

UNITED COMMUNITY BANKS INC

Form 11-K

June 29, 2007

**Table of Contents**

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 11-K**

þ **ANNUAL REPORT PURSUANT TO SECTION 15 (d) OF THE SECURITIES EXCHANGE  
ACT OF 1934**

**For the fiscal year ended December 31, 2006**

**or**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission file number 000-21656**

A. Full title of the Plan and address of the Plan, if different  
from that of the issuer named below:

**United Community Banks, Inc.  
Profit Sharing Plan**

B. Name of the issuer of the securities held pursuant to the plan and  
the address of the principal executive office:

**United Community Banks, Inc.  
63 Highways 515, PO Box 398  
Blairsville, GA 30512**

**Table of Contents**

**UNITED COMMUNITY BANKS, INC.  
PROFIT SHARING PLAN  
Financial Statements and Supplemental Schedule  
December 31, 2006 and 2005  
(with Report of Independent Registered Public Accounting Firm)**

---

**TABLE OF CONTENTS**

Report of Independent Registered Public Accounting Firm

Statements of Net Assets Available for Plan Benefits

December 31, 2006 and 2005

Statement of Changes in Net Assets Available for Plan Benefits

For the Year Ended December 31, 2006

Notes to Financial Statements

SIGNATURE

EXHIBIT INDEX

EX-23 CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

---

**Table of Contents**

Porter Keadle Moore, LLP

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Benefits Administration Committee Members  
United Community Banks, Inc. Profit Sharing Plan  
Blairsville, Georgia

We have audited the accompanying statements of net assets available for plan benefits of United Community Banks, Inc. Profit Sharing Plan as of December 31, 2006 and 2005, and the related statement of changes in net assets available for plan benefits for the year ended December 31, 2006 and the supplemental schedule as of December 31, 2006. These financial statements and supplemental schedule are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for plan benefits of United Community Banks, Inc. Profit Sharing Plan as of December 31, 2006 and 2005, and the changes in net assets available for plan benefits for the year ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

Our audit of the Plan's financial statements as of and for the year ended December 31, 2006, was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental Schedule of Assets Held for Investment Purposes is presented for the purpose of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule is the responsibility of the Plan's management and has been subjected to the auditing procedures applied in our audit of the basic financial statements for the year ended December 31, 2006, and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ Porter Keadle Moore, LLP

Atlanta, Georgia

June 27, 2007

Certified Public Accountants

Suite 1800 235 Peachtree Street NE Atlanta, Georgia 30303 Phone 404-588-4200 Fax 404-588-4222  
www.pkm.com

**Table of Contents**

**UNITED COMMUNITY BANKS, INC. PROFIT SHARING PLAN**  
**Statements of Net Assets Available for Plan Benefits**  
**December 31, 2006 and 2005**

	2006	2005
Assets:		
Cash	\$ 732,123	260,178
Investments at fair value:		
Common stock of United Community Banks, Inc.	42,412,566	23,450,643
Shares of registered investment company mutual funds	43,520,475	35,489,158
Total investments	85,933,041	58,939,801
Receivables:		
Employers contributions	2,075,236	1,444,128
Accrued dividends	94,820	68,383
Due from brokers	199,003	
Total receivables	2,369,059	1,512,511
Total assets	89,034,223	60,712,490
Liabilities:		
Amounts due to brokers	283,456	3,831
Benefit claims payable		20,000
Total liabilities	283,456	23,831
Net assets available for plan benefits	\$ 88,750,767	60,688,659

See accompanying notes to financial statements.

**Table of Contents**

**UNITED COMMUNITY BANKS, INC. PROFIT SHARING PLAN  
Statement of Changes in Net Assets Available for Plan Benefits  
For the Year Ended December 31, 2006**

Additions to net assets attributable to:	
Investment income:	
Interest and dividends	\$ 1,131,146
Net appreciation in fair value of investments	7,504,147
Total investment income	8,635,293
Contributions:	
Employer match	2,558,621
Employer discretionary	2,154,956
Employee deferrals	4,612,903
Employee rollovers	1,188,327
Employee rollovers Southern National	12,715,172
Total contributions	23,229,979
Total additions	31,865,272
Deductions from net assets attributable to:	
Distributions paid to participants	3,510,461
Administrative expenses	292,703
Total deductions	3,803,164
Increase in net assets available for plan benefits	28,062,108
Net assets available for plan benefits:	
Beginning of year	60,688,659
End of year	\$ 88,750,767
See accompanying notes to financial statements	

**Table of Contents**

**UNITED COMMUNITY BANKS, INC. PROFIT SHARING PLAN  
Notes to Financial Statements**

**(1) Description of the Plan**

The following description of United Community Banks, Inc. Profit Sharing Plan (the Plan) provides only general information. Participants should refer to the Plan agreement for a more complete description of the Plan's provisions.

**General**

The Plan is a defined contribution plan, and was formed to provide benefits exclusively for the employees of United Community Banks, Inc. and its subsidiaries (the Company). Employees are eligible to participate in the Plan on the next immediate enrollment date following employment, but are eligible to participate in the matching portion of the Plan after the completion of one year of service with the Company as defined in the Plan documents. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

**Contributions**

Employees of the Company participating in the Plan are entitled to make pre-tax contributions to the Plan in amounts from 2% to 75% of their annual compensation. The Company's matching contribution is up to 5% of a participant's annual compensation for those who have completed at least one year of service and have elected to make deferred contributions. The Company may also make an additional discretionary contribution in any Plan year. Contributions are subject to certain limitations.

**Vesting**

Participants are immediately vested in their contributions to the Plan. Participants vest in the Company's contributions according to the following schedule:

Years of Service	Percentage
Less Than 1	0%
2	33%
3	66%
More Than 3	100%

Participants automatically become 100% vested upon death or disability while still an active employee of the Company. Upon termination of employment, amounts not vested will be forfeited with such forfeitures reducing administrative expenses paid from the Plan.

**Payment of Benefits**

Upon retirement, a participant is entitled to receive 100% of his vested account balance in a lump-sum distribution or periodic payments over a predetermined period. Upon the death of a participant, the designated beneficiary is entitled to receive 100% of the participant's account in a lump-sum distribution or periodic payments over a predetermined period. In addition, disabled participants are entitled to 100% of their account balance. Plan participants who are terminated for reasons other than retirement, death or disability are entitled to receive only the vested portion of their account. The Plan also allows for certain hardship withdrawals prior to termination of employment.

**Administrative Expenses**

The Plan pays substantially all administrative expenses.

**Forfeited Accounts**

At December 31, 2006 and 2005, forfeited non vested accounts approximated \$24,000 and \$18,000, respectively. These amounts will be used to reduce future administrative expenses.



**Table of Contents**

**UNITED COMMUNITY BANKS, INC. PROFIT SHARING PLAN  
Notes to Financial Statements, continued**

**(1) Description of the Plan, continued**

**Plan Termination**

Although it has not expressed any intent to do so, the Company has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. The participants affected by the termination or discontinuance of contributions will immediately become 100% vested in their accounts.

**(2) Summary of Significant Accounting Policies**

**Basis of Accounting**

The accompanying financial statements have been prepared on the accrual basis of accounting and present the net assets available for benefits and changes in those assets of the Plan. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of net assets available for plan benefits and changes therein, and disclosure of contingent assets and liabilities. Accordingly, actual results may differ from those estimates.

**Investment Valuation**

The Plan's investments are stated at fair value. The Company's stock trades on the Nasdaq stock market, and the value of the Company's stock is based on a quoted market price. Investments in mutual funds are valued at fair value based on quoted market prices of the underlying fund securities. The Plan holds investments at December 31, 2006 and 2005 in the Plan sponsor common stock amounting to \$42,412,566 and \$23,450,643, respectively. This investment represents 49% and 40% of total investments at December 31, 2006 and 2005, respectively. A significant decline in the market value of the Plan Sponsor's common stock would significantly affect the net assets available for benefits.

The Plan provides for investments in various investment securities, which are exposed to various risks such as interest rate, credit and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the statements of net assets available for plan benefits.

The net gain or loss from investment activity includes realized and unrealized gains and losses from investment activity as well as earnings on investments. Unrealized gains and losses are calculated as the difference between the current value of securities as of the end of the plan year and either the current value at the end of the preceding year or the actual cost if such investments were purchased during the current year. Realized gains or losses on sales of investments are calculated as the difference between sales proceeds and the current value of investments at the beginning of the year or the actual cost if such investments were purchased during the year. Earnings on investments include interest and dividends received on the Company's common stock and mutual fund shares.

Securities transactions are recorded on the trade date. Dividend income is recorded on the ex-dividend date.

**Table of Contents****UNITED COMMUNITY BANKS, INC. PROFIT SHARING PLAN  
Notes to Financial Statements, continued****(3) Investments**

The following table represents investments at December 31, 2006 and 2005.

	2006	2005
Cash	\$ 732,123	\$ 260,178
United Community Banks, Inc. common stock (1,312,270 and 879,478 shares at December 31, 2006 and 2005, respectively)	\$ 42,412,566	\$ 23,450,643
Mutual funds:		
AI Money Market Fund	\$	\$ 1,937,520
American Beacon Select Money Market	1,984,709	
Amcent Equity Income Fund		795,174
NestEgg Dow Jones U.S. 2040 Fund	6,258,532	5,241,349
NestEgg Dow Jones U.S. 2030 Fund	5,819,391	4,889,710
NestEgg Dow Jones U.S. 2020 Fund	10,584,538	9,081,102
NestEgg Dow Jones U.S. 2010 Fund	2,393,498	3,299,451
NestEgg Dow Jones U.S. 2015 Fund	3,890,881	
NestEgg Capital Preservation Fund		1,888,738
American Independence International Equity	1,424,381	762,401
Federated Max-Cap Fund	1,466,060	1,108,714
Franklin Strategic Small MIDCAP Growth Fund	1,274,089	1,028,932
Vanguard Windsor II Fund	1,782,859	1,225,350
Vanguard Explorer	1,002,345	706,412
Royce Low Priced Stock Fund	1,089,045	718,678
American Century Ultra		909,070
Goldman Sachs Mid Cap Value Fund	1,234,081	
T Rowe Price Growth Fund	1,161,962	
PIMCO Total Return Bond Fund	2,154,104	1,896,557
Total mutual funds	\$ 43,520,475	\$ 35,489,158

During 2006, the Plan's investments (including investments bought, sold, and held during the year) appreciated in value by \$7,504,147 as detailed below:

	Year Ended December 31, 2006
Net change in investments at fair value as determined by quoted market price:	
Mutual funds	\$ 2,936,311
United Community Banks, Inc. common stock	4,567,836
Net change in fair value	\$ 7,504,147



**Table of Contents**

**UNITED COMMUNITY BANKS, INC. PROFIT SHARING PLAN**  
**Notes to Financial Statements, continued**

**(3) Investments, continued**

Single investments representing more than 5% of the Plan's net assets as of December 31, 2006 and/or 2005, are separately identified.

	December 31	
	2006	2005
United Community Banks, Inc. common stock	\$42,412,566	\$23,450,643
NestEgg Dow Jones U.S. 2040 Fund	6,258,532	5,241,349
NestEgg Dow Jones U.S. 2030 Fund	5,819,391	4,889,710
NestEgg Dow Jones U.S. 2020 Fund	10,584,538	9,081,102
NestEgg Dow Jones U.S. 2010 Fund	2,393,489	3,299,451

**(4) Tax Status**

The Plan obtained its latest determination letter on October 4, 2002, in which the Internal Revenue Service stated that the Plan, as then designed, was in compliance with the applicable requirements of the Internal Revenue Code (IRC). The Plan was amended effective December 1, 2006; however, the Plan sponsor and the Plan's tax counsel believe the Plan is currently designed and being operated in compliance with the applicable requirements of the IRC. Therefore, no provision for income taxes has been included in the Plan's financial statements.

**(5) Party-In-Interest Transactions**

During the course of the year, the Plan enters into certain party-in-interest transactions with the Company and INTRUST Bank, N.A. (the Trustee). The Company, as the plan sponsor, declares cash dividends on its common stock on a quarterly basis throughout the year. In 2006, the Plan received cash dividends of approximately \$280,697 on its investment in the Company's stock. Additionally, the Company provides a discretionary contribution to the Plan's participants, which is based on the diluted earnings per share of the Company. The contribution receivable was \$2,075,236 and \$1,444,128 as of December 31, 2006, and 2005, respectively.

The Plan regularly purchases shares of the Company's common stock directly from the Company based on the average of the high and low price for United Community Banks, Inc. common stock as reported by Nasdaq on the date of transaction. During 2006 and 2005, the plan purchased 111,485 and 24,857 shares, respectively, directly from the Company.

The Trustee functions as the trustee, custodian and record keeper for the Plan. The cost for these services totaled \$292,703 for 2006 and is presented on the statement of changes in net assets available for plan benefits as administrative expenses. The fees for 2006 for trustee and custodial services amounted to \$250,583 and for record keeping amounted to \$42,120.

**(6) Merger of Southern Bancorp, Inc., Plan**

On December 1, 2006 the Company acquired Southern Bancorp, Inc. and its wholly owned banking subsidiary, Southern National Bank. Southern Bancorp, Inc. Employee Stock Ownership Plan was merged into the Company's plan and all participant account balances were transferred accordingly.

**(7) Subsequent Event**

On June 1, 2007, the Company acquired Gwinnett Commercial Group, Inc. and its wholly owned subsidiary, First Bank of the South. Gwinnett Commercial Group, Inc.'s defined contribution plan was terminated and its participants were allowed to rollover their account balances into the Plan.

**Table of Contents**

**UNITED COMMUNITY BANKS, INC. PROFIT SHARING PLAN**  
**Schedule of Assets Held for Investment Purposes**  
**December 31, 2006**  
**Employer Identification Number: 58-0554454**  
**Plan Number: 001**

(a)	(b)	(c)	(d)	(e)
Identity of issuer or similar party		Description of assets	Cost	Fair Value
*	United Community Banks, Inc.	Common stock 1,312,270 shares	N/A	\$42,412,566
	American Beacon	Select Funds Money Market 1,984,709	N/A	1,984,709
	INTRUST Bank, N.A.	NestEgg Dow Jones U.S. 2040 Fund 589,871 shares	N/A	6,258,532
*	INTRUST Bank, N.A.	NestEgg Dow Jones U.S. 2030 Fund 563,349 shares	N/A	5,819,391
*	INTRUST Bank, N.A.	NestEgg Dow Jones U.S. 2020 Fund 980,050 shares	N/A	10,584,538
*	INTRUST Bank, N.A.	NestEgg Dow Jones U.S. 2010 Fund 237,450 shares	N/A	2,393,498
*	INTRUST Bank, N.A.	NestEgg Dow Jones U.S 2015 Fund 380,712 shares	N/A	3,890,881
*	INTRUST Bank, N.A.	America Independence International Equity 100,734 shares	N/A	1,424,381
	Vanguard Funds	Vanguard Explorer 13,416 shares	N/A	1,002,345
	Vanguard Funds	Vanguard Windsor II 51,305 shares	N/A	1,782,859
	Federated Funds	Federated Max-Cap Fund 56,236 shares	N/A	1,466,060
	Franklin Funds	Franklin Strategic Small MIDCAP Growth Fund 33,733 shares	N/A	1,274,089
	Royce Funds	Royce Low Priced Stock Fund 64,709 shares	N/A	1,089,045
	PIMCO Funds	PIMCO Total Return Bond Fund 207,524 shares	N/A	2,154,104
	Goldman Sachs	Goldman Sachs Mid Cap Value Fund 31,716 shares	N/A	1,234,081
	T Rowe Price	T Rowe Price Growth Stock Fund 36,736 shares	N/A	1,161,962

\* *Party-in-interest*

N/A *Due to Plan being fully participant directed, such values are not required.*

**Table of Contents**

**SIGNATURE**

The Plan. Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees (or other persons who administer the employee benefit plan) have duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

United Community Banks, Inc.  
Profit Sharing Plan

By: /s/ John Goff  
Title: Vice President and Trust Officer  
INTRUST BANK, N.A.  
Date: June 29, 2007

**Table of Contents**

**EXHIBIT INDEX**

Exhibit No.	Description
23	Consent of Independent Registered Public Accountants 10