

Ameris Bancorp
Form 10-K/A
November 21, 2007

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

Amendment No. 1 on

FORM 10-K/A

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

For the fiscal year ended December 31, 2006

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: 001-13901

AMERIS BANCORP (A GEORGIA CORPORATION)

I.R.S. EMPLOYER IDENTIFICATION NUMBER 58-1456434

24 2nd AVENUE, S.E., MOULTRIE, GEORGIA 31768

TELEPHONE NUMBER: (229) 890-1111

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: Common Stock, Par Value \$1 Per Share

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act. Yes ☐ No ☒

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐

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

As of the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the voting and non-voting common equity held by nonaffiliates of the registrant was approximately \$301.3 million. As of March 1, 2007, the registrant had outstanding 13,527,449 shares of common stock, \$1.00 par value per share.

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-K/A (this Amendment) amends the Annual Report on Form 10-K for the year ended December 31, 2006 of Ameris Bancorp (the Company) filed with the Securities and Exchange Commission (the SEC) on March 13, 2007 (the Original Report). This Amendment amends and restates Part II, Items 7 and 9A of the Original Report. This Amendment revises Item 7 with respect to the Company's disclosure regarding the determination of the allowance and provision for loan losses and Item 9A to reflect certain related changes in the Company's internal procedures. Except for the foregoing revisions, this Amendment does not modify or update any disclosures presented in the Original Report. Accordingly, this Amendment does not reflect events occurring after the filing of the Original Report or modify or update those disclosures contained in the Original Report which may have been affected by subsequent events. Information not affected by this Amendment is unchanged and reflects the disclosures made at the time the Original Report was filed. The Original Report, as amended by this Amendment, is referenced to herein as the Annual Report.

PART II

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OVERVIEW

The year ended December 31, 2006 results reflect a successful execution of our goals and objectives that were set during 2005. Continued growth of our franchise in our existing markets was complimented by the expansion into other growth markets both by acquisition and de novo branching. Recruiting efforts that began in 2005 continued during the year and paid dividends as the Company was able to bolster production and sales staffs considerably across our footprint.

The Company completed two very important initiatives that were critical to our long-term success. Our efforts to collapse our charters into a single bank charter and adopt a uniform brand across our geographic footprint were completed successfully in December 2006. This effort required enormous amounts of planning, and our Company's employees handled the responsibility of maintaining excellent customer relationships through the changes in an extraordinarily professional manner.

The Company reported net income of \$22.1 million, or \$1.68 per diluted share, for the year ended December 31, 2006 compared to \$13.7 million, or \$1.14 per diluted share, in 2005. Our earnings during 2006 reflect non-recurring income of \$1.9 million after tax related to the sale of three bank charters to unrelated parties as well as \$900,000 of non-recurring expenses associated with the corporate restructuring announced during 2005 and completed in December 2006. During the fourth quarter of 2005, the Company incurred approximately \$1.85 million in non-recurring expenses associated with the first stages of the corporate restructuring.

Total assets at December 31, 2006 were approximately \$2.05 billion, an increase of \$350.3 million, or 20.6%, from total assets of \$1.7 billion at December 31, 2005. This level includes approximately \$92 million of total assets related to the purchase of Islands on December 31, 2006. During 2006, the pace of growth in loans and deposits from existing markets continued at a double digit pace as momentum from the corporate restructuring and a re-invigorated sales culture began to take hold. Internal growth in loans for 2006, excluding the acquisition of Islands, was \$193.0 million, or 16.3%, while internal growth of deposits was \$271.6 million, an increase of 19.8%.

Net interest income for the year grew solidly as the Company benefited from a favorable interest rate environment as well as double digit growth in earning assets. For the year ended December 31, 2006, net interest income was \$69.9 million compared to \$52.6 million for 2005, an increase of 32.9%. The Company's net interest margin tightened slightly during the year to 4.25% from 4.31% in 2005.

Operating expenses grew during 2006 to \$53.1 million from \$43.6 million in 2005. This growth in operating expenses during 2006 relates primarily to the acquisition of FNB in December 2005 and to continued efforts to

expand sales and production staff in most of our markets. Despite the growth in operating expenses, the efficiency ratio improved during the year to 59.55% from 65.94% in 2005.

Ameris' credit quality improved substantially in 2006 due primarily to a reduction in problem loans acquired through mergers. Non-performing assets as a percentage of total loans at the end of 2006 were 0.61%, a decrease from the 0.90% reported at the end of 2005. For the year ended December 31, 2006, Ameris had net charge-offs of 0.10% compared to 0.03% in 2005. The Company's loan loss reserve as a percentage of loans fell to 1.72% at December 31, 2006 from 1.88% at December 31, 2005.

CRITICAL ACCOUNTING POLICIES

Ameris has established certain accounting and financial reporting policies to govern the application of accounting principles generally accepted in the United States of America in the preparation of our financial statements. Our significant accounting policies are described in the Notes to the Consolidated Financial Statements. Certain accounting policies involve significant judgments and assumptions by management which have a material impact on the carrying value of certain assets and liabilities; management considers these accounting policies to be critical accounting policies. The judgments and assumptions used by management are based on historical experience and other factors which are believed to be reasonable under the circumstances. Because of the nature of the judgments and assumptions made by management, actual results could differ from the judgments and estimates adopted by management which could have a material impact on the carrying values of assets and liabilities and the results of Ameris' operations. We believe the following accounting policies applied by Ameris represent critical accounting policies.

Allowance for Loan Losses

We believe the allowance for loan losses is a critical accounting policy that requires the most significant judgments and estimates used in the preparation of our consolidated financial statements. The allowance for loan losses represents management's estimate of probable loan losses inherent in the Company's loan portfolio. Calculation of the allowance for loan losses represents a critical accounting estimate due to the significant judgment, assumptions and estimates related to the amount and timing of estimated losses, consideration of current and historical trends and the amount and timing of cash flows related to impaired loans.

Management believes that the allowance for loan losses is adequate. While management uses available information to recognize losses on loans, future additions to the allowance for loan losses may be necessary based on changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination processes, periodically review the Company's allowance for loan losses. Such agencies may require the Company to recognize additions to the allowance for loan losses based on their judgments about information available to them at the time of their examination.

Considering current information and events regarding a borrower's ability to repay its obligations, management considers a loan to be impaired when the ultimate collectability of all amounts due, according to the contractual terms of the loan agreement, is in doubt. When a loan is considered to be impaired, the amount of impairment is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate. If the loan is collateral-dependent, the fair value of the collateral is used to determine the amount of impairment. Impairment losses are included in the allowance for loan losses through a charge to the provision for losses on loans.

Subsequent recoveries are credited to the allowance for loan losses. Cash receipts for accruing loans are applied to principal and interest under the contractual terms of the loan agreement. Cash receipts on impaired loans for which the accrual of interest has been discontinued are applied first to principal and then to interest income.

The accounting for impaired loans described above applies to all loans, except for large pools of smaller-balance, homogeneous loans that are collectively evaluated for impairment, loans that are measured at fair value or at the lower of cost or fair value and debt securities. The allowance for loan losses for large pools of smaller-balance, homogeneous loans is established through consideration of such factors as changes in the nature and volume of the

portfolio, overall portfolio quality, adequacy of the underlying collateral, loan concentrations, historical charge-off trends and economic conditions that may affect the borrowers' ability to pay.

Certain economic and interest rate factors could have a material impact on the determination of the allowance for loan losses. An increase in interest rates by the Federal Reserve would favorably impact our net interest margin. An improving economy could result in the expansion of businesses and creation of jobs which would positively affect Ameris' loan growth and improve our gross revenue stream. Conversely, certain factors could result from an expanding economy which could increase our credit costs and adversely impact our net earnings. A significant rapid rise in interest rates could create higher borrowing costs and shrinking corporate profits which could have a material impact on a borrower's ability to pay. We will continue to concentrate on maintaining a high quality loan portfolio through strict administration of our loan policy.

Another factor that we have considered in the determination of the allowance for loan losses is loan concentrations to individual borrowers or industries. At December 31, 2006, we had 26 credit relationships that exceeded \$5 million with the largest credit relationship being approximately \$12.5 million.

A substantial portion of our loan portfolio is in the commercial real estate and residential real estate sectors. Those loans are secured by real estate in Ameris' primary market area. A substantial portion of other real estate owned is located in those same markets. Therefore, the ultimate collectability of a substantial portion of our loan portfolio and the recovery of a substantial portion of the carrying amount of other real estate owned are susceptible to changes to market conditions in Ameris' primary market area.

Income Taxes

SFAS No. 109, *Accounting for Income Taxes*, requires the asset and liability approach for financial accounting and reporting for deferred income taxes. We use the asset and liability method of accounting for deferred income taxes and provide deferred income taxes for all significant income tax temporary differences. See Note 12 to the Notes to Consolidated Financial Statements for additional details.

As part of the process of preparing our consolidated financial statements we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves estimating our actual current tax exposure together with assessing temporary differences resulting from differing treatment of items, such as depreciation and the provision for loan losses, for tax and financial reporting purposes. These differences result in deferred tax assets and liabilities that are included in our consolidated balance sheet.

We must also assess the likelihood that our deferred tax assets will be recovered from future taxable income, and to the extent we believe that recovery is not likely, we must establish a valuation allowance. Significant management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets. To the extent we establish a valuation allowance or adjust this allowance in a period, we must include an expense within the tax provisions in the statement of income.

We have recorded on our consolidated balance sheet net deferred tax assets of \$6.0 million, which includes amounts relating to loss carryforwards. We believe there will be sufficient taxable income in the future to allow us to utilize these loss carryforwards in the tax jurisdictions where they exist.

Long-Lived Assets, Including Intangibles

In our financial statements, we have recorded \$60.5 million of goodwill and other intangible assets, which represents the amount by which the price we paid for acquired businesses exceeds the fair value of tangible assets acquired plus the liabilities assumed. We evaluate long-lived assets, such as property and equipment, specifically identifiable intangibles and goodwill, when events or changes in circumstances indicate that the carrying value of such assets might not be recoverable. Factors that could trigger impairment include significant underperformance

relative to historical or projected future operating results, significant changes in the manner of our use of the acquired assets and significant negative industry or economic trends.

The determination of whether impairment has occurred is based on an estimate of undiscounted cash flows attributable to the assets as compared to the carrying value of the assets. If impairment has occurred, the amount of the impairment loss recognized would be determined by estimating the fair value of the assets and recording a loss if the fair value was less than the book value.

In determining the existence of impairment factors, our assessment is based on market conditions, operational performance and legal factors of our Company. Our review of factors present and the resulting appropriate carrying value of our goodwill, intangibles and other long-lived assets are subject to judgments and estimates that management is required to make. Future events could cause us to conclude that impairment indicators exist and that our goodwill, intangibles and other long-lived assets might be impaired. In accordance with accounting rules promulgated by the Financial Accounting Standards Board (FASB), no amount of goodwill was expensed in 2006, 2005 or 2004.

NET INCOME AND EARNINGS PER SHARE

In 2006, we reported net income of \$22.1 million, or \$1.68 per diluted share, compared to \$13.7 million, or \$1.14 per diluted share in 2005 and \$13.1 million, or \$1.11 per diluted share, in 2004. Our return on average assets was 1.22%, 1.04% and 1.12% in 2006, 2005 and 2004, respectively. Our return on average stockholders' equity was 13.90%, 10.87% and 11.19% in 2006, 2005 and 2004, respectively.

EARNING ASSETS AND LIABILITIES

Average earning assets in 2006 increased 35.2% over 2005 levels principally due to the acquisition of FNB in December 2005. Additional growth from the Company's existing markets also continued at double digit levels for the second consecutive year. The earning asset and interest-bearing liability mix is consistently monitored to increase net interest margin and therefore increase profitability.

The following statistical information should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operation and the financial statements and related notes included elsewhere in this Annual Report and in the documents incorporated herein by reference.

The following tables set forth the amount of the our interest income or interest expense for each category of interest-earning assets and interest-bearing liabilities and the average interest rate for total interest-earning assets and total interest-bearing liabilities, net interest spread and net yield on average interest-earning assets. Federally tax-exempt income is presented on a taxable-equivalent basis assuming a 35% federal tax rate.

| | Year Ended December 31, | | | | | | | | |
|--------------------------|-------------------------|------------|---------|--------------|-----------|---------|--------------|-----------|-------|
| | 2006 | Average | | 2005 | Average | | 2004 | Average | |
| | Interest | Yield/ | | Interest | Yield/ | | Interest | Yield/ | |
| Average | Income/ | Rate Paid | | Income/ | Rate Paid | | Income/ | Rate Paid | |
| Balance | Expense | | Average | Expense | | Average | Expense | | |
| | | | Balance | | | Balance | | | |
| | | | | | | | | | |
| (Dollars in Thousands) | | | | | | | | | |
| ASSETS | | | | | | | | | |
| Interest-earning assets: | | | | | | | | | |
| Loans | \$ 1,308,405 | \$ 107,809 | 8.24% | \$ 952,647 | \$ 69,238 | 7.27% | \$ 855,205 | \$ 56,433 | 6.60% |
| Investment securities | 267,343 | 12,550 | 4.69 | 223,633 | 8,794 | 3.93 | 190,643 | 7,472 | 3.92 |
| Short-term assets | 72,183 | 3,843 | 5.32 | 42,884 | 1,591 | 3.71 | 31,782 | 547 | 1.72 |
| | | | | | | | | | |
| Total earning assets | 1,647,931 | 124,202 | 7.54 | 1,219,164 | 79,623 | 6.53 | 1,077,630 | 64,452 | 5.98 |
| | | | | | | | | | |
| Non-earning assets | 165,839 | | | 103,431 | | | 95,582 | | |
| | | | | | | | | | |
| Total assets | \$ 1,813,770 | | | \$ 1,322,595 | | | \$ 1,173,212 | | |

LIABILITIES AND STOCKHOLDERS' EQUITY

Interest-bearing liabilities:

| | | | | | | | | | |
|--|------------|-----------|-------|------------|----------|-------|------------|----------|-------|
| Savings and interest-bearing demand deposits | \$ 521,783 | \$ 11,397 | 2.18% | \$ 393,592 | \$ 4,013 | 1.02% | \$ 357,893 | \$ 2,604 | 0.73% |
| Time deposits | 773,089 | 34,202 | 4.42 | 498,036 | 15,016 | 3.02 | 406,467 | 8,702 | 2.14 |
| Other borrowings | 11,910 | 514 | 4.32 | 6,521 | 103 | 1.58 | 5,235 | 67 | 1.28 |
| FHLB advances | 91,119 | 4,246 | 4.66 | 100,456 | 4,296 | 4.28 | 110,977 | 4,496 | 4.05 |
| Trust preferred securities | 41,841 | 3,791 | 8.20 | 35,779 | 3,506 | 9.80 | 35,567 | 3,506 | 9.86 |

| | | | | | | | | | |
|------------------------------------|-----------|--------|------|-----------|--------|------|---------|--------|------|
| Total interest-bearing liabilities | 1,439,742 | 54,150 | 3.74 | 1,034,084 | 26,934 | 2.60 | 916,139 | 19,375 | 2.11 |
|------------------------------------|-----------|--------|------|-----------|--------|------|---------|--------|------|

| | | | | | | | | | |
|----------------------|---------|--|--|---------|--|--|---------|--|--|
| Demand deposits | 194,150 | | | 154,326 | | | 133,546 | | |
| Other liabilities | 20,684 | | | 7,895 | | | 6,463 | | |
| Stockholders' equity | 159,194 | | | 126,290 | | | 117,064 | | |

| | | | | | | | | | |
|--|--------------|--|--|--------------|--|--|--------------|--|--|
| Total liabilities and stockholders' equity | \$ 1,813,770 | | | \$ 1,322,595 | | | \$ 1,173,212 | | |
|--|--------------|--|--|--------------|--|--|--------------|--|--|

| | | | | | | | | | |
|----------------------|--|-------|--|--|--|-------|--|--|-------|
| Interest rate spread | | 3.80% | | | | 3.93% | | | 3.87% |
|----------------------|--|-------|--|--|--|-------|--|--|-------|

| | | | | | | | | | |
|---------------------|--|-----------|--|--|--|-----------|--|--|-----------|
| Net interest income | | \$ 70,052 | | | | \$ 52,689 | | | \$ 45,077 |
|---------------------|--|-----------|--|--|--|-----------|--|--|-----------|

| | | | | | | | | | |
|---------------------|--|-------|--|--|--|-------|--|--|-------|
| Net interest margin | | 4.25% | | | | 4.32% | | | 4.18% |
|---------------------|--|-------|--|--|--|-------|--|--|-------|

RESULTS OF OPERATIONS***Net Interest Income***

Net interest income represents the amount by which interest income on interest-bearing assets exceeds interest expense incurred on interest-bearing liabilities. Net interest income is the largest component of our income and is affected by the interest rate environment and the volume and composition of interest-earning assets and interest-bearing liabilities. Our interest-earning assets include loans, investment securities, interest-bearing deposits in banks and federal funds sold. Our interest-bearing liabilities include deposits, other short-term borrowings, FHLB advances and subordinated debentures.

2006 compared with 2005:

Interest income for the year ended December 31, 2006 was \$124.2 million, an increase of \$44.6 million, or 56.0%, compared to the same period in 2005. Average earning assets increased \$428.8 million, or 35.2%, to \$1.64 billion for the year ended December 31, 2006 compared to \$1.22 billion as of December 31, 2005. Yield on average earning assets on a taxable equivalent basis for 2006 increased to 7.54% from 6.53% and 5.98% for the years ended December 31, 2005 and 2004, respectively. The Company's increase in interest income is equally attributable to both an increase in average earning assets and a higher rate environment for most of 2006 than what was seen in previous years.

Interest expense on deposits and other borrowings for the year ended December 31, 2006 was \$54.2 million, a \$27.2 million increase from the year ended December 31, 2005. While average interest-bearing liabilities increased substantially, by \$405.7 million, the higher rate environment and, consequently, higher rates on those liabilities contributed to the higher level of interest expense. Rates on average interest-bearing liabilities increased to 3.74% from 2.60% and 2.11% as of December 31, 2005 and 2004, respectively. Our Company aggressively manages our cost of funds to achieve a balance between high levels of profitability and acceptable levels of growth.

Net interest income for 2006, on a taxable-equivalent basis, was \$70.1 million compared to \$52.7 million in 2005, an increase of 33.0%. The Company's net interest margin, on a tax equivalent basis, decreased slightly to 4.25% for the year ended December 31, 2006 compared to 4.32% as of December 31, 2005.

2005 compared with 2004:

Interest income for the year ended December 31, 2005 was \$79.6 million, an increase of \$15.1 million, or 23.6%, compared to \$64.3 million for the same period in 2004. Average earning assets increased \$141.2 million, or 13.13%, to \$1.22 billion for the year ended December 31, 2005 compared to \$1.08 billion as of December 31, 2004. Yield on average earning assets on a taxable equivalent basis increased 55 basis points to 6.53% from 5.98% for the years ended December 31, 2005 and 2004, respectively. The Company's increase in interest income is equally attributable to both an increase in average earning assets and the 200 basis point increase in the prime rate from December 2004 to December 2005.

Interest expense on deposits and other borrowings for the year ended December 31, 2005 was \$26.9 million, a \$7.6 million, or 39.0% increase from the year ended December 31, 2004. While average interest-bearing liabilities increased \$117.9 million, or 12.87%, to \$1.03 billion as of December 31, 2005 compared to \$916.1 million for the year ended December 31, 2004, the yield on average interest-bearing liabilities increased 49 basis points to 2.60% from 2.11% as of December 31, 2005 and 2004, respectively.

Net interest income for 2005, on a taxable-equivalent basis, was \$52.7 million compared to \$45.1 million in 2004, an increase of \$7.6 million or 16.89%. The increase was mainly attributable to the growth in the balance sheet. The Company's net interest margin, on a tax equivalent basis, increased to 4.32% for the year ended December 31, 2005 compared to 4.18% as of December 31, 2004.

| | Year Ended December 31, | | | | | |
|---|-------------------------|------------------------|--------------------------|------------------------|------------------------|--------------------------|
| | 2006 vs. 2005 | | | 2005 vs. 2004 | | |
| | Increase (Decrease) | Changes Due To Rate | Changes Due To Volume | Increase (Decrease) | Changes Due To Rate | Changes Due To Volume |
| | (Dollars in Thousands) | | | | | |
| Increase (decrease) in: | | | | | | |
| Income from earning assets: | | | | | | |
| Interest and fees on loans | \$ 38,321 | \$ 12,275 | \$ 26,046 | \$ 12,805 | \$ 6,375 | \$ 6,430 |
| Interest on securities: | 3,992 | 2,038 | 1,954 | 1,322 | 38 | 1,284 |
| Short-term assets | 2,259 | 1,165 | 1,094 | 1,044 | 855 | 189 |
| Total interest income | 44,572 | 15,478 | 29,094 | 15,171 | 7,268 | 7,903 |
| Expense from interest-bearing liabilities: | | | | | | |
| Interest on savings and interest- bearing demand deposits | 7,384 | 6,077 | 1,307 | 1,409 | 1,149 | 260 |
| Interest on time deposits | 19,186 | 10,879 | 8,307 | 6,314 | 4,354 | 1,960 |
| Interest on other borrowings | 411 | 335 | 76 | 36 | 20 | 16 |
| Interest on FHLB advances | (50) | 323 | (373) | (200) | 226 | (426) |
| Interest on trust preferred securities | 285 | (667) | 952 | | | |
| Total interest expense | 27,216 | 16,947 | 10,269 | 7,559 | 5,749 | 1,810 |
| Net interest income | \$ 17,356 | \$ (1,469) | \$ 18,825 | \$ 7,612 | \$ 1,519 | \$ 6,093 |

Provision for Loan Losses

The allowance for loan losses is a reserve established through charges to earnings in the form of a provision for loan losses. The provision for loan losses is based on management's evaluation of the size and composition of the loan portfolio, the level of non-performing and past due loans, historical trends of charged-off loans and recoveries, prevailing economic conditions and other factors management deems appropriate. As these factors change, the level of loan loss provision changes. Our provision for loan losses totaled \$2.8 million in 2006, \$1.7 million in 2005 and \$1.8 million in 2004. The allowance for loan losses represented 1.72%, 1.88% and 1.77% of total loans outstanding at December 31, 2006, 2005 and 2004, respectively. The increase in the provision expense during 2006 is primarily the result of growth in the Company's loan portfolio. Stable levels of provision in 2005 and 2004 reflect varying degrees of credit improvement, loan loss recoveries and loan portfolio growth. The increase in the allowance for loan losses to total loans outstanding in 2005 relates primarily to the assumption of several larger

problem loans in the acquisition of FNB. The Company's levels of reserves returned closer to its historical levels during 2006 as these loans were successfully worked off the Company's balance sheet.

Non-interest income

Following is a comparison of non-interest income for 2006, 2005 and 2004.

| | Years Ended December 31, | | |
|---|--------------------------|-----------|-----------|
| | 2006 | 2005 | 2004 |
| | (Dollars in Thousands) | | |
| Service charges on deposit accounts | \$ 11,538 | \$ 10,428 | \$ 10,210 |
| Other service charges, commissions and fees | 997 | 926 | 737 |
| Mortgage origination fees | 2,208 | 1,614 | 1,427 |
| Gain (loss) on sale of securities | (308) | (391) | |
| Other income | 4,827 | 953 | 649 |
| | \$ 19,262 | \$ 13,530 | \$ 13,023 |

2006 compared with 2005:

Total non-interest income during 2006 increased substantially to \$19.3 million, an increase of 42.4% over 2005 levels. Service charges on deposit accounts increased by 10.6% during 2006 to \$11.5 million as the Company experienced strong increases in demand deposits and sought to maximize this area of income with certain changes to its deposit account fee structure. Mortgage fees increased by 36.8% during 2006 to \$2.2 million as the Company expanded its mortgage production staff in most of its geographic footprint. Other income during 2006 includes \$3.1 million of gains recognized from the Company's successful efforts to sell three banking charters to unrelated parties.

2005 compared with 2004:

For 2005, non-interest income totaled \$13.5 million, an increase of \$.51 million over non-interest income of \$13.0 million in 2004, which represented a 3.89% increase. The growth in fee income of \$407,000 in 2005 compared to 2004 was primarily attributable to the growth in demand deposit accounts. During the fourth quarter of 2004, the Company sold securities at a loss of \$391,000 as part of an ongoing strategic long term plan of restructuring the investment portfolio to help minimize the potential reduction in earnings or capital caused by changes in interest rates. The increase in non-interest income without the non-recurring securities loss was \$898,000 from 2004 to 2005 which represents a 6.90% increase. Other income increased \$304,000 from 2004 to 2005. The Company recorded approximately \$127,000 in OREO losses in 2004.

Non-interest expense

Following is a comparison of non-interest expense for 2006, 2005 and 2004.

| | Years Ended December 31, | | |
|-----------------------------------|--------------------------|-----------|-----------|
| | 2006 | 2005 | 2004 |
| | (Dollars in Thousands) | | |
| Salaries and employee benefits | \$ 27,043 | \$ 22,483 | \$ 20,893 |
| Equipment and occupancy | 6,836 | 4,931 | 4,770 |
| Amortization of intangible assets | 1,107 | 819 | 789 |
| Data processing fees | 2,136 | 1,899 | 1,680 |
| Business restructuring | 1,452 | 2,838 | |
| Other expense | 14,555 | 10,637 | 8,373 |
| | \$ 53,129 | \$ 43,607 | \$ 36,505 |

2006 compared with 2005:

Non-interest expense increased during 2006 largely as a result of the FNB acquisition. Expenses for these two banks were not included in our results for 2005 as the acquisition was consummated at the end of the year. The assets assumed in this acquisition amounted to approximately 18.5% of our total assets at the end of 2005. In addition to the necessary costs assumed with this acquisition, the Company's level of operating costs has been influenced by the need to renovate several existing offices and efforts to hire talented bankers when the opportunity exists.

Business restructuring costs of \$1.5 million in 2006 relate to the restructuring announced during 2005. Additional costs were necessary as the Company began to streamline its support functions and finalize its efforts to create a single bank with a uniform and recognizable brand.

2005 compared with 2004:

Noninterest expense for 2005 was \$7.1 million, or 19.45%, higher compared to 2004. In 2005 we recorded a business restructuring charge of \$2.8 million related to the Company's corporate restructuring plan and re-branding efforts to consolidate and streamline the Company's operations.

Excluding the above nonrecurring expense, noninterest expense increased \$4.3 million, or 11.68%, over 2004. The majority of the increase in 2005 was related to salaries and employee benefits. In compliance with the requirements of FASB Statement No. 91, Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases, we allocated \$3.5 million of salaries to loan costs in 2005. After adjusting salaries and benefits for amounts allocated to loan costs, total salaries and benefits increased \$2.1 million or 8.82% to \$25.9 million in 2005 compared with \$23.8 million in 2004. These increases are due to the acquisition of Citizens in November 2004 as well as general staffing increases concurrent with the expansion of business in some of our markets. At December 31, 2005, total full-time equivalent employees were approximately 585.

Income Taxes:

Federal income tax expense is influenced by the amount of taxable income, the amount of tax-exempt income and the amount of non-deductible expenses. Income taxes totaled \$11.1 million, \$7.1 million and \$6.6 million in 2006, 2005 and 2004, respectively. The Company's effective tax rate was 33% for 2006 and 34% for the years ended December 31, 2005 and 2004.

LOANS

Management believes that our loan portfolio is adequately diversified. The loan portfolio contains no foreign or energy-related loans or significant concentrations in any one industry, with the exception of residential and commercial real estate mortgages, which constituted approximately 51.1% of our loan portfolio as of December 31, 2006. The amount of loans outstanding at the indicated dates is shown in the following table according to type of loans.

| | 2006 | 2005 | December 31, 2004 | 2003 | 2002 |
|---------------------------------------|------------------------|---------------------|----------------------|-------------------|-------------------|
| | (Dollars in Thousands) | | | | |
| Commercial and financial | \$ 174,852 | \$ 152,715 | \$ 136,229 | \$ 157,594 | \$ 172,429 |
| Agricultural | 33,980 | 30,437 | 28,198 | 22,051 | 34,007 |
| Real estate - construction | 340,325 | 224,230 | 94,043 | 60,978 | 23,020 |
| Real estate - mortgage, farmland | 91,650 | 74,023 | 64,245 | 65,433 | 63,093 |
| Real estate - mortgage, commercial | 397,837 | 321,443 | 253,001 | 250,247 | 243,037 |
| Real estate - mortgage, residential | 339,843 | 317,593 | 235,431 | 209,172 | 209,485 |
| Consumer installment loans | 59,422 | 62,508 | 60,884 | 68,230 | 78,535 |
| Other | 5,042 | 3,652 | 5,043 | 6,834 | 9,841 |
| | 1,442,951 | 1,186,601 | 877,074 | 840,539 | 833,447 |
| Less reserve for possible loan losses | 24,863 | 22,294 | 15,493 | 14,963 | 14,868 |
| Loans, net | \$ 1,418,088 | \$ 1,164,307 | \$ 861,581 | \$ 825,576 | \$ 818,579 |

Total loans as of December 31, 2006 are shown in the following table according to maturity or repricing opportunities: (1) one year or less, (2) after one year through five years and (3) after five years.

| | (Dollars in Thousands) |
|--------------------------------------|---------------------------|
| Maturity or Repricing Within: | |
| One year or less | \$ 1,014,445 |
| After one year through five years | 382,892 |
| After five years | 45,614 |
| | \$ 1,442,951 |

The following table summarizes loans at December 31, 2006 with the due dates after one year which (1) have predetermined interest rates and (2) have floating or adjustable interest rates.

| | (Dollars in Thousands) |
|---------------------------------------|---------------------------|
| Predetermined interest rates | \$ 417,796 |
| Floating or adjustable interest rates | 382,112 |
| | \$ 799,908 |

Records were not available to present the above information in each category listed in the first paragraph above and could not be reconstructed without undue burden.

ALLOWANCE AND PROVISION FOR LOAN LOSSES

The allowance for loan losses represents a reserve for inherent losses in the loan portfolio. The adequacy of the allowance for loan losses is evaluated periodically based on a review of all significant loans, with a particular emphasis on non-accruing, past due and other loans that management believes might be potentially impaired or warrant additional attention. We segregate our loan portfolio by type of loan and utilize this segregation in evaluating exposure to risks within the portfolio. In addition, based on internal reviews and external reviews performed by independent auditors and regulatory authorities, we further segregate our loan portfolio by loan grades based on an assessment of risk for a particular loan or group of loans. Certain reviewed loans are assigned specific allowances when a review of relevant data determines that a general allocation is not sufficient or when the review affords management the opportunity to fine tune the amount of exposure in a given credit. In establishing allowances, management considers historical loan loss experience but adjusts this data with a significant emphasis on data such as current loan quality trends, current economic conditions and other factors in the markets where the Bank operates. Factors considered include among others, current valuations of real estate in our markets, unemployment rates, the effect of weather conditions on agricultural related entities and other significant local economic events, such as major plant closings.

We have developed a methodology for determining the adequacy of the loan loss reserve which is monitored by the Company's Senior Credit Officer and internal audit staff. Procedures provide for the assignment of a risk rating for every loan included in our total loan portfolio, with the exception of credit card receivables and overdraft protection loans which are treated as pools for risk rating purposes. The risk rating schedule provides eight ratings of which four ratings are classified as pass ratings and four ratings are classified as criticized ratings. Each risk rating is assigned a percent factor to be applied to the loan balance to determine the adequate amount of reserve. Many of

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the larger loans require an annual review by an independent loan officer and are often reviewed by independent third parties. As a result of these loan reviews, certain loans may be assigned specific reserve allocations. Other loans that surface as problem loans may also be assigned specific reserves. Past due loans are assigned risk ratings based on the number of days past due. Risk ratings are subject to periodic review by internal and external loan review staff.

The following table sets forth the breakdown of the allowance for loan losses by loan category for the periods indicated. Management believes the allowance can be allocated only on an approximate basis. The allocation of the allowance to each category is not necessarily indicative of future losses and does not restrict the use of the allowance to absorb losses in any other category.

| | 2006 | | 2005 | | At December 31, 2004 (Dollars in Thousands) | | 2003 | | 2002 | |
|--|------------------|------------------------|------------------|------------------------|---|------------------------|------------------|------------------------|------------------|------------------------|
| | Amount | % of Total Loans | Amount | % of Total Loans | Amount | % of Total Loans | Amount | % of Total Loans | Amount | % of Total Loans |
| Commercial, financial, industrial and agricultural | \$ 3,792 | 13% | \$ 4,215 | 14% | \$ 3,030 | 16% | \$ 2,332 | 16% | \$ 2,745 | 19% |
| Commercial R/E | 12,976 | 55 | 11,354 | 54 | 7,344 | 51 | 7,857 | 50 | 7,307 | 45 |
| Total Commercial | 16,768 | 68 | 15,569 | 68 | 10,374 | 67 | 10,189 | 66 | 10,052 | 64 |
| Residential R/E | 2,325 | 10 | 2,585 | 12 | 1,986 | 14 | 2,180 | 16 | 2,296 | 17 |
| Agricultural R/E | 1,331 | 6 | 1,359 | 7 | 970 | 7 | 884 | 7 | 968 | 7 |
| Construction | 3,293 | 11 | 1,270 | 6 | 553 | 4 | 364 | 3 | 204 | 2 |
| Consumer Installment | 1,146 | 5 | 1,511 | 7 | 1,610 | 8 | 1,346 | 8 | 1,348 | 10 |
| | \$ 24,863 | 100% | \$ 22,294 | 100% | \$ 15,493 | 100% | \$ 14,963 | 100% | \$ 14,868 | 100% |

The following table presents an analysis of our loan loss experience for the periods indicated:

| | 2006 | 2005 | December 31, 2004 (Dollars in Thousands) | 2003 | 2002 |
|--|------------|------------|--|------------|------------|
| Average amount of loans outstanding | \$ 952,647 | \$ 952,647 | \$ 855,205 | \$ 841,857 | \$ 827,939 |
| Balance of reserve for possible loan losses at beginning of period | \$ 22,294 | \$ 15,493 | \$ 14,963 | \$ 14,868 | \$ 14,944 |
| Charge-offs: | | | | | |
| Commercial, financial and agricultural | (1,726) | (649) | (1,639) | (3,114) | (2,576) |
| Real estate | (1,444) | (543) | (382) | (781) | (2,491) |
| Consumer | (967) | (963) | (1,555) | (1,443) | (2,092) |
| Recoveries: | | | | | |
| Commercial, financial and agricultural | 1,595 | 601 | 464 | 963 | 502 |
| Real estate | 745 | 644 | 483 | 46 | 492 |
| Consumer | 505 | 532 | 718 | 479 | 515 |
| Net charge-offs | (1,292) | (378) | (1,911) | (3,850) | (5,650) |
| Additions to reserve charged to operating expenses | 2,837 | 1,651 | 1,786 | 3,945 | 5,574 |
| Allowance for loan losses of acquired subsidiary | 1,024 | 5,528 | 655 | | |
| Balance of reserve for possible loan losses at end of period | \$ 24,863 | \$ 22,294 | \$ 15,493 | \$ 14,963 | \$ 14,868 |

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| | | | | | |
|--|--------------|-------|-------|-------|-------|
| Ratio of net loan charge-offs to average loans | 0.10% | 0.04% | 0.22% | 0.46% | 0.68% |
|--|--------------|-------|-------|-------|-------|

NONPERFORMING LOANS

A loan is placed on non-accrual status when, in management's judgment, the collection of the interest income appears doubtful. Interest receivable that has been accrued in prior years and is subsequently determined to have doubtful collectibility is charged to the allowance for possible loan losses. Interest on loans that are classified as non-accrual is recognized when received. Past due loans are loans whose principal or interest is past due 90 days or more. In some cases, where borrowers are experiencing financial difficulties, loans may be restructured to provide terms significantly different from the original contractual terms.

| | 2006 | 2005 | December 31, 2004 | 2003 | 2002 |
|---|------------------------|----------|----------------------|----------|----------|
| | (Dollars in Thousands) | | | | |
| Loans accounted for on a non-accrual basis | \$ 6,877 | \$ 9,586 | \$ 5,640 | \$ 6,472 | \$ 7,561 |
| Installment loans and term loans contractually past due ninety days or more as to interest or principal payments and still accruing | | | 44 | 25 | 171 |

Loans, the terms of which have been renegotiated to provide a reduction or deferral of interest or principal because of deterioration in the financial position of the borrower

Loans now current about which there are serious doubts as to the ability of the borrower to comply with present loan repayment terms

In the opinion of management, any loans classified by regulatory authorities as doubtful, substandard or special mention that have not been disclosed above do not (i) represent or result from trends or uncertainties which management reasonably expects will materially impact future operating results, liquidity or capital resources, or (ii) represent material credits about which management is aware of any information which causes management to have serious doubts as to the ability of such borrowers to comply with the loan repayment terms. Any loans classified by regulatory authorities as loss have been charged off.

LIQUIDITY AND RATE SENSITIVITY

Liquidity management involves the matching of the cash flow requirements of customers, who may be either depositors desiring to withdraw funds or borrowers needing assurance that sufficient funds will be available to meet their credit needs, and the ability of our Company to meet those needs. We seek to meet liquidity requirements primarily through management of short-term investments (principally interest-bearing deposits in banks) and monthly amortizing loans. Another source of liquidity is the repayment of maturing single payment loans. In addition, our Company maintains relationships with correspondent banks which could provide funds to them on short notice, if needed.

A principal objective of our asset/liability management strategy is to minimize its exposure to changes in interest rates by matching the maturity and repricing horizons of interest-earning assets and interest-bearing liabilities. This strategy is overseen in part through the direction of our Asset and Liability Committee (the ALCO Committee) which establishes policies and monitors results to control interest rate sensitivity.

As part of our interest rate risk management policy, the ALCO Committee examines the extent to which its assets and liabilities are interest rate sensitive and monitors its interest rate-sensitivity gap. An asset or liability is considered to be interest rate sensitive if it will reprice or mature within the time period analyzed, usually one year or less. The interest rate-sensitivity gap is the difference between the interest-earning assets and interest-bearing liabilities scheduled to mature or reprice within such time period. A gap is considered positive when the amount of interest rate-sensitive assets exceeds the amount of interest rate-sensitive liabilities. A gap is considered negative when the amount of interest rate-sensitive liabilities exceeds the interest rate-sensitive assets. During a period of rising interest rates, a negative gap would tend to adversely affect net interest income, while a positive gap would tend to result in an increase in net interest income. During a period of falling interest rates, a negative gap would tend to result in an increase in net interest income, while a positive gap would tend to adversely affect net interest income. If our assets and liabilities were equally flexible and moved concurrently, the impact of any increase or decrease in interest rates on net interest income would be minimal.

A simple interest rate gap analysis by itself may not be an accurate indicator of how net interest income will be affected by changes in interest rates. Accordingly, the ALCO Committee also evaluates how the repayment of particular assets and liabilities is impacted by changes in interest rates. Income associated with interest-earning assets and costs associated with interest-bearing liabilities may not be affected uniformly by changes in interest rates. In addition, the magnitude and duration of changes in interest rates may have a significant impact on net interest income. For example, although certain assets and liabilities may have similar maturities or periods of repricing, they may not react identically to changes in market interest rates. Interest rates on certain types of assets and liabilities fluctuate in advance of changes in general market interest rates, while interest rates on other types may lag behind changes in general market rates. In addition, certain assets, such as adjustable rate mortgage loans, have features (generally referred to as interest rate caps) which limit changes in interest rates on a short-term basis and over the life of the asset. In the event of a change in interest rates, prepayment and early withdrawal levels also could deviate significantly from those assumed in calculating the interest rate gap. The ability of many borrowers to service their debts also may decrease in the event of an interest rate increase.

The following table sets forth the distribution of the repricing of our earning assets and interest-bearing liabilities as of December 31, 2006, the interest rate sensitivity gap (i.e., interest rate sensitive assets divided by interest rate sensitivity liabilities), the cumulative interest rate sensitivity gap ratio (i.e., interest rate sensitive assets divided by interest rate sensitive liabilities) and the cumulative sensitivity gap ratio. The table also sets forth the time periods in which earning assets and liabilities will mature or may reprice in accordance with their contractual terms. However, the table does not necessarily indicate the impact of general interest rate movements on the net interest margin since the repricing of various categories of assets and liabilities is subject to competitive pressures and the needs of our customers. In addition, various assets and liabilities indicated as repricing within the same period may in fact reprice at different times within such period and at different rates.

| | At December 31, 2006 | | | | |
|---|------------------------------|--------------------------------|-------------------------|-----------------------|------------|
| | Maturing or Repricing Within | | | | |
| | Zero to Three Months | Three Months to One Year | One to Five Years | Over Five Years | Total |
| (Dollars in Thousands) | | | | | |
| Earning assets: | | | | | |
| Short-term assets | \$ 135,232 | \$ | \$ | \$ | \$ 135,232 |
| Investment securities | 4,026 | 12,560 | 217,428 | 49,178 | 283,192 |
| Loans | 865,824 | 148,621 | 382,892 | 45,614 | 1,442,951 |
| | 1,005,082 | 161,181 | 600,320 | 94,792 | 1,861,375 |
| Interest-bearing liabilities: | | | | | |
| Interest-bearing demand deposits | 545,564 | | | | 545,564 |
| Savings | 63,255 | | | | 63,255 |
| Time deposits | 194,516 | 581,376 | 103,860 | | 879,752 |
| Other borrowings | 21,024 | | | | 21,024 |
| FHLB advances | 65,000 | | 5,500 | | 70,500 |
| Trust preferred securities | 42,269 | | | | 42,269 |
| | 931,628 | 581,376 | 109,360 | | 1,622,364 |
| Interest rate sensitivity gap | \$ 73,454 | \$ (420,195) | \$ 490,960 | \$ 94,792 | \$ 239,011 |
| Cumulative interest rate sensitivity gap | \$ 73,454 | \$ (346,741) | \$ 144,219 | \$ 239,011 | |

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| | | | | |
|---|------|------|------|------|
| Interest rate sensitivity gap ratio | 1.08 | 0.27 | 5.49 | N/A |
| Cumulative interest rate sensitivity gap ratio | 1.08 | 0.77 | 1.09 | 1.12 |

INVESTMENT PORTFOLIO

We manage the mix of asset and liability maturities in an effort to control the effects of changes in the general level of interest rates on net interest income. Except for its effect on the general level of interest rates, inflation does not have a material impact on the portfolio due to the rate variability and short-term maturities of its earning assets. In particular, approximately 70.3% of the loan portfolio is comprised of loans which mature or reprice within one year or less. Mortgage loans, primarily with five to fifteen year maturities, are also made on a variable rate basis with rates being adjusted every one to five years. Additionally, 3.8% of the investment portfolio matures or reprices within one year or less.

Following is a summary of the carrying value of investments, including restricted equity securities, as of the end of each reported period:

| | 2006 | December 31, 2005 | 2004 |
|--|------------------------|----------------------|-------------------|
| | (Dollars in Thousands) | | |
| U. S. Government and agency securities | \$ 101,863 | \$ 92,461 | \$ 78,227 |
| State and municipal securities | 18,934 | 7,968 | 4,212 |
| Corporate debt securities | 9,829 | 7,113 | 18,131 |
| Mortgage-backed securities | 151,818 | 126,870 | 112,640 |
| Marketable equity securities | 748 | 733 | 738 |
| Restricted equity securities | 7,015 | 8,597 | 7,793 |
| | \$ 290,207 | \$ 243,742 | \$ 221,741 |

The amounts of securities available for sale in each category as of December 31, 2006 are shown in the following table according to contractual maturity classifications: (1) one year or less, (2) after one year through five years, (3) after five years through ten years and (4) after ten years.

| | U. S. Treasury and Other U. S. Government Agencies and Corporations | | State and Political Subdivisions | |
|------------------------------------|--|--------------|-------------------------------------|---------------|
| | Amount | Yield (1) | Amount | Yield (1) (2) |
| | (Dollars in Thousands) | | | |
| Maturity: | | | | |
| One year or less | \$ 9,754 | 4.51% | \$ 912 | 4.31% |
| After one year through five years | 171,948 | 4.45 | 4,401 | 5.30 |
| After five years through ten years | 70,344 | 5.95 | 13,111 | 5.46 |
| After ten years | 12,213 | 4.70 | 510 | 5.51 |
| | \$ 264,259 | 4.86% | \$ 18,934 | 5.37% |

- (1) Yields were computed using coupon interest, adding discount accretion or subtracting premium amortization, as appropriate, on a ratable basis over the life of each security. The weighted average yield for each maturity range was computed using the acquisition price of each security in that range.
- (2) Yields on securities of state and political subdivisions are stated on a taxable-equivalent basis, using a tax rate of 35%.

DEPOSITS

Average amount of deposits and average rate paid thereon, classified as to noninterest-bearing demand deposits, interest-bearing demand and savings deposits and time deposits, for the periods indicated are presented below.

| | Year Ended December 31, | | 2005 | |
|--|-------------------------|------|--------------|------|
| | 2006 | Rate | Amount | Rate |
| | Amount | | Amount | |
| (Dollars in Thousands) | | | | |
| Noninterest-bearing demand deposits | \$ 194,150 | % | \$ 154,326 | % |
| Interest-bearing demand and savings deposits | 521,783 | 2.18 | 393,594 | 1.02 |
| Time deposits | 773,089 | 4.42 | 498,036 | 3.02 |
| Total deposits | \$ 1,489,022 | | \$ 1,045,956 | |

We have a large, stable base of time deposits with little or no dependence on volatile deposits of \$100,000 or more. The time deposits are principally certificates of deposit and individual retirement accounts obtained for individual customers.

The amounts of time certificates of deposit issued in amounts of \$100,000 or more as of December 31, 2006, are shown below by category, which is based on time remaining until maturity of (1) three months or less, (2) over three through twelve months and (3) over twelve months.

| | (Dollars in Thousands) |
|----------------------------------|---------------------------|
| Three months or less | \$ 110,316 |
| Over three through twelve months | 329,402 |
| Over twelve months | 62,182 |
| Total | \$ 501,900 |

OFF-BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS

In the ordinary course of business, our Bank has granted commitments to extend credit to approved customers. Generally, these commitments to extend credit have been granted on a temporary basis for seasonal or inventory requirements and have been approved by the Bank's local boards. Our Bank has also granted commitments to approved customers for standby letters of credit. These commitments are recorded in the financial statements when funds are disbursed or the financial instruments become payable. The Bank uses the same credit policies for these off-balance sheet commitments as it does for financial instruments that are recorded in the consolidated financial statements. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitment amounts expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

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Following is a summary of the commitments outstanding at December 31, 2006 and 2005.

| | December 31, 2006 | 2005 |
|-------------------------------------|------------------------|-------------------|
| | (Dollars in Thousands) | |
| Commitments to extend credit | \$ 197,435 | \$ 184,265 |
| Financial standby letters of credit | 6,139 | 5,741 |
| | \$ 203,574 | \$ 190,006 |

The following table summarizes short-term borrowings for the periods indicated:

| | 2006 | | Years Ended December 31, 2005 | | 2004 | |
|--|--------------------------|-----------------|----------------------------------|-----------------|--------------------------|-----------------|
| | Average Balance | Average Rate | Average Balance | Average Rate | Average Balance | Average Rate |
| Federal funds purchased and securities sold under agreement to repurchase | \$ 6,910 | 2.68% | \$ 6,521 | 1.58% | \$ 5,235 | 1.28% |
| | Total Balance | | Total Balance | | Total Balance | |
| Total maximum short-term borrowings outstanding at any month-end during the year | \$ 16,024 | | \$ 15,545 | | \$ 14,205 | |

The following table sets forth certain information about contractual cash obligations as of December 31, 2006.

| | Payments Due After December 31, 2006 | | | | |
|------------------------------------|--------------------------------------|------------|------------|-----------|-----------|
| | | 1 Year | 1 -3 | 4 -5 | After 5 |
| | Total | Or Less | Years | Years | Years |
| | (Dollars in Thousands) | | | | |
| Short-term borrowings | \$ 15,933 | \$ 15,933 | \$ | \$ | \$ |
| Time certificates of deposit | 879,752 | 774,142 | 90,892 | 14,718 | |
| Long-term debt | 5,000 | 5,000 | | | |
| Federal Home Loan Bank advances | 70,500 | | 70,500 | | |
| Subordinated debentures | 42,269 | | | | 42,269 |
| Total contractual cash obligations | \$ 1,013,454 | \$ 795,075 | \$ 161,392 | \$ 14,718 | \$ 42,269 |

Our operating leases represent short-term obligations, normally with maturities of one year or less. Many of the operating leases have thirty-day cancellation provisions. The total contractual obligations for operating leases do not require a material amount of our cash funds.

At December 31, 2006 we had immaterial amounts of binding commitments for capital expenditures.

CAPITAL ADEQUACY

The capital resources of our Company are monitored on a periodic basis by state and federal regulatory authorities. During 2006, we increased our capital by retaining net earnings of \$14.8 million after payment of dividends. In addition, we issued approximately \$13.9 million of common stock in conjunction with the acquisition of Islands. Other capital related transactions, such as the issuance and exercise of stock options and restricted stock, changes in unrealized losses on investment securities and repurchase of treasury shares combined to account for only a small

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change in the capital of the Company.

In accordance with risk capital guidelines issued by the Federal Reserve, we are required to maintain a minimum standard of total capital to risk-weighted assets of 8%. Additionally, all member banks must maintain core or Tier 1 capital of at least 4% of total assets (leverage ratio). Member banks operating at or near the 4% capital level are expected to have well-diversified risks, including no undue interest rate risk exposure, excellent control systems, good earnings, high asset quality and well managed on- and off-balance sheet activities, and, in general, be considered strong banking organizations with a composite 1 rating under the CAMEL rating system of banks. For

all but the most highly rated banks meeting the above conditions, the minimum leverage ratio is to be 4% plus an additional 1% to 2%.

The following table summarizes the regulatory capital levels of Ameris at December 31, 2006.

| | Actual | | Required | | Excess | |
|---------------------|------------------------|---------|-----------|---------|-----------|---------|
| | Amount | Percent | Amount | Percent | Amount | Percent |
| | (Dollars in Thousands) | | | | | |
| Leverage capital | \$ 161,797 | 8.58% | \$ 75,452 | 4.00% | \$ 86,345 | 4.58% |
| Risk-based capital: | | | | | | |
| Core capital | 161,797 | 10.67 | 60,653 | 4.00 | 101,144 | 6.67 |
| Total capital | 180,676 | 11.92 | 121,305 | 8.00 | 59,371 | 3.92 |

INFLATION

The consolidated financial statements and related consolidated financial data presented herein have been prepared in accordance with generally accepted accounting principles and practices within the banking industry which require the measurement of financial position and operating results in terms of historical dollars without considering the changes in the relative purchasing power of money over time due to inflation. Unlike most industrial companies, virtually all the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates have a more significant impact on a financial institution's performance than the effects of general levels of inflation.

QUARTERLY FINANCIAL INFORMATION (Unaudited)

The following table sets forth certain consolidated quarterly financial information of the Company. This information is derived from unaudited consolidated financial statements, which include, in the opinion of management, all normal recurring adjustments which management considers necessary for a fair presentation of the results for such periods.

| | | Quarters Ended December 31, 2006 | | | |
|---------------------------------|---------|---|-----------|-----------|-----------|
| | | 4 | 3 | 2 | 1 |
| | | (Dollars in Thousands, Except Per Share Data) | | | |
| Selected Income Statement Data: | | | | | |
| Interest income | | \$ 34,524 | \$ 32,624 | \$ 29,822 | \$ 27,141 |
| Net interest income | | 17,999 | 17,897 | 17,673 | 16,392 |
| Net income | | 5,759 | 5,954 | 5,315 | 5,100 |
| Per Share Data: | | | | | |
| Net income | basic | 0.44 | 0.46 | 0.41 | 0.39 |
| Net income | diluted | 0.43 | 0.45 | 0.40 | 0.39 |
| Dividends | | 0.14 | 0.14 | 0.14 | 0.14 |

| | | Quarters Ended December 31, 2005 | | | |
|---------------------------------|---------|---|-----------|-----------|-----------|
| | | 4 | 3 | 2 | 1 |
| | | (Dollars in Thousands, Except Per Share Data) | | | |
| Selected Income Statement Data: | | | | | |
| Interest income | | \$ 22,892 | \$ 20,494 | \$ 18,595 | \$ 17,558 |
| Net interest income | | 14,601 | 13,312 | 12,569 | 12,123 |
| Net income | | 2,723 | 3,905 | 3,500 | 3,600 |
| Per Share Data: | | | | | |
| Net income | basic | 0.22 | 0.33 | 0.29 | 0.31 |
| Net income | diluted | 0.22 | 0.33 | 0.29 | 0.30 |
| Dividends | | 0.14 | 0.14 | 0.14 | 0.14 |

ITEM 9A. CONTROLS AND PROCEDURES**Disclosure Controls and Procedures**

The Company's Chief Executive Officer and Chief Financial Officer have evaluated the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) or 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of the end of the period covered by this Annual Report, as required by paragraph (b) of Rules 13a-15 or 15d-15 of the Exchange Act. Based on such evaluation, such officers have concluded that, as of the end of the period covered by this Annual Report, the Company's disclosure controls and procedures are effective.

Subsequent to our filing of the Original Report, the Staff of the Securities and Exchange Commission identified an inconsistency in our tabular presentation of the allocation of the allowance for loan losses. The tabular presentation in 2006 used a different process to allocate the allowance across certain loan types than had been used in previous years. Management failed to change the information related to prior years to provide a consistent presentation and as such, the original table was misleading to readers. A corrected table is presented in this Amendment.

Management believes that this weakness in internal controls over financial reporting is a control deficiency and has diligently reviewed the Company's financial reporting and the related internal controls in place for the year ending 2006 and subsequent periods. These reviews have not identified any misstatements or errors nor have other weaknesses or control deficiencies been detected. The inconsistency related to the tabular presentation and the weaknesses in the internal controls that failed to detect the inconsistency appears to be an isolated case. Based on the reviews, management believes that the original certifications concerning the effectiveness of our internal controls over financial reporting are still appropriate.

Management's Annual Report on Internal Control Over Financial Reporting

The management of Ameris Bancorp is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. The company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the company's internal control over financial reporting as of December 31, 2006. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework*. Based

on this assessment and those criteria, management believes that the company maintained effective internal control over financial reporting as of December 31, 2006.

Mauldin & Jenkins, Certified Public Accountants, LLC (Mauldin & Jenkins), the Company's independent auditors, has issued an attestation report on management's assessment of the Company's internal control over financial reporting. That report is included in this Item under the heading Report of Independent Registered Public Accounting Firm.

Changes in Internal Control Over Financial Reporting

During the quarter ended December 31, 2006, there was not any change in the Company's internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rules 13a-15 or 15d-15 of the Exchange Act that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Report of Independent Registered Public Accounting Firm

To the Board of Directors

Ameris Bancorp

Moultrie, Georgia

We have audited management's assessment, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting, that Ameris Bancorp and its subsidiaries maintained effective internal control over financial reporting as of December 31, 2006, based on criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework*. Ameris Bancorp's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Ameris Bancorp and its subsidiaries maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on criteria established in *Internal Control-Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, Ameris Bancorp and its subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal*

Control-Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the financial position of Ameris Bancorp and its subsidiaries as of December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006, and our report dated February 26, 2007 expressed an unqualified opinion.

/s/ Mauldin & Jenkins, LLC

Albany, Georgia
February 26, 2007

SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report on Form 10-K/A to be signed on its behalf by the undersigned, thereunto duly authorized.

AMERIS BANCORP

Date: November 21, 2007

By: /s/ Dennis J. Zember Jr.

Dennis J. Zember Jr., Executive Vice President and Chief Financial Officer

EXHIBIT INDEX

| Exhibit No. | Description |
|--------------------|---|
| 3.1 | Articles of Incorporation of Ameris Bancorp, as amended (incorporated by reference to Exhibit 2.1 to Ameris Bancorp's Regulation A Offering Statement on Form 1-A filed August 14, 1987). |
| 3.2 | Amendment to Amended Articles of Incorporation (incorporated by reference to Exhibit 3.1.1 to Ameris Bancorp's Form 10-K filed March 28, 1996). |
| 3.3 | Amendment to Amended Articles of Incorporation (incorporated by reference to Exhibit 4.3 to Ameris Bancorp's Registration Statement on Form S-4 filed with the Commission on July 17, 1996). |
| 3.4 | Articles of Amendment to the Articles of Incorporation (incorporated by reference to Exhibit 3.5 to Ameris Bancorp's Annual Report on Form 10-K filed with the Commission on March 25, 1998). |
| 3.5 | Articles of Amendment to the Articles of Incorporation (incorporated by reference to Exhibit 3.7 to Ameris Bancorp's Annual Report on Form 10-K filed with the Commission on March 26, 1999). |
| 3.6 | Articles of Amendment to the Articles of Incorporation (incorporated by reference to Exhibit 3.9 to Ameris Bancorp's Annual Report on Form 10-K filed with the Commission on March 31, 2003). |
| 3.7 | Articles of Amendment to the Articles of Incorporation (incorporated by reference to Exhibit 3.1 to Ameris Bancorp's Current Report on Form 8-K filed with the Commission on December 1, 2005). |
| 3.8 | Amended and Restated Bylaws (incorporated by reference to Exhibit 3.1 to Ameris Bancorp's Current Report on Form 8-K filed with the Commission on March 14, 2005). |
| 4.1 | Placement Agreement between Ameris Bancorp, Ameris Statutory Trust I, FTN Financial Capital Markets and Keefe, Bruyette & Woods, Inc. dated September 13, 2006 (incorporated by reference to Exhibit 4.1 to Ameris Bancorp's Registration Statement on Form S-4 (Registration No. 333-138252) filed with the Commission on October 27, 2006). |
| 4.2 | Subscription Agreement between Ameris Bancorp, Ameris Statutory Trust I and First Tennessee Bank National Association dated September 20, 2006 (incorporated by reference to Exhibit 4.2 to Ameris Bancorp's Registration Statement on Form S-4 (Registration No. 333-138252) filed with the Commission on October 27, 2006). |
| 4.3 | Subscription Agreement between Ameris Bancorp, Ameris Statutory Trust I and TWE, Ltd. dated September 20, 2006 (incorporated by reference to Exhibit 4.3 to the Ameris Bancorp's Registration Statement on Form S-4 (Registration No. 333-138252) filed with the Commission on October 27, 2006). |

EXHIBIT INDEX

| Exhibit No. | Description |
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| 4.4 | Indenture between Ameris Bancorp and Wilmington Trust Company dated September 20, 2006 (incorporated by reference to Exhibit 4.4 to Ameris Bancorp's Registration Statement on Form S-4 (Registration No. 333-138252) filed with the Commission on October 27, 2006). |
| 4.5 | Amended and Restated Declaration of Trust between Ameris Bancorp, the Administrators of Ameris Statutory Trust I signatory thereto and Wilmington Trust Company dated September 20, 2006 (incorporated by reference to Exhibit 4.5 to Ameris Bancorp's Registration Statement on Form S-4 (Registration No. 333-138252) filed with the Commission on October 27, 2006). |
| 4.6 | Guarantee Agreement between Ameris Bancorp and Wilmington Trust Company dated September 20, 2006 (incorporated by reference to Exhibit 4.6 to Ameris Bancorp's Registration Statement on Form S-4 (Registration No. 333-138252) filed with the Commission on October 27, 2006). |
| 4.7 | Floating Rate Junior Subordinated Deferrable Interest Debenture dated September 20, 2006 issued to Ameris Statutory Trust I (incorporated by reference to Exhibit 4.7 to Ameris Bancorp's Registration Statement on Form S-4 (Registration No. 333-138252) filed with the Commission on October 27, 2006). |
| 10.1 | Deferred Compensation Agreement for Kenneth J. Hunnicutt dated December 16, 1986 (incorporated by reference to Exhibit 5.3 to Ameris Bancorp's Regulation A Offering Statement on Form 1-A filed with the Commission on August 14, 1987). |
| 10.2 | Executive Salary Continuation Agreement dated February 14, 1984 (incorporated by reference to Exhibit 10.6 to Ameris Bancorp's Annual Report on Form 10-KSB filed with the Commission on March 27, 1989). |
| 10.3 | 1992 Incentive Stock Option Plan and Option Agreement for Kenneth J. Hunnicutt (incorporated by reference to Ameris Bancorp's Annual Report on Form 10-KSB filed with the Commission on March 30, 1993). |
| 10.4 | Form of Omnibus Stock Ownership and Long-Term Incentive Plan (incorporated by reference to Exhibit 10.17 to Ameris Bancorp's Annual Report on Form 10-K filed with the Commission on March 25, 1998). |
| 10.5 | Form of Rights Agreement between Ameris Bancorp and SunTrust Bank dated as of February 17, 1998 (incorporated by reference to Exhibit 10.18 to Ameris Bancorp's Annual Report on Form 10-K filed with the Commission on March 25, 1998). |
| 10.6 | ABC Bancorp 2000 Officer/Director Stock Bonus Plan (incorporated by reference to Exhibit 10.19 to Ameris Bancorp's Annual Report on Form 10-K filed with the Commission on March 29, 2000). |

EXHIBIT INDEX

| Exhibit No. | Description |
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| 10.7 | Commission Agreement by and between Ameris Bancorp and Jerry L. Keen dated as of September 12, 2002 (incorporated by reference to Exhibit 10.1 to Ameris Bancorp's Quarterly Report on Form 10-Q filed with the Commission on November 14, 2002). |
| 10.8 | Joint Marketing Agreement by and between Ameris Bancorp and MBNA America Bank, N.A. dated as of December 19, 2002 (incorporated by reference to Exhibit 10.18 to Ameris Bancorp's Annual Report on Form 10-K filed with the Commission on March 31, 2003). |
| 10.9 | Executive Employment Agreement with Jon S. Edwards dated as of July 1, 2003 (incorporated by reference to Exhibit 10.1 to Ameris Bancorp's Quarterly Report on Form 10-Q filed with the Commission on November 12, 2003). |
| 10.10 | Executive Employment Agreement with Edwin W. Hortman, Jr. dated as of December 31, 2003 (incorporated by reference to Exhibit 10.19 to Ameris Bancorp's Annual Report on Form 10-K filed with the Commission on March 15, 2004). |
| 10.11 | Executive Employment Agreement with Cindi H. Lewis dated as of December 31, 2003 (incorporated by reference to Exhibit 10.20 to Ameris Bancorp's Annual Report on Form 10-K filed with the Commission on March 15, 2004). |
| 10.12 | Executive Employment Agreement with Thomas T. Dampier dated as of May 18, 2004 (incorporated by reference to Exhibit 10.1 to Ameris Bancorp's Quarterly Report on Form 10-Q filed with the Commission on August 9, 2004). |
| 10.13 | Executive Consulting Agreement with Kenneth J. Hunnicutt dated as of January 1, 2005 (incorporated by reference to Exhibit 10.16 to Ameris Bancorp's Annual Report on Form 10-K filed with the Commission on March 16, 2005). |
| 10.14 | Amendment No. 1 to Executive Employment Agreement with Edwin W. Hortman, Jr. dated as of March 10, 2005 (incorporated by reference to Exhibit 10.1 to Ameris Bancorp's Current Report on Form 8-K filed with the Commission on March 14, 2005). |
| 10.15 | Form of 2005 Omnibus Stock Ownership and Long-Term Incentive Plan (incorporated by reference to Appendix A to Ameris Bancorp's Definitive Proxy Statement filed with the Commission on April 18, 2005). |
| 10.16 | Executive Employment Agreement with Dennis J. Zember, Jr. dated as of May 5, 2005 (incorporated by reference to Exhibit 10.1 to Ameris Bancorp's Current Report on Form 8-K/A filed with the Commission on May 11, 2005). |

EXHIBIT INDEX

| Exhibit No. | Description |
|--------------------|---|
| 10.17 | Executive Employment Agreement with Johnny R. Myers dated as of May 11, 2005 (incorporated by reference to Exhibit 10.1 to Ameris Bancorp's Current Report on Form 8-K filed with the Commission on May 16, 2005). |
| 10.18 | Revolving Credit Agreement with SunTrust Bank dated as of December 14, 2005 (incorporated by reference to Exhibit 10.1 to Ameris Bancorp's Current Report on Form 8-K filed with the Commission on December 20, 2005). |
| 10.19 | Security Agreement with SunTrust Bank dated as of December 14, 2005 (incorporated by reference to Exhibit 10.2 to Ameris Bancorp's Current Report on Form 8-K filed with the Commission on December 20, 2005). |
| 10.20 | Form of Incentive Stock Option Agreement (incorporated by reference to Exhibit 4.2 to Ameris Bancorp's Registration Statement on Form S-8 filed with the Commission on January 24, 2006). |
| 10.21 | Form of Non-Qualified Stock Option Agreement (incorporated by reference to Exhibit 4.3 to Ameris Bancorp's Registration Statement on Form S-8 filed with the Commission on January 24, 2006). |
| 10.23 | Form of Restricted Stock Agreement (incorporated by reference to Exhibit 4.4 to Ameris Bancorp's Registration Statement on Form S-8 filed with the Commission on January 24, 2006). |
| 10.24 | Executive Employment Agreement with C. Johnson Hipp, III dated as of September 5, 2006 (incorporated by reference to Exhibit 10.1 to Ameris Bancorp's Current Report on Form 8-K filed with the Commission on September 8, 2006). |
| 21.1 | Schedule of subsidiaries of Ameris Bancorp.* |
| 23.1 | Consent of Mauldin & Jenkins, LLC.* |
| 24.1 | Power of Attorney relating to this Form 10-K is set forth on the signature pages of this Form 10-K.* |
| 31.1 | Rule 13a-14(a)/15d-14(a) Certification by Ameris Bancorp's Chief Executive Officer. |
| 31.2 | Rule 13a-14(a)/15d-14(a) Certification by Ameris Bancorp's Chief Financial Officer. |
| 32.1 | Section 1350 Certification by Ameris Bancorp's Chief Executive Officer. |
| 32.2 | Section 1350 Certification by Ameris Bancorp's Chief Financial Officer. |

* - Previously filed.