	20,851
Total shareholders equity	848,217	(264,850)	583,367	635,515	(166,937)	468,578
Total liabilities and shareholders equity	7,159,123	(264,850)	6,894,273	7,443,196	(166,937)	7,276,259

**Note 3 Accounting Standards Updates**

In July 2011, the FASB issued Accounting Standards Update No. 2011-06, *Fees Paid to the Federal Government by Health Insurers* ( ASU No. 2011-06 ). ASU No. 2011-06 states that the liability for the annual fee for health insurers mandated by the Patient protection and Affordable Care Act as amended by the Health Care and Education Reconciliation Act, should be estimated and recorded in full once the entity provides qualifying health insurance. Along with the fee liability, a corresponding deferred cost should be recorded and amortized into expense, typically using a straight-line method. ASU No. 2011-06 is effective for calendar years beginning after December 31, 2013, and does not apply to United.

In July 2011, the FASB issued Accounting Standards Update No. 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities* ( ASU No. 2011-07 ). ASU No. 2011-07 requires certain health care entities to change the presentation of their statement of operations by reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue. Also, these entities are required to provide enhanced disclosure about their policies on recognizing revenue and assessing bad debts. The guidance is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2012, and does not apply to United.

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In September 2011, the FASB issued Accounting Standards Update No. 2011-08, *Testing Goodwill for Impairment* ( ASU No. 2011-08 ). ASU No. 2011-08 allows an entity first to assess qualitatively whether it is necessary to perform step one of the two-step annual goodwill impairment test. An entity is required to perform step one only if the entity concludes that it is more likely than not that a reporting unit's fair value is less than its carrying amount (that is, a likelihood of more than 50 percent). This amends the existing guidance, which required entities to perform step one of the test, at least annually, by calculating and comparing the fair value of a reporting unit to its carrying amount. The revised standard is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. However, an entity can choose to early adopt the revised standard even if its annual test date is before September 15, 2011 (the date on which the revised standard was issued), provided that the entity has not yet issued its financial statements for the period that includes its annual test date. Since United has no goodwill balance, ASU No. 2011-08 will not currently have an impact on the Company's financial position, results of operation, or disclosures.

In September 2011, the FASB issued Accounting Standards Update No. 2011-09, *Disclosures about an Employer's Participation in a Multiemployer Plan* ( ASU No. 2011-09 ). ASU No. 2011-09 is intended to provide more information about an employer's financial obligations to a multiemployer pension plan and, therefore help financial statement users better understand the financial health of all significant plans in which the employer participates. It is effective for public entities for fiscal years ending after December 15, 2011, with a one year deferral for non-public entities. United does not participate in a multiemployer plan, so this revised standard does not apply to the Company.

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

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

The table below shows the components of covered assets at September 30, 2011 (*in thousands*).

	September 30, Purchased Impaired Loans	September 30, Other Purchased Loans	September 30, Other	September 30, Total
(in thousands)				
Commercial (secured by real estate)	\$	\$ 34,546	\$	\$ 34,546
Commercial (commercial and industrial)		2,485		2,485
Construction and land development	1,771	10,282		12,053
Residential mortgage	186	8,376		8,562
Installment	6	181		187
Total covered loans	1,963	55,870		57,833



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Covered foreclosed property				11,488		11,488		
Estimated loss reimbursement from the FDIC				14,302		14,302		
Total covered assets	\$	1,963	\$	55,870	\$	25,790	\$	83,623

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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 nine month periods ended September 30, 2011 and 2010 (*in thousands*).

	September 30, Three Months Ended September 30,		September 30, Nine Months Ended September 30,	
	2011	2010	2011	2010
Proceeds from sales	\$	\$ 34,711	\$ 106,603	\$ 75,528
Gross gains on sales	\$	\$ 2,491	\$ 1,169	\$ 3,751
Gross losses on sales			331	249
Impairment losses				950
Net gains on sales of securities	\$	\$ 2,491	\$ 838	\$ 2,552
Income tax expense attributable to sales	\$	\$ 969	\$ 326	\$ 993

Substantially all securities with a carrying value of \$1.89 billion, \$1.43 billion, and \$1.26 billion were pledged to secure public deposits, FHLB advances and other secured borrowings at September 30, 2011, December 31, 2010 and September 30, 2010, respectively.

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 September 30, 2011, December 31, 2010 and September 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
<b>As of September 30, 2011</b>				
U.S. Government agencies	\$ 5,000	\$ 17	\$	\$ 5,017
State and political subdivisions	50,185	3,721	22	53,884
Mortgage-backed securities <sup>(1)</sup>	298,554	11,871	306	310,119
Total	\$ 353,739	\$ 15,609	\$ 328	\$ 369,020
<b>As of December 31, 2010</b>				
U.S. Government agencies	\$ 11,939	\$ 79	\$	\$ 12,018
State and political subdivisions	47,007	416	1,005	46,418
Mortgage-backed securities <sup>(1)</sup>	206,861	2,700	9	209,552
Total	\$ 265,807	\$ 3,195	\$ 1,014	\$ 267,988

**As of September 30, 2010**

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U.S. Government agencies	\$	6,961	\$	124	\$	7,085
State and political subdivisions		30,752		1,271		32,023
Mortgage-backed securities <sup>(1)</sup>		218,981		4,929	6	223,904
<b>Total</b>	<b>\$</b>	<b>256,694</b>	<b>\$</b>	<b>6,324</b>	<b>\$</b>	<b>263,012</b>

<sup>(1)</sup> All are residential type mortgage-backed securities

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The cost basis, unrealized gains and losses, and fair value of securities available for sale at September 30, 2011, December 31, 2010 and September 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 September 30, 2011</u>				
U.S. Government agencies	\$ 33,597	\$ 109	\$	\$ 33,706
State and political subdivisions	25,435	1,400	4	26,831
Mortgage-backed securities <sup>(1)</sup>	1,556,639			