

UNITED COMMUNITY BANKS INC

Form 10-Q

August 04, 2006

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

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

For the Quarterly Period Ended June 30, 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 0-21656

UNITED COMMUNITY BANKS, INC.

(Exact name of registrant as specified in its charter)

Georgia

58-1807304

(State of Incorporation)

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

**63 Highway 515
Blairsville, Georgia**

30512

**Address of Principal
Executive Offices**

(Zip Code)

(706) 781-2265

(Telephone Number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES NO

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

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 Act).

YES NO

**Common stock, par value \$1 per share: 40,178,533 shares
outstanding as of June 30, 2006**

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

<i>(in thousands, except per share data)</i>	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2006	2005	2006	2005
Interest revenue:				
Loans, including fees	\$ 99,080	\$ 69,446	\$ 189,445	\$ 132,913
Investment securities:				
Taxable	11,521	10,190	22,839	19,204
Tax exempt	509	528	1,023	1,053
Federal funds sold and deposits in banks	162	150	320	409
Total interest revenue	111,272	80,314	213,627	153,579
Interest expense:				
Deposits:				
Demand	8,956	4,379	16,143	7,906
Savings	226	174	454	342
Time	29,599	15,019	54,985	28,027
Total deposit interest expense	38,781	19,572	71,582	36,275
Federal funds purchased, repurchase agreements, & other short-term borrowings	2,078	1,185	3,560	2,072
Federal Home Loan Bank advances	6,380	6,565	13,009	12,222
Long-term debt	2,168	2,128	4,321	4,248
Total interest expense	49,407	29,450	92,472	54,817
Net interest revenue	61,865	50,864	121,155	98,762
Provision for loan losses	3,700	2,800	7,200	5,200
Net interest revenue after provision for loan losses	58,165	48,064	113,955	93,562
Fee revenue:				
Service charges and fees	6,828	6,280	13,181	11,894
Mortgage loan and other related fees	1,708	1,742	3,221	3,225
Consulting fees	1,572	1,685	3,156	3,167
Brokerage fees	796	768	1,646	1,210
Securities losses, net		(2)	(3)	(2)
Other	1,072	1,706	2,533	2,885
Total fee revenue	11,976	12,179	23,734	22,379

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Total revenue	70,141	60,243	137,689	115,941
Operating expenses:				
Salaries and employee benefits	28,307	25,274	55,950	47,509
Communications and equipment	3,731	3,115	7,107	6,097
Occupancy	2,916	2,718	5,848	5,386
Advertising and public relations	1,948	1,699	3,836	3,062
Postage, printing and supplies	1,289	1,369	2,805	2,720
Professional fees	1,069	1,071	2,230	2,109
Amortization of intangibles	503	503	1,006	1,006
Other	3,720	3,059	6,923	5,698
Total operating expenses	43,483	38,808	85,705	73,587
Income before income taxes	26,658	21,435	51,984	42,354
Income taxes	9,729	7,662	19,016	15,140
Net income	\$ 16,929	\$ 13,773	\$ 32,968	\$ 27,214
Net income available to common stockholders	\$ 16,924	\$ 13,767	\$ 32,958	\$ 27,201
Earnings per common share:				
Basic	\$.42	\$.36	\$.82	\$.71
Diluted	.41	.35	.80	.69
Dividends per common share:	.08	.07	.16	.14
Weighted average common shares outstanding:				
Basic	40,156	38,270	40,122	38,234
Diluted	41,328	39,436	41,259	39,412

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

<i>(in thousands, except share and per share data)</i>	June 30, 2006 <i>(unaudited)</i>	December 31, 2005 <i>(audited)</i>	June 30, 2005 <i>(unaudited)</i>
ASSETS			
Cash and due from banks	\$ 159,954	\$ 121,963	\$ 117,478
Interest-bearing deposits in banks	21,948	20,607	17,451
Cash and cash equivalents	181,902	142,570	134,929
Securities available for sale	974,524	990,687	990,500
Mortgage loans held for sale	24,000	22,335	34,095
Loans, net of unearned income	4,810,277	4,398,286	4,072,811
Less allowance for loan losses	58,508	53,595	49,873
Loans, net	4,751,769	4,344,691	4,022,938
Premises and equipment, net	124,018	112,887	105,469
Accrued interest receivable	44,187	37,197	31,909
Goodwill and other intangible assets	117,646	118,651	119,617
Other assets	113,090	96,738	100,785
Total assets	\$ 6,331,136	\$ 5,865,756	\$ 5,540,242
LIABILITIES AND SHAREHOLDERS EQUITY			
Liabilities:			
Deposits:			
Demand	\$ 662,463	\$ 602,525	\$ 590,306
Interest-bearing demand	1,305,479	1,264,947	1,141,115
Savings	173,985	175,453	177,822
Time:			
Less than \$100,000	1,388,009	1,218,277	1,041,680
Greater than \$100,000	1,106,359	895,466	696,941
Brokered	340,355	320,932	311,362
Total deposits	4,976,650	4,477,600	3,959,226
Federal funds purchased, repurchase agreements, & other short-term borrowings	249,552	122,881	219,218
Federal Home Loan Bank advances	458,587	635,616	800,316
Long-term debt	111,869	111,869	111,869
Accrued expenses and other liabilities	38,181	45,104	33,619
Total liabilities	5,834,839	5,393,070	5,124,248

Shareholders equity:

Preferred stock, \$10 stated value; 10,000,000 shares authorized; 32,200, 32,200 and 37,200 shares issued and outstanding	322	322	372
Common stock, \$1 par value; 100,000,000 shares authorized; 40,178,533, 40,019,853 and 38,407,874 shares issued	40,179	40,020	38,408
Common stock issuable; 19,712 and 9,948 shares as of June 30, 2006 and December 31, 2005, respectively	544	271	
Capital surplus	197,235	193,355	154,480
Retained earnings	277,086	250,563	226,546
Treasury stock; 124,665 shares as of June 30, 2005, at cost			(2,517)
Accumulated other comprehensive loss	(19,069)	(11,845)	(1,295)
Total shareholders equity	496,297	472,686	415,994
Total liabilities and shareholders equity	\$ 6,331,136	\$ 5,865,756	\$ 5,540,242

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	Preferred	Common	Common	Capital	Retained	Treasury	Accumulated Other Comprehensive Income	Total
(in thousands, except share and per share data)	Stock	Stock	Issuable	Surplus	Earnings	Stock	(Loss)	
Balance, December 31, 2004	\$ 448	\$ 38,408	\$	\$ 155,076	\$ 204,709	\$ (4,413)	\$ 2,860	\$ 397,088
Comprehensive income:								
Net income					27,214			27,214
Other comprehensive loss:								
Unrealized holding losses on available for sale securities, net of deferred tax benefit and reclassification adjustment							(2,435)	(2,435)
Unrealized losses on derivative financial instruments qualifying as cash flow hedges, net of deferred tax benefit							(1,720)	(1,720)
Comprehensive income					27,214		(4,155)	23,059
Retirement of preferred stock (7,600 shares)	(76)							(76)
Cash dividends declared on common stock (\$.14 per share)					(5,364)			(5,364)
Exercise of stock options (111,619 shares)				(711)		1,832		1,121
Amortization of restricted stock				180				180
Vesting of restricted stock (4,062 shares)				(65)		64		(1)
Dividends declared on preferred stock (\$.30 per share)					(13)			(13)
Balance, June 30, 2005	\$ 372	\$ 38,408	\$	\$ 154,480	\$ 226,546	\$ (2,517)	\$ (1,295)	\$ 415,994
Balance, December 31, 2005	\$ 322	\$ 40,020	\$ 271	\$ 193,355	\$ 250,563	\$	\$ (11,845)	\$ 472,686
Comprehensive income:								
Net income					32,968			32,968
Other comprehensive income (loss):								
Unrealized holding losses on available for sale securities, net of deferred tax benefit and reclassification adjustment							(7,238)	(7,238)
Unrealized gains on derivative financial instruments qualifying as cash flow hedges, net of deferred tax expense							14	14

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Comprehensive income				32,968		(7,224)	25,744
Cash dividends declared on common stock (\$.16 per share)				(6,435)			(6,435)
Exercise of stock options (57,020 shares)	58		450				508
Common stock issued to Dividend Reinvestment Plan and employee benefit plans (79,178 shares)	79		2,116				2,195
Amortization of stock options and restricted stock				1,336			1,336
Vesting of restricted stock (22,482 shares)	22			(22)			
Deferred compensation plan, net, including dividend equivalents			273				273
Dividends declared on preferred stock (\$.30 per share)						(10)	(10)
Balance, June 30, 2006		\$ 322	\$ 40,179	\$ 544	197,235	\$ 277,086	\$ (19,069) \$ 496,297

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Consolidated Statement of Cash Flows (unaudited)

<i>(in thousands)</i>	Six Months Ended June 30,	
	2006	2005
Operating activities:		
Net income	\$ 32,968	\$ 27,214
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion	8,398	7,785
Provision for loan losses	7,200	5,200
Stock based compensation	1,336	180
Loss on sale of securities available for sale	3	2
Gain on sale of other assets	(184)	(556)
Changes in assets and liabilities:		
Other assets and accrued interest receivable	(18,531)	(13,936)
Accrued expenses and other liabilities	(7,046)	3,342
Mortgage loans held for sale	(1,665)	2,999
Net cash provided by operating activities	22,479	32,230
Investing activities:		
Proceeds from sales of securities available for sale	7,649	1,307
Proceeds from maturities and calls of securities available for sale	58,992	117,778
Purchases of securities available for sale	(63,251)	(226,551)
Net increase in loans	(417,495)	(342,800)
Proceeds from sales of premises and equipment	1,289	2,756
Purchases of premises and equipment	(17,079)	(8,508)
Proceeds from sale of other real estate	1,359	710
Net cash used by investing activities	(428,536)	(455,308)
Financing activities:		
Net change in deposits	499,050	278,710
Net change in federal funds purchased, repurchase agreements, and other short-term borrowings	126,671	86,287
Proceeds from FHLB advances		438,600
Repayments of FHLB advances	(177,000)	(376,100)
Proceeds from exercise of stock options	508	1,121
Proceeds from issuance of common stock for dividend reinvestment and employee benefit plans	2,195	
Retirement of preferred stock		(76)
Cash dividends on common stock	(6,025)	(5,362)
Cash dividends on preferred stock	(10)	(13)
Net cash provided by financing activities	445,389	423,167

Net change in cash and cash equivalents	39,332	89
Cash and cash equivalents at beginning of period	142,570	134,840
Cash and cash equivalents at end of period	\$ 181,902	\$ 134,929

Supplemental disclosures of cash flow information:

Cash paid during the period for:

Interest	\$ 90,118	\$ 52,899
Income taxes	21,552	15,369

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents**United Community Banks, Inc.**

Notes to Consolidated Financial Statements

Note 1 Accounting Policies

The accounting and financial reporting policies of United Community Banks, Inc. (United) and its subsidiaries conform to accounting principles generally accepted in the United States of America and general banking industry practices. The accompanying interim consolidated financial statements have not been audited. All material intercompany balances and transactions have been eliminated. A more detailed description of United s accounting policies is included in the 2005 annual report filed on Form 10-K.

In management s opinion, all accounting adjustments necessary to accurately reflect the financial position and results of operations on the accompanying financial statements have been made. These adjustments are normal and recurring accruals considered necessary for a fair and accurate presentation. The results for interim periods are not necessarily indicative of results for the full year or any other interim periods.

Note 2 Stock-Based Compensation

United has applied the modified prospective method with the adoption of Statement of Financial Accounting Standards (SFAS) 123(R), effective January 1, 2006. Consequently, the financial statements for prior interim periods and fiscal years do not reflect any adjustments. The following table shows pro forma net income available to common shareholders and basic and diluted earnings per share as if United had adopted the fair value method of recognizing option expense for all periods presented (dollars in thousands, except per share data).

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Net income available to common shareholders:				
As reported	\$ 16,924	\$ 13,767	\$ 32,958	\$ 27,201
Pro forma	16,924	13,360	32,958	26,454
Basic earnings per common share:				
As reported	.42	.36	.82	.71
Pro forma	.42	.35	.82	.69
Diluted earnings per common share:				
As reported	.41	.35	.80	.69
Pro forma	.41	.34	.80	.67

United has an equity compensation plan that allows for grants of incentive stock options, nonqualified stock options, restricted stock (also referred to as nonvested stock), restricted stock units, stock awards, performance share awards or stock appreciation rights. Options granted under the plan have an exercise price equal to the fair market value of the underlying stock at the date of grant. The number of awards available for grant is adjusted with the change in the number of shares outstanding in accordance with the terms of the plan. The general terms of the plan include a vesting period (usually four years) with an exercisable period not to exceed ten years. Certain option and restricted stock grants provide for accelerated vesting if there is a change in control (as defined in the plan). As of June 30, 2006, approximately 697,000 awards could be granted under the plan. Through June 30, 2006, only incentive stock options, nonqualified stock options and restricted stock had been granted under the plan. The following table shows option activity for the first six months of 2006.

Weighted-	Weighted-	Weighted-	Aggregate
Contractual	Average	Remaining	Intrinsic
Value	Contractual	Value	Value

Options	Shares	Average Exercise Price	Term	(\$000)
Outstanding at December 31, 2005	2,220,340	\$ 16.36		
Granted	461,150	28.83		
Exercised	(63,030)	10.87		
Forfeited	(18,725)	23.54		
Expired	(500)	28.66		
Outstanding at June 30, 2006	2,599,235	\$ 18.65	6.8	\$ 30,651
Exercisable at June 30, 2006	1,549,603	\$ 14.37	5.4	\$ 24,910

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The weighted average fair value of options granted in the first six months of 2006 and 2005 was \$8.63 and \$5.69, respectively. The fair value of each option granted was estimated on the date of grant using the Black-Scholes model. The key assumptions used to determine the fair value of options are presented in the table below.

	Six Months Ended	
	June 30,	
	2006	2005
Expected volatility	22%	20%
Expected dividend yield	1.1% to 1.2%	1.1% to 1.3%
Expected life (in years)	6.25	6.25
Risk-free rate	4.3% to 5.1%	3.8% to 4.4%

United's stock trading history began in March of 2002 when United listed on the Nasdaq Global Market. For the first six months of 2006 and 2005, expected volatility was determined using United's historical monthly volatility over the period beginning in March of 2002 through the end of the last completed year. Compensation expense relating to options of \$873,000, net of deferred tax benefit of \$111,000, was included in earnings for the first six months of 2006. In 2005, compensation expense relating to options of \$747,000, net of deferred tax benefit of \$72,000, was not included in earnings but has been included in the pro forma results in this note for comparative purposes. The amount of compensation expense for both periods was determined based on the fair value of the options at the time of grant, multiplied by the number of options granted that were expected to vest, which was then amortized, net of any applicable tax benefit, over the vesting period. The forfeiture rate for options is estimated to be approximately 3% per year. The total intrinsic value of options exercised during the six months ended June 30, 2006 was \$1.1 million.

The table below presents the activity in restricted stock for the first six months of 2006.

Restricted Stock	Shares	Weighted-Average Grant-Date Fair Value
Outstanding at December 31, 2005	70,512	\$ 23.22
Granted	30,625	28.75
Vested	(22,482)	23.00
Outstanding at June 30, 2006	78,655	\$ 25.44

For the six months ended June 30, 2006 and 2005, additional compensation expense of \$352,000 and \$180,000, respectively, was recognized related to restricted stock. The total intrinsic value of the restricted stock was \$2.4 million at June 30, 2006.

As of June 30, 2006, there was \$7.9 million of unrecognized compensation cost related to nonvested stock options and restricted stock granted under the plan. That cost is expected to be recognized over a weighted-average period of 1.6 years. The aggregate grant date fair value of shares vested during the six months ended June 30, 2006, was \$2.3 million.

Note 3 Common Stock Issued / Common Stock Issuable

In August 2005 United established a Dividend Reinvestment and Share Purchase Plan (DRIP). Under the plan, shareholders of record can voluntarily reinvest all or a portion of their cash dividends into shares of United's common stock, as well as purchase additional stock through the plan for cash. United's 401(k) retirement plan regularly purchases shares of United's common stock directly from United. In addition, United started an Employee Stock Purchase Program (ESPP) on January 1, 2006. Under this plan, eligible employees have the opportunity to purchase

shares of common stock at a 5% discount, with no commission charges. For the first six months of 2006, United issued 79,178 shares of common stock and increased capital by \$2.2 million through both of these plans.

In the fourth quarter of 2005, United began offering its common stock as an investment option in its deferred compensation plan. The common stock component is accounted for as an equity instrument and is reflected in the consolidated financial statements as common stock issuable. At June 30, 2006, 19,712 shares were issuable under the deferred compensation plan.

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The following table sets forth the computation of basic and diluted earnings per share for the three and six months ended June 30.

(in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Basic earnings per share:				
Weighted average shares outstanding	40,156	38,270	40,122	38,234
Net income available to common shareholders	\$ 16,924	\$ 13,767	\$ 32,958	\$ 27,201
Basic earnings per share	\$.42	\$.36	\$.82	\$.71
Diluted earnings per share:				
Weighted average shares outstanding	40,156	38,270	40,122	38,234
Net effect of the assumed exercise of stock options based on the treasury stock method using average market price for the period	800	794	765	806
Effect of conversion of subordinated debt	372	372	372	372
Total weighted average shares and common stock equivalents outstanding	41,328	39,436	41,259	39,412
Net income available to common shareholders	\$ 16,924	\$ 13,767	\$ 32,958	\$ 27,201
Income effect of conversion of subordinated debt, net of tax	41	32	79	60
Net income, adjusted for effect of conversion of subordinated debt, net of tax	\$ 16,965	\$ 13,799	\$ 33,037	\$ 27,261
Diluted earnings per share	\$.41	\$.35	\$.80	\$.69

Note 5 Mergers and Acquisitions

At June 30, 2006, accrued merger costs of \$1.3 million remained unpaid relating to acquisitions closed in 2004 and 2003. Severance and related costs include change in control payments for which payment had been deferred. Professional fees include remaining legal fees related to the two business combinations completed during the fourth quarter of 2004. Contract termination costs include amounts claimed by service providers as a result of early termination of service contracts related to the acquisitions. The unpaid balance at June 30, 2006 relates to one contract termination charge that is in dispute. A summary of the activities related to accrued merger costs is shown below (in thousands):

**Activity with accrued merger cost
For the Six Months Ended June 30, 2006**

Beginning

Ending

	Balance	Amounts Paid	Balance
Severance and related costs	\$ 336	\$ (17)	\$ 319
Professional fees	81	(21)	60
Contract termination costs	816		816
Other merger-related expenses	85	(4)	81
Totals	\$ 1,318	\$ (42)	\$ 1,276

Note 6 Reclassification

Certain amounts for the comparative periods of 2005 have been reclassified to conform to the 2006 presentation.

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Note 7 Recent Accounting Pronouncements

Accounting for Uncertainty in Income Taxes

In June 2006, the Financial Accounting Standards Board (FASB) issued Financial Interpretation No. 48 (FIN 48) Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in the financial statements and prescribes a recognition threshold and measurement attribute for a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. This interpretation will be effective for United beginning in January of 2007. United is in the process of assessing the impact of this interpretation on its financial position and results of operations.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

This Form 10-Q contains forward-looking statements regarding United Community Banks, Inc. (United), including, without limitation, statements relating to United's expectations with respect to revenue, credit losses, levels of nonperforming assets, expenses, earnings and other measures of financial performance. Words such as may, could, would, should, believes, expects, anticipates, estimates, intends, plans, targets or similar expressions identify forward-looking statements. These forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties that are subject to change based on various factors (many of which are beyond United's control). The following factors, among others, could cause United's financial performance to differ materially from the expectations expressed in such forward-looking statements:

our recent operating results may not be indicative of future operating results;

our corporate culture has contributed to our success and, if we cannot maintain this culture as we grow, we could lose the productivity fostered by our culture, which could harm our business;

we may face risks with respect to future expansion and acquisitions or mergers;

changes in prevailing interest rates may negatively affect our net income and the value of our assets;

our construction and land development loans are subject to unique risks that could adversely affect our earnings;

if our allowance for loan losses is not sufficient to cover actual loan losses, our earnings would decrease;

competition from financial institutions and other financial service providers may adversely affect our profitability;

business increases, productivity gains and other investments are lower than expected or do not occur as quickly as anticipated;

competitive pressures among financial services companies increase significantly;

the strength of the United States economy in general and/or the strength of the local economies of the states in which United conducts operations changes;

trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System, change;

inflation or market conditions fluctuate;

conditions in the stock market, the public debt market and other capital markets deteriorate;

financial services laws and regulations change;

technology changes and United fails to adapt to those changes;

consumer spending and saving habits change;

unanticipated regulatory or judicial proceedings occur; and

United is unsuccessful at managing the risks involved in the foregoing.

Additional information with respect to factors that may cause actual results to differ materially from those contemplated by such forward-looking statements may also be included in other reports that United files with the Securities and Exchange Commission. United cautions that the foregoing list of factors is not exclusive and not to place undue reliance on forward-looking statements. United does not intend to update any forward-looking statement, whether written or oral, relating to the matters discussed in this Form 10-Q.

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Overview

United is a bank holding company registered with the Federal Reserve under the Bank Holding Company Act of 1956 that was incorporated under the laws of the state of Georgia in 1987 and commenced operations in 1988. At June 30, 2006, United had total consolidated assets of \$6.3 billion, total loans of \$4.8 billion, total deposits of \$5.0 billion and stockholders' equity of \$496 million.

United's activities are primarily conducted by its two wholly-owned Georgia and North Carolina banking subsidiaries (which are collectively referred to as the Banks in this discussion) and Brintech, Inc., a consulting firm providing professional services to the financial services industry. Effective April 1, 2006, United merged its Tennessee banking subsidiary into its Georgia banking subsidiary.

Critical Accounting Policies

The accounting and reporting policies of United Community Banks and its subsidiaries are in accordance with accounting principles generally accepted in the United States and conform to general practices within the banking industry. The more critical accounting and reporting policies include United's accounting for the allowance for loan losses. In particular, United's accounting policies relating to the allowance for loan losses involve the use of estimates and require significant judgment to be made by management. Different assumptions in the application of these policies could result in material changes in United's consolidated financial position or consolidated results of operations. See Asset Quality and Risk Elements herein for additional discussion of United's accounting methodologies related to the allowance.

Results of Operations

Net income was \$16.9 million for the second quarter of 2006, an increase of \$3.2 million, or 23%, from the same period in 2005. Diluted earnings per share was \$.41 for the second quarter of 2006, compared with \$.35 for the second quarter of 2005, an increase of 17%. Return on tangible equity for the second quarter was 17.68% for 2006, compared with 19.21% for 2005. Return on assets for the second quarter was 1.10% for 2006, compared with 1.03% for 2005.

Year-to-date through June 30, net income was \$33.0 million compared to \$27.2 million for the first six months of 2005, an increase of 21%. Diluted earnings per share was \$.80 for the six months ended June 30, 2006, compared with \$.69 for the same period in 2005, an increase of 16%. Return on tangible equity for the first six months of 2006 was 17.67% compared to 19.52% for the first six months of 2005. The decrease in return on tangible equity reflects the \$40.5 million in equity added by United's fourth quarter stock offer. Return on assets for the six months ended June 30, 2006 was 1.10% compared to 1.04% for the six months ended June 30, 2005.

Table of Contents**Table 1 Financial Highlights
Selected Financial Information**

Thousands, except per share and taxable equivalent)	2006		2005		Second	For the Six		2006	
	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Quarter 2006-2005 Change	Months Ended 2006	Months Ended 2005	2005	
INCOME SUMMARY									
Net revenue	\$ 111,728	\$ 102,797	\$ 95,465	\$ 89,003	\$ 80,701		\$ 214,525	\$ 154,350	
Provision for loan losses	49,407	43,065	38,576	34,033	29,450		92,472	54,817	
Interest revenue	62,321	59,732	56,889	54,970	51,251	22%	122,053	99,533	
Provision for loan losses	3,700	3,500	3,500	3,400	2,800		7,200	5,200	
Other revenue	11,976	11,758	11,373	12,396	12,179	(2)	23,734	22,379	
Net revenue	70,597	67,990	64,762	63,966	60,630	16	138,587	116,712	
Operating expenses	43,483	42,222	40,520	41,294	38,808	12	85,705	73,587	
Income before taxes	27,114	25,768	24,242	22,672	21,822	24	52,882	43,125	
Income taxes	10,185	9,729	9,012	8,374	8,049		19,914	15,911	
Income	\$ 16,929	\$ 16,039	\$ 15,230	\$ 14,298	\$ 13,773	23	\$ 32,968	\$ 27,214	
PERFORMANCE RATIOS									
Common share:									
Earnings	\$.42	\$.40	\$.39	\$.37	\$.36	17	\$.82	\$.71	
Adjusted earnings	.41	.39	.38	.36	.35	17	.80	.69	
Dividends declared	.08	.08	.07	.07	.07	14	.16	.14	
Book value	12.34	12.09	11.80	11.04	10.86	14	12.34	10.86	
Adjusted book value ⁽²⁾	9.50	9.25	8.94	8.05	7.85	21	9.50	7.85	
Performance ratios:									
Return on tangible equity	17.68%	17.66%	18.20%	18.90%	19.21%		17.67%	19.52%	
Return on equity ⁽¹⁾⁽³⁾	13.41	13.25	13.30	13.42	13.46		13.33	13.57	
Return on assets ⁽³⁾	1.10	1.09	1.05	1.01	1.03		1.10	1.04	
Interest margin ⁽³⁾	4.34	4.33	4.20	4.17	4.12		4.34	4.09	
Liquidity ratio	58.53	59.06	58.80	61.16	61.18		58.79	60.36	
Dividend payout ratio	19.05	20.00	17.95	18.92	19.44		19.51	19.72	
Assets to liabilities	7.95	8.04	7.69	7.46	7.65		7.99	7.68	
Adjusted equity to assets ⁽²⁾	6.22	6.24	5.82	5.53	5.62		6.23	5.60	
RISK QUALITY									
Provision for loan losses	\$ 58,508	\$ 55,850	\$ 53,595	\$ 51,888	\$ 49,873		\$ 58,508	\$ 49,873	
Nonperforming assets	8,805	8,367	12,995	13,565	13,495		8,805	13,495	
Charge-offs	1,042	1,245	1,793	1,385	1,380		2,287	2,523	
Provision for loan losses to nonperforming assets	1.22%	1.22%	1.22%	1.22%	1.22%		1.22%	1.22%	

performing assets to total	.14	.14	.22	.24	.24		.14	.24
charge-offs to average	.09	.11	.16	.13	.14		.10	.13

PERIOD BALANCES

	\$ 4,690,196	\$ 4,505,494	\$ 4,328,613	\$ 4,169,170	\$ 3,942,077	19	\$ 4,598,355	\$ 3,870,177
investment securities	1,039,707	1,038,683	1,004,966	1,008,687	996,096	4	1,039,198	971,283
loans	5,758,697	5,574,712	5,383,096	5,239,195	4,986,339	15	5,667,213	4,903,610
assets	6,159,152	5,960,801	5,769,632	5,608,158	5,338,398	15	6,060,526	5,251,913
liabilities	4,842,389	4,613,810	4,354,275	4,078,437	3,853,884	26	4,728,731	3,786,276
holders' equity	489,821	478,960	443,746	418,459	408,352	20	484,420	403,286
common shares outstanding:								
	40,156	40,088	39,084	38,345	38,270		40,122	38,234
	41,328	41,190	40,379	39,670	39,436		41,259	39,412

PERIOD END

	\$ 4,810,277	\$ 4,584,155	\$ 4,398,286	\$ 4,254,051	\$ 4,072,811	18	\$ 4,810,277	\$ 4,072,811
investment securities	974,524	983,846	990,687	945,922	990,500	(2)	974,524	990,500
loans	5,862,614	5,633,381	5,470,718	5,302,532	5,161,067	14	5,862,614	5,161,067
assets	6,331,136	6,070,596	5,865,756	5,709,666	5,540,242	14	6,331,136	5,540,242
liabilities	4,976,650	4,748,438	4,477,600	4,196,369	3,959,226	26	4,976,650	3,959,226
holders' equity	496,297	485,414	472,686	424,000	415,994	19	496,297	415,994
common shares outstanding	40,179	40,119	40,020	38,383	38,283		40,179	38,283

(1) Net income available to common stockholders, which excludes preferred stock dividends, divided by average realized common equity, which excludes accumulated other comprehensive income (loss).

(2) Excludes effect of acquisition related intangibles and associated amortization.

(3) Annualized.

Table of Contents***Net Interest Revenue (Taxable Equivalent)***

Net interest revenue (the difference between the interest earned on assets and the interest paid on deposits and borrowed funds) is the single largest component of total revenue. United actively manages this revenue source to provide an optimal level of revenue while balancing interest rate, credit and liquidity risks. Net interest revenue for the second quarter 2006 was \$62.3 million, up 22% over last year. Year-to-date net interest revenue of \$122.1 million increased 23% as compared to the first six months of 2005. The increase for the second quarter of 2006 was driven by strong loan growth funded by customer deposit growth and a 22 basis point widening of the net interest margin to 4.34%. Average loans for the second quarter increased \$748 million, or 19%, from the second quarter of 2005, and year to date average loans increased \$728 million, or 19% from the first six months of 2005. This loan growth was due to the continued high loan demand across all markets and the generation of loans at de novo offices. Period end loan balances for the second quarter of 2006 increased \$737 million as compared with June 30, 2005. Of this increase, \$463 million was in the North Georgia markets (which includes \$216 million in Gainesville / Hall County related to the de novo expansion in May 2005), \$67 million in western North Carolina, \$159 million in the metro Atlanta market, \$18 million in east Tennessee, and \$30 million in the coastal Georgia markets.

Average interest-earning assets for the second quarter and first six months of 2006 increased \$772.4 million, or 15%, and \$763.6 million, or 16%, respectively, over the same periods in 2005. These increases reflect strong organic loan growth, as well as a modest increase in the average investment securities portfolio. The majority of the increase in interest-earning assets was funded by interest-bearing sources resulting in increases in average interest-bearing liabilities for the second quarter and year-to-date of approximately \$643.7 million and \$626.4 million, respectively, as compared with the same periods in 2005.

The banking industry uses two ratios to measure relative profitability of net interest revenue. The net interest rate spread measures the difference between the average yield on interest-earning assets and the average rate paid on interest-bearing liabilities. The interest rate spread eliminates the impact of non-interest-bearing sources of funds and gives a direct perspective on the effect of market interest rate movements. The net interest margin is defined as net interest revenue as a percent of average total interest-earning assets and takes into account the positive impact of investing non interest-bearing deposits and capital.

For the three months ended June 30, 2006 and 2005, the net interest spread was 3.80% and 3.76%, respectively, while the net interest margin was 4.34% and 4.12%, respectively. For the first six months of 2006 and 2005, the net interest spread was 3.82% and 3.75%, respectively, while the net interest margin was 4.34% and 4.09%, respectively. Since June of 2004, the Federal Reserve has increased the federal funds rate 17 times for a total of 425 basis points. This had a positive impact on net interest revenue and net interest margin due to United's slightly asset sensitive balance sheet. The widening of the spread was primarily attributed to United's ability to reprice deposits slower and less substantially than loans in response to the rise in short-term interest rates. Also contributing to the improvement in the net interest spread was a significant increase in deposits. United was able to remain competitive in deposit pricing but still gather deposits below wholesale borrowing rates. The shift from relatively higher-priced wholesale funding sources to lower cost deposits favorably impacted both the net interest spread and net interest margin.

The increases in the prime and federal funds rates, which effect variable rate assets and liabilities, along with the loan growth mentioned above were the two primary reasons for the increases in the net interest margin and net interest revenue. Most of the loan growth added over the last three years has been prime-based, adjusted daily. At June 30, 2006, United had approximately \$2.8 billion in loans indexed to the daily Prime Rate published in the Wall Street Journal compared with \$2.3 billion a year ago. At June 30, 2006 and 2005, United had receive-fixed swap contracts with a total notional value of \$314 million and \$538 million, respectively, that were used to reduce United's exposure to changes in interest rates that were accounted for as cash flow hedges of prime-based loans. The use of swap contracts is more fully explained in the Interest Rate Sensitivity Management section of this report beginning on page 21.

The average yield on interest-earning assets for the second quarter was 7.78%, compared with 6.49% in the second quarter of 2005. Year-to-date average yield on interest-earning assets was 7.63%, compared with 6.34% for the first six months of 2005. Loan yields for the second quarter and the first six months of 2006 were up 143 and 141 basis points, respectively, as compared to the same periods of 2005, due to the higher aggregate balance of prime-based,

adjusted daily loans and the increases in the prime lending rate.

The average cost of interest-bearing liabilities for the second quarter was 3.98%, an increase of 125 basis points from the second quarter of 2005. Year-to-date average cost of interest-bearing liabilities was 3.81%, an increase of 122 basis points from the first six months of 2005. The increase reflects the impact of rising rates on United's floating rate sources of funding and increased deposit pricing in selected products and markets. The impact of these increases on the overall cost of funds was partially offset by the changing liability mix out of wholesale borrowings to lower cost deposits.

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The following table shows the relationship between interest revenue and expense and the average balances of interest-earning assets and interest-bearing liabilities for the three months ended June 30, 2006 and 2005.

Table 2 Average Consolidated Balance Sheets and Net Interest Analysis

For the Three Months Ended June 30,

<i>(dollars in thousands, taxable equivalent)</i>	Average	2006		Average	2005	
	Balance	Interest	Avg.	Balance	Interest	Avg.
			Rate			Rate
Assets:						
Interest-earning assets:						
Loans, net of unearned income ⁽¹⁾⁽²⁾	\$ 4,690,196	\$ 98,965	8.46%	\$ 3,942,077	\$ 69,130	7.03%
Taxable securities ⁽³⁾	991,701	11,521	4.65	946,543	10,190	4.31
Tax-exempt securities ⁽¹⁾⁽³⁾	48,006	837	6.98	49,553	869	7.01
Federal funds sold and other interest-earning assets	28,794	405	5.63	48,166	512	4.25
Total interest-earning assets	5,758,697	111,728	7.78	4,986,339	80,701	6.49
Non-interest-earning assets:						
Allowance for loan losses	(57,654)			(49,576)		
Cash and due from banks	129,389			94,488		
Premises and equipment	120,870			103,439		
Other assets ⁽³⁾	207,850			203,708		
Total assets	\$ 6,159,152			\$ 5,338,398		
Liabilities and Stockholders Equity:						
Interest-bearing liabilities:						
Interest-bearing deposits:						
Transaction accounts	\$ 1,282,798	8,956	2.80	\$ 1,109,861	4,379	1.58
Savings deposits	174,533	226	.52	176,624	174	.40
Time deposits less than \$100,000	1,344,861	14,066	4.20	1,025,236	7,307	2.86
Time deposits greater than \$100,000	1,061,249	12,147	4.59	661,214	5,515	3.35
Brokered deposits	327,962	3,386	4.14	311,933	2,197	2.83
Total interest-bearing deposits	4,191,403	38,781	3.71	3,284,868	19,572	2.39
Federal funds purchased & other borrowings						
	165,563	2,078	5.03	149,438	1,185	3.18
Federal Home Loan Bank advances	506,531	6,380	5.05	785,523	6,565	3.35
Long-term debt	111,869	2,168	7.77	111,868	2,128	7.63
Total borrowed funds	783,963	10,626	5.44	1,046,829	9,878	3.78

Total interest-bearing liabilities	4,975,366	49,407	3.98	4,331,697	29,450	2.73
Non-interest-bearing liabilities:						
Non-interest-bearing deposits	650,986			569,016		
Other liabilities	42,979			29,333		
Total liabilities	5,669,331			4,930,046		
Stockholders equity	489,821			408,352		
Total liabilities and stockholders equity	\$ 6,159,152			\$ 5,338,398		
Net interest revenue		\$ 62,321			\$ 51,251	
Net interest-rate spread			3.80%			3.76%
Net interest margin ⁽⁴⁾			4.34%			4.12%

(1) Interest revenue on tax-exempt securities and loans has been increased to reflect comparable interest on taxable securities and loans. The rate used was 39%, reflecting the statutory federal tax rate and the federal tax adjusted state tax rate.

(2) Included in the average balance of loans outstanding are loans where the accrual of interest has been discontinued.

(3) Securities available for

sale are shown at amortized cost. Pretax unrealized losses of \$21.6 million and \$782,000 in 2006 and 2005, respectively, are included in other assets for purposes of this presentation.

- (4) Net interest margin is taxable equivalent net-interest revenue divided by average interest-earning assets.

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The following table shows the relationship between interest revenue and expense and the average balances of interest-earning assets and interest-bearing liabilities for the six months ended June 30, 2006 and 2005.

Table 2 Average Consolidated Balance Sheets and Net Interest Analysis

For the Six Months Ended June 30,

<i>(dollars in thousands, taxable equivalent)</i>	2006			2005		
	Average Balance	Interest	Avg. Rate	Average Balance	Interest	Avg. Rate
Assets:						
Interest-earning assets:						
Loans, net of unearned income ⁽¹⁾⁽²⁾	\$ 4,598,355	\$ 189,219	8.30%	\$ 3,870,177	\$ 132,266	6.89%
Taxable securities ⁽³⁾	990,698	22,839	4.61	921,564	19,204	4.17
Tax-exempt securities ⁽¹⁾⁽³⁾	48,500	1,683	6.94	49,719	1,733	6.97
Federal funds sold and other interest-earning assets	29,660	784	5.29	62,150	1,147	3.69
Total interest-earning assets	5,667,213	214,525	7.63	4,903,610	154,350	6.34
Non-interest-earning assets:						
Allowance for loan losses	(56,247)			(48,869)		
Cash and due from banks	125,957			93,446		
Premises and equipment	118,245			102,927		
Other assets ⁽³⁾	205,358			200,799		
Total assets	\$ 6,060,526			\$ 5,251,913		
Liabilities and Stockholders Equity:						
Interest-bearing liabilities:						
Interest-bearing deposits:						
Transaction accounts	\$ 1,264,373	\$ 16,143	2.57	\$ 1,092,181	\$ 7,906	1.46
Savings deposits	175,161	454	.52	175,033	342	.39
Time deposits less than \$100,000	1,307,676	26,101	4.03	1,010,395	13,769	2.75
Time deposits greater than \$100,000	1,020,682	22,556	4.46	626,918	9,884	3.18
Brokered deposits	321,562	6,328	3.97	329,396	4,374	2.68
Total interest-bearing deposits	4,089,454	71,582	3.53	3,233,923	36,275	2.26
Federal funds purchased & other borrowings						
	147,185	3,560	4.88	144,533	2,072	2.89
Federal Home Loan Bank advances	546,405	13,009	4.80	778,160	12,222	3.17
Long-term debt	111,868	4,321	7.79	111,868	4,248	7.66
Total borrowed funds	805,458	20,890	5.23	1,034,561	18,542	3.61

Total interest-bearing liabilities	4,894,912	92,472	3.81	4,268,484	54,817	2.59
Non-interest-bearing liabilities:						
Non-interest-bearing deposits	639,276			552,354		
Other liabilities	41,918			27,789		
Total liabilities	5,576,106			4,848,627		
Stockholders equity	484,420			403,286		
Total liabilities and stockholders equity	\$ 6,060,526			\$ 5,251,913		
Net interest revenue		\$ 122,053			\$ 99,533	
Net interest-rate spread			3.82%			3.75%
Net interest margin ⁽⁴⁾			4.34%			4.09%

(1) Interest revenue on tax-exempt securities and loans has been increased to reflect comparable interest on taxable securities and loans. The rate used was 39%, reflecting the statutory federal tax rate and the federal tax adjusted state tax rate.

(2) Included in the average balance of loans outstanding are loans where the accrual of interest has been discontinued.

(3) Securities available for

sale are shown at amortized cost. Pretax unrealized losses of \$17.9 million in 2006 and pretax unrealized gains of \$1.1 million in 2005 are included in other assets for purposes of this presentation.

- (4) Net interest margin is taxable equivalent net-interest revenue divided by average interest-earning assets.

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The following table shows the relative impact on net interest revenue for changes in the average outstanding balances (volume) of interest-earning assets and interest-bearing liabilities and the rates earned and paid on such assets and liabilities (rate). Variances resulting from a combination of changes in rate and volume are allocated in proportion to the absolute dollar amounts of the change in each category.

Table 3 Change in Interest Revenue and Expense on a Taxable Equivalent Basis*(in thousands)*

	Volume	Three Months Ended June 30, 2006 Compared to 2005 Increase (decrease) due to changes in			Six Months Ended June 30, 2006 Compared to 2005 Increase (decrease) due to changes in		
		Rate	Total	Volume	Rate	Total	
Interest-earning assets:							
Loans	\$ 14,407	\$ 15,428	\$ 29,835	\$ 27,322	\$ 29,631	\$ 56,953	
Taxable securities	501	830	1,331	1,504	2,131	3,635	
Tax-exempt securities	(28)	(4)	(32)	(43)	(7)	(50)	
Federal funds sold and other interest-earning assets	(243)	136	(107)	(1,284)	921	(363)	
Total interest-earning assets	14,637	16,390	31,027	27,499	32,676	60,175	
Interest-bearing liabilities:							
Transaction accounts	771	3,806	4,577	1,409	6,828	8,237	
Savings deposits	(2)	54	52		112	112	
Time deposits less than \$100,000	2,704	4,055	6,759	4,781	7,551	12,332	
Time deposits greater than \$100,000	4,106	2,526	6,632	7,729	4,943	12,672	
Brokered deposits	118	1,071	1,189	(106)	2,060	1,954	
Total interest-bearing deposits	7,697	11,512	19,209	13,813	21,494	35,307	

The aggregate value of a named executive's long-term incentive award is determined by the Committee based, in part, upon the contribution that the executive officer is expected to make to the overall growth, profitability and financial performance of the Company during the vesting

period. The Committee also considers long-term incentive compensation levels at our Peer Group Companies (and with respect to 2013 and beyond, our New Peer Group Companies) and compensation survey data. While the Company maintains stock ownership guidelines (see Stock Ownership Guidelines for Executives on page 39), the Committee does not consider existing stock ownership levels of individual executives in determining the amount of long-term incentive awards.

If a business transaction occurs that would change the basis for assessing the achievement of performance metrics, the Committee may adjust the performance metrics to reflect the new business circumstances in a manner that, in the sole discretion of the Committee, provides equivalent performance incentives and opportunity for payout. The Committee may also make adjustments as described under Performance Measures on page 37.

The 2012 annual long-term incentive award target values for our named executive officers were determined by the Committee following consideration of the 2012 competitive market assessment described above, and were generally set, assuming vesting at target, near the market median (other than for our CEO, who received grants valued slightly below the market median). The value and the composition of long-term incentive awards granted to our named executive officers is set forth under Summary of 2012 Direct Compensation Decisions below.

One-Time Special Equity Awards Related to the Medco Transactions

In September 2011 and in connection with the pending Medco transactions, the Committee evaluated the compensation philosophy and objectives with respect to all management-level employees (other than our most senior executives). Based on this evaluation, the Committee approved a one-time special equity award program under the 2011 LTIP, pursuant to which a one-time special equity award was made to all vice presidents (other than our named executive officers and our other most senior executives), a group of approximately 85 persons. The terms of these one-time special equity awards are generally the same as the terms of the annual stock option awards and restricted stock unit awards, except that the one-time special equity awards will vest fully on the second anniversary of the grant date, subject to the closing of the Medco transactions (which occurred on April 2, 2012).

In February 2012, pursuant to the one-time special equity award program, the Committee approved a one time special equity award, to our named executive officers (excluding our CEO) and our other most senior executives. The terms of these one-time special equity awards are generally the same as the terms of the annual stock option awards and restricted stock unit awards, except that the one-time special equity awards will vest fully on February 28, 2014, subject to the closing of the Medco transactions (which occurred on April 2, 2012).

In each case, if the Medco transactions had not been completed, the one-time special equity awards would have been forfeited. These one-time special equity awards were made in order to:

retain key employees for the period leading up to the closing of the Medco transactions and over the multi-year integration period thereafter;

reward key employees for their efforts related to the Medco transactions; and

further align the compensation of key employees with the interests of the Company and its stockholders.

The value and the composition of the one-time special equity awards granted to our named executive officers is set forth under Summary of 2012 Direct Compensation Decisions below.

Table of Contents**Summary of 2012 Direct Compensation Decisions**

The table below details the total direct compensation decisions for 2012.

Name	2012 Base Salary(1)	Target ABP Percentage as a % of Base Salary(2)	Target ABP Award (\$)(3)	2012 LTI Award(4)	2012 One-Time Equity Award(4)	Total Target Direct Compensation(5)	Amount Earned Above/(Below) Target ABP Award(6)	Total Actual Direct Compensation
George Paz	\$ 1,156,000	150%	\$ 1,721,250	\$ 8,000,000	\$	\$ 10,877,250	\$ 1,721,250	\$ 12,598,500
Jeffrey Hall	715,000	100%	689,250	2,500,000	570,000	4,474,250	689,250	5,163,500
Ed Ignaczak	675,000	100%	644,000	1,900,000	500,000	3,719,000	644,000	4,363,000
Patrick McNamee	675,000	100%	646,500	1,900,000	500,000	3,721,500	646,500	4,368,000
Keith Ebling	600,000	100%	571,125	1,700,000	300,000	3,171,125	571,125	3,742,250

- (1) Amounts shown represent annualized base salaries effective April 1, 2012.
- (2) Consistent with historical practice, the Committee retains the discretion (which discretion was not exercised in 2012) to adjust each named executive's ABP award from 0% to 150% of the original target ABP award applicable to such named executive (subject to the maximum payout, inclusive of any ABP supplement resulting from the achievement of the ABP adjusted EBITDA target, of 200% of the target ABP award). Such adjustment is based on performance, as evaluated on a subjective basis by the Committee and the board, and, for executives other than our CEO, by our CEO, taking into account such factors as the Committee, the board or our CEO, as applicable, may determine.
- (3) In determining the target ABP award, each named executive's target ABP percentage is applied to his base salary, with the effect of any salary adjustments during the year pro-rated for the portion of the year during which they were in effect.
- (4) The amounts shown include stock options, restricted stock units and performance shares (assuming a target payout) and reflect grant date fair market value and are also reflected in the Summary Compensation Table below. Specific 2012 long-term incentive awards, including the one-time special equity awards (which reflect grant date fair market value in the table above) are included in the Grants of Plan-Based Awards in 2012 table below.
- (5) The amounts shown include base salary, target ABP award, stock options, restricted stock units, performance shares and the one-time special equity award and, in the case of stock options, restricted stock units, performance shares and the one-time special equity award, reflect grant date fair market value and are also included in the Summary Compensation Table below.
- (6) Amounts shown represent the amount by which the ABP award was above the target ABP award due to actual Company performance and adjustment at the discretion of the Committee (which discretion was not exercised in 2012) as discussed in note (2) above. See Annual Bonus Plan above.

Performance Share Award Results

The performance share awards granted in 2010 and tied to performance metrics for the three year period ended December 31, 2012 vested at 178% based on the achievement of the criteria relative to the defined industry peer group as set forth in the table below. The terms of the awards are described in the table on page 34.

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Criteria	Express Scripts Performance	Weight	Percentile Rank	Peer Group Rank	Vesting as a Percentage of PSU Grant	Vesting Percent by Relative Weighting
Total Stockholder Return	7.6%	33 ¹ / ₃ %	40%	10 out of 16	35%	12%
Three Year Compounded Annual Growth Rate EPS	27.8%	33 ¹ / ₃ %	100%	1 out of 16	250%	83%
Three Year Average Return on Invested Capital	18.6%	33 ¹ / ₃ %	100%	1 out of 16	250%	83%
Total Vesting						178%

The companies included in the defined industry peer group for the three year performance period ending December 31, 2012 were in place in 2010 (the beginning of the performance period) and included the same

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companies that were included in our Peer Group Companies for 2012 (see chart on page 29). Medco Health Solutions, Inc. was initially included in the defined industry peer group (weighted as two companies), but was not included in the determination of the 2012 payout of performance shares, due to the Medco transactions. The payout of these shares is reflected in the Options Exercises and Stock Vested Table below.

Performance Measures

The following performance measures are used to determine Annual Bonus Plan awards and the vesting of performance share awards.

Adjusted EPS: Earnings per share (which may exclude discontinued operations), as may be adjusted by the Committee for items listed below.

Adjusted EBITDA: Earnings before interest, taxes, depreciation and amortization (which may exclude discontinued operations), as may be adjusted by the Committee for items listed below.

Total stockholder return: Annualized rate of stockholder return reflecting price appreciation over the performance period plus reinvestment of dividends and compounding effect of dividends paid on reinvested dividends.

Three-year compound annual growth in EPS: Percentage growth in basic earnings per share before extraordinary items and discontinued operations, determined by an independent accounting firm on a consistent basis, using GAAP.

Three-year average ROIC: Income before extraordinary items available for common stock divided by total invested capital (i.e., sum of total long-term debt, preferred stock, minority interest and total common equity).

The Committee has the power and authority to make determinations concerning whether the performance measures have been achieved, to the extent permitted by section 162(m) of the Internal Revenue Code of 1986, as amended, and may make appropriate adjustments to the results of the Company and/or any of the companies in the defined industry peer group, to account for changes in accounting principles or practices, changes in the number of shares outstanding (which would affect earnings per share targets), and similar changes, and shall appropriately adjust for one-time items, extraordinary items, prior period adjustments, discontinued operation charges, and similar items, in determining whether the performance measures have been achieved.

Other Compensation Related Matters

Perquisites

In accordance with our pay-for-performance compensation philosophy, no perquisites are provided to our senior executive officers that would be required to be reported in this proxy statement. All of the offices in our headquarters building are the same size, including the offices of our executive officers; no reserved parking is provided to employees at any level; and no financial counseling programs are provided to our executive officers. In addition, our executive officers pay higher premiums for medical insurance than our lower compensated employees.

Deferred Compensation

The Company provides an opportunity for executive officers to participate in the Executive Deferred Compensation Plan (EDCP), a deferred compensation program that is intended to comply with the rules provided under Section 409A of the Internal Revenue Code. Under the EDCP, participating executive officers can elect to defer up to 50% of their annual base salary and up to 100% of their Annual Bonus Plan award. In addition, we have historically made contributions to each executive officer s EDCP account in an amount equal to 6% of such executive officer s annual cash compensation, with the contributions subject to cliff vesting at the end of the third calendar year following the year for which they are awarded. Company EDCP contributions made to such executive officer s EDCP account vest as follows: 50% upon being credited to the EDCP account

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and one-third of the remaining 50% on each of the following three anniversaries of the date that the Company EDCP contribution is credited to the EDCP account. When an executive officer becomes eligible for retirement under the EDCP (which occurs upon reaching a minimum of age 55 and having a combined age plus years of service with the Company of 65), or upon termination due to death or disability (as defined in the EDCP plan), all Company EDCP contributions vest in full. Upon termination for any reason other than death, disability or retirement (as defined above), all unvested Company EDCP contributions are forfeited. Other than the 6% annual cash contribution to the EDCP and the opportunity to participate in the Company's qualified 401(k) plan, the Company provides no retirement benefits to its executive officers.

Deferred compensation provides our executive officers a tax favored method of accumulating assets for current or retirement living expenses. The three-year vesting schedule applicable to Company contributions is intended to serve as a retention device for our executive officers. Amounts contributed to the EDCP, either by the participant or by the Company, are deemed to be invested in the hypothetical investment options selected by the participant from among the investment options similar to those available under the Company's 401(k) plan and a Company Stock Fund. The account is credited with gains or losses actually experienced by the selected hypothetical investments. Accordingly, the EDCP does not credit above-market or preferential earnings on nonqualified deferred compensation.

Additional Benefits

Our executive officers also participate in employee benefit plans generally available to all employees on the same terms as similarly situated employees, including our 401(k) plan and health and welfare plans. The Company provides equivalent health insurance to all of our employees, and the employee paid portions of the premiums on such insurance are tiered such that more highly compensated employees pay higher premiums in order to subsidize the premiums for lower paid employees. As a result, the employee contributions paid by our executive officers can be nearly 400% higher than those paid by our lowest paid employees.

Clawback Policy

In 2011, the Committee approved and adopted a formal clawback policy that is applicable to all current and former executive officers and certain other employees (including the chief accounting officer), who received incentive based compensation (Annual Bonus Plan awards and long-term incentive awards) following the effectiveness of the policy. The policy provides, subject to Committee discretion, for the recovery of incentive compensation in the event of a restatement of financial results, regardless of whether misconduct was the cause of the restatement. The policy became effective beginning with fiscal year 2012 reporting.

Once final rules are released regarding clawback requirements under the Dodd-Frank Wall Street Reform and Consumer Protection Act, we intend to review our clawback policy and compensation plans and, if necessary, amend them to comply with the new mandates.

Employment Agreements

We have entered into employment agreements with our chief executive officer and each of our executive vice presidents, which provide for, among other things, severance benefits and change in control protections. The Committee believes that these agreements are appropriate and provide value to the Company for a number of reasons, including the following:

the agreements assist in attracting and retaining executive officers as we compete for talented employees in a marketplace where such agreements are commonly offered;

the severance provisions require terminated executives to execute a release in favor of the Company in order to receive any severance payments and such payments are further conditioned upon compliance with certain terms of the agreement, including covenants with respect to non-competition, non-solicitation and non-disparagement; and

the change in control protections and severance benefits help to retain key personnel during rumored or actual acquisitions or similar corporate changes.

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These agreements do not materially affect the Committee's annual compensation determinations, as they only restrict the Committee's ability to reduce base salary.

In 2010, the employment agreement with our CEO was amended to, among other things, extend the term of the agreement, and eliminate tax gross-ups on certain termination payments. Additional information about the employment agreements with our named executives, including severance benefits and change in control protections, can be found under the caption "Employment Agreements and Potential Payments Upon Termination or Change in Control" below.

Deductibility of Compensation

The goal for the deductibility of compensation is to comply with the requirements of Section 162(m) of the Internal Revenue Code of 1986, as amended, to the extent deemed practicable or appropriate by the Committee. Section 162(m) places a limit of \$1 million on the amount of compensation that a publicly-traded company may deduct in any one year for any of its named executive officers. This limitation does not apply to performance-based compensation meeting certain requirements (including the requirement that such compensation be paid under a stockholder-approved plan).

For 2012, the stock option awards, performance share awards and Annual Bonus Plan awards, all of which were granted under the stockholder-approved 2011 LTIP, were designed so that they may satisfy the deductibility requirements of Section 162(m).

Stock Ownership Guidelines for Executives

The Company has guidelines for stock ownership with respect to its executive officers. The purpose of these guidelines is to encourage our executive officers to show a commitment to the Company and its stockholders by holding a prescribed number of Company shares. The following equity vehicles are included when determining compliance with the ownership guidelines:

unvested restricted stock units, net of taxes;

Company share equivalents held under the EDCP, net of taxes;

vested, unexercised stock options and stock-settled stock appreciation rights (SSARs; these awards are no longer granted to our executive officers), net of taxes; and

long shares held outside of our compensation plans.

Unvested performance shares and unvested stock options are not included in determining compliance (all outstanding SSARs are vested). While these guidelines are not mandatory, compliance with respect to our stock ownership guidelines is reviewed annually and communicated to the executive officers. Each executive officer has five years from the time of becoming an executive officer to attain the recommended ownership level. The guidelines suggest that each executive officer hold a number of eligible shares with a value at least equal to a multiple of his or her base annual salary as follows: 5.0x for the chief executive officer, 3.0x for all executive vice presidents, 2.5x for all senior vice presidents, and 1.0x-1.5x for our vice presidents, with an exception for cases where the guidelines are not met due to a significant decrease in the stock price. As of December 31, 2012, each of our named executive officers was in compliance with the guidelines.

Option Granting Policy

The Company has an equity awards policy which covers grant approvals and the establishment of the grant date for equity grants. Pursuant to this policy:

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annual awards of equity to our named executive officers will be approved by the Committee, and ratified by the board of directors, during the first quarter of each fiscal year, or at a special meeting, with an effective grant date as of the last to occur of the following: (i) the date of the final action necessary by the Committee or the board of directors (as appropriate) to approve such award; (ii) such later date as may be specified in the terms of such award; or (iii) if the effective date under (i) or (ii) above would not fall

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within an open window trading period, then such award will be granted with an effective grant date as of the third trading date following the date of the next release of quarterly or annual financial results;

special awards for new hires, retention, promotion and special recognition may be granted during an open window trading period or, if the Committee, the board of directors or the chief executive officer (as appropriate) acts outside of such a period, then such award will be granted with an effective grant date as of the third trading date following the date of the next release of quarterly or annual financial results;

the exercise price of stock options will be not less than the closing trading price of the stock on the grant date; and

equity grants will be made on a nominal value basis consistent with the method the Company uses to value options for financial reporting purposes under applicable authoritative accounting guidance.

By granting equity awards during the first quarter, the Committee is able to consider the previous year's financial performance in determining the size and structure of such awards, both in the aggregate and with respect to individual executive officers. In addition, by granting equity awards during the first quarter, such grants are coordinated with the Annual Bonus Plan awards and annual base salary adjustments.

Derivatives Trading and Pledging

Because a primary goal of our equity-based incentive compensation is to align the interests of our executive officers with those of our stockholders, we prohibit the trading of derivative securities related to shares of our stock, including hedging strategies, puts, calls or other types of derivative securities. Our policy also prohibits pledging of shares of our stock.

Assessment of Risk

We do not believe that our compensation program generally, including the executive compensation program, encourages excessive or inappropriate risk-taking. While a significant portion of our executive compensation program is generally performance-based, and while appropriate risk-taking is a necessary component of growing a business, the Committee and management have focused on aligning our compensation policies with our long-term interests and avoiding short-term rewards for management and employee decisions that could pose undue long-term risks. Examples of such practices include the following:

Limits on Annual Bonus Plan Awards. The compensation of our named executive officers is not overly-weighted toward short-term incentives. For instance, our CEO's target Annual Bonus Plan award in 2012 was approximately 16% of his total target direct compensation. Annual Bonus Plan awards to each executive officer are limited to a fixed maximum specified by the terms of the Annual Bonus Plan or a fixed percentage of a bonus pool, and are further limited to 200% of his or her target Annual Bonus Plan award (target ABP percentage applied to base salary, with the effect of any salary adjustments during the year pro-rated for the portion of the year during which they were in effect).

Emphasis on Long-Term Incentive Awards. The largest percentage of total target direct compensation for our named executive officers is provided through equity-based long-term incentive compensation which vests over a period of years. This vesting period encourages our executive officers to focus on sustaining and enhancing our Company's long-term performance. Long-term incentive awards are also made annually so that our executive officers always have unvested equity awards which could decrease significantly in value if our business is not appropriately managed for the long term.

Use of Performance Share Awards. A significant portion of the long-term incentive compensation of our named executive officers consists of performance shares. Performance share payouts are tied to our achievement of certain performance metrics (including stock price performance) relative to a defined industry peer group over a three-year period. This structure incentivizes our named executive officers to focus on sustaining our long-term performance. These awards also have overlapping performance periods, so that any risks taken to increase the payout under one award could jeopardize the potential payout under other awards. To further reduce the incentive

for unnecessary risk-taking, we cap the payout of these awards at 250% of target.

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Performance Metrics. Awards are made based on the achievement of a variety of performance metrics, both absolute (e.g., adjusted EPS and adjusted EBITDA) and relative to our peers (e.g., total stockholder return, compound annual growth in EPS and return on invested capital) which diversifies the risks associated with any single indicator of performance. We believe these metrics are affected by management decisions and correlate to the creation of stockholder value over the long-term.

Role of Compensation Committee. Members of the Committee approve the final Annual Bonus Plan awards of our named executive officers, following a review of executive and Company performance, subject to ratification by the independent members of the board. The Committee also reviews the Company's compensation and incentive plans available to employees other than our named executive officers and reviews the programs and practices in place to prevent unnecessary risk taking under such plans.

Stock Ownership Guidelines. Our stock ownership guidelines require our named executive officers to hold a certain amount of Company stock. This requirement ensures that each named executive officer will have a significant amount of personal wealth tied to the long-term performance of our stock.

Clawback Policy. We have adopted a clawback policy applicable to all current and former executive officers and certain other employees (including the chief accounting officer), who received incentive based compensation following the effectiveness of the policy. The policy provides, subject to Committee discretion, for the recovery of incentive compensation in the event of a restatement of financial results, regardless of whether misconduct was the cause of the restatement.

In summary, we have structured our compensation program so that a considerable amount of the wealth of our executive officers is tied to the long-term health and performance of our Company. We seek to provide incentives for our executive officers to manage for long-term performance while safeguarding our stockholders from inappropriate incentive compensation payments in the event of financial restatement. We also seek to avoid the type of disproportionately large short-term incentives that could encourage executive officers to take risks which may not be in our long-term interests. We believe this combination of factors encourages our executive officers to manage our Company in a prudent manner.

Compensation Committee Interlocks and Insider Participation

The Compensation Committee is comprised of Maura C. Breen (Chair), William J. DeLaney and John O. Parker, Jr., none of whom are employees or current or former officers of our Company, or had any relationship with our Company required to be disclosed under Certain Relationships and Related Party Transactions.

Compensation Committee Report

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis section of this proxy statement with management. Based on such review and discussions, the Compensation Committee recommended to the board of directors that the Compensation Discussion and Analysis be included in this proxy statement.

COMPENSATION COMMITTEE

Maura C. Breen, Chairperson

William J. DeLaney

John O. Parker, Jr.

February 26, 2013

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The following table summarizes the compensation of our named executive officers for the year ended December 31, 2012:

Name and Principal Position	Year	Salary (1)	Stock Awards (2)(3)	Option Awards (4)	Non-Equity Incentive Plan Compensation (5)	All Other Compensation (6)	Total
George Paz			\$ 4,800,000(7)				
<i>President, Chief Executive Officer and Chairman</i>	2012	\$ 1,226,123	4,320,000	\$ 3,200,000	\$ 3,442,500	\$ 86,067	\$ 12,754,690
	2011	1,115,739		2,880,000		200,211	8,515,950
	2010	1,066,308	4,200,000	2,800,000	2,016,950	227,938	10,311,196
Jeffrey Hall			1,677,500(8)				
<i>Executive Vice President and Chief Financial Officer</i>	2012	685,288	1,100,000	1,392,500		53,617	5,187,405
	2011	608,585		1,100,000		89,307	2,897,892
	2010	580,346	950,000	950,000	675,700	89,911	3,245,957
Ed Ignaczak			1,325,000(9)				
<i>Executive Vice President, Sales and Marketing</i>	2012	678,173	875,000	1,075,000		53,190	4,419,363
	2011	547,869		875,000		81,384	2,379,253
	2010	518,662	825,000	825,000	604,360	87,578	2,860,600
Patrick McNamee			1,325,000(10)				
<i>Executive Vice President and Chief Operating Officer</i>	2012	642,115		1,075,000		51,027	4,386,142
	2011	557,869	862,500	862,500		83,035	2,365,904
	2010	534,389	850,000	850,000	621,876	85,541	2,941,806
Keith Ebling			1,075,000(11)				
<i>Executive Vice President and General Counsel</i>	2012	597,309	812,500	925,000		48,339	3,787,898
	2011	481,796		812,500		73,122	2,179,918
	2010	457,312	750,000	750,000	532,730	74,045	2,564,087

(1) Salary information for 2012 includes payouts of accrued vacation days as follows: \$79,931 for Mr. Paz; \$38,942 for Mr. Ignaczak; and \$30,626 for Mr. Ebling. Such payouts were made following the Company's decision to distribute amounts accrued under a former vacation policy that transitioned in 2000 and such distribution was made to all eligible employees of the Company.

(2) Amounts reflect the aggregate fair value of restricted stock units (including any one-time special equity awards) and performance share awards (assuming a target payout), in each case, as of the grant date calculated in accordance with applicable authoritative accounting guidance. For restricted stock units and performance share awards, fair value is calculated using the closing price of our common stock on the date of grant. For additional information regarding stock-based compensation, refer to Note 10 to the Consolidated Financial Statements included in the financial statements in our Annual Report on Form 10-K for the year ended December 31, 2012 (the "2012 10-K").

(3)

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With respect to the value of performance shares, the payout is dependent on the achievement of certain performance metrics over a three-year period relative to a defined industry peer group. Based on these performance metrics, the maximum payout is 250% of the target award, which would result in a maximum value of: \$7,000,000 for Mr. Paz; \$1,562,500 for Mr. Hall; \$1,187,500 for Mr. Ignaczak; \$1,187,500 for Mr. McNamee; and \$1,062,500 for Mr. Ebling (for a full discussion on performance shares, see Compensation Discussion and Analysis Components of Executive Compensation Long-Term Incentive Awards above).

- (4) Amounts reflect the aggregate fair value of stock options as of the grant date calculated in accordance with applicable authoritative accounting guidance. The 2012 stock option awards include the stock options granted as part of our annual long-term incentive awards and, other than for Mr. Paz, the one-time special equity awards with a value of: \$142,500 for Mr. Hall; \$125,000 for Mr. Ignaczak; \$125,000 for Mr. McNamee; and \$75,000 for Mr. Ebling. The value of the stock option awards was calculated using a Black-Scholes multiple option-pricing model. For additional information regarding stock-based compensation, including the assumptions used in the Black-Scholes model, refer to Note 10 to the Consolidated Financial Statements included in the financial statements in the 2012 10-K.
- (5) Amounts reflect the cash awards earned during 2012 under our Annual Bonus Plan, as discussed in the Compensation Discussion and Analysis above. These amounts were approved by the Committee at its February 26, 2013 meeting and by the Board of Directors at its March 6, 2013 meeting.

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(6) Amounts shown as All Other Compensation include the basic Company contribution under the EDCP and the matching contribution under the 401(k) Plan. The amounts for 2012 are as follows:

Compensation Category	Mr. Paz	Mr. Hall	Mr. Ignaczak	Mr. McNamee	Mr. Ebling
Company Contribution under the EDCP	\$ 73,567	\$ 41,117	\$ 40,690	\$ 38,527	\$ 35,839
Company Matching Contribution to the 401(k) Plan	12,500	12,500	12,500	12,500	12,500
Total	86,067	53,617	53,190	51,027	48,339

(7) Includes (i) an award of performance shares with a grant date fair value of \$2,800,000 (assuming a target payout), which is based on the market price of common stock on the date of grant and (ii) an award of time-based restricted stock units with a grant date fair value of \$2,000,000, which is based on the market price of common stock on the date of grant.

(8) Includes (i) an award of performance shares with a grant date fair value of \$625,000 (assuming a target payout), which is based on the market price of common stock on date of grant, (ii) an award of time-based restricted stock units with a grant date fair value of \$625,000, which is based on the market price of common stock on the date of grant and (iii) a one-time special equity award of restricted stock units with a grant date fair value of \$427,500, which is based on the market price of common stock on the date of grant.

(9) Includes (i) an award of performance shares with a grant date fair value of \$475,000 (assuming a target payout), which is based on the market price of common stock on date of grant, (ii) an award of time-based restricted stock units with a grant date fair value of \$475,000, which is based on the market price of common stock on the date of grant and (iii) a one-time special equity award of restricted stock units with a grant date fair value of \$375,000, which is based on the market price of common stock on the date of grant.

(10) Includes (i) an award of performance shares with a grant date fair value of \$475,000 (assuming a target payout), which is based on the market price of common stock on date of grant, (ii) an award of time-based restricted stock units with a grant date fair value of \$475,000, which is based on the market price of common stock on the date of grant and (iii) a one-time special equity award of restricted stock units with a grant date fair value of \$375,000, which is based on the market price of common stock on the date of grant.

(11) Includes (i) an award of performance shares with a grant date fair value of \$425,000 (assuming a target payout), which is based on the market price of common stock on date of grant, (ii) an award of time-based restricted stock units with a grant date fair value of \$425,000, which is based on the market price of common stock on the date of grant and (iii) a one-time special equity award of restricted stock units with a grant date fair value of \$225,000, which is based on the market price of common stock on the date of grant.

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The following table provides additional information about our (i) annual long-term incentive awards, which consist of performance share awards (PSUs), restricted stock unit awards (RSUs) and non-qualified stock option awards (options), (ii) one-time special equity awards, which consist of RSUs and options and (iii) non-equity incentive plan awards, in each case, granted to our named executive officers for 2012 pursuant to the 2011 LTIP.

Name	Type of Award	Grant Date	Committee Action Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards(2)			Estimated Future Payouts Under Equity Incentive Plan Awards(3)			All Other Stock Awards: Number of Shares of Stock or Units(i)	All Other Option Awards: Number of Securities Underlying Options(j)	Exercise or Base Price of Option Awards(k)	Grant Date Fair Value of Stock and Option Awards(l)
				Threshold (c)	Target (d)	Maximum (e)	Threshold (f)	Target (g)	Maximum (h)				
George Paz	PSUs	2/27/2012	2/21/2012				18,473	52,780	131,950			\$ 2,800,000	
	RSUs	2/27/2012	2/21/2012							37,700(4)		\$ 2,000,000	
	Options 2012 ABP	2/27/2012	2/21/2012(9)	N/A	\$ 1,721,250	\$ 3,442,500					209,358(6)	\$ 53.05	\$ 3,200,000
Jeffrey Hall	PSUs	2/27/2012	2/21/2012				4,123	11,781	29,452			\$ 625,000	
	RSUs	2/27/2012	2/21/2012							11,781(4)		\$ 625,000	
	Options	2/27/2012	2/21/2012								81,780(6)	\$ 53.05	\$ 1,250,000
	RSUs	2/27/2012	2/21/2012							8,058(5)		\$ 427,500	
	Options 2012 ABP	2/27/2012	2/21/2012(9)	N/A	\$ 689,250	\$ 1,378,500					15,595(7)	\$ 53.05	\$ 142,500
Ed Ignaczak	PSUs	2/27/2012	2/21/2012				3,134	8,953	22,383			\$ 475,000	
	RSUs	2/27/2012	2/21/2012							8,953(4)		\$ 475,000	
	Options	2/27/2012	2/21/2012								62,153(6)	\$ 53.05	\$ 950,000
	RSUs	2/27/2012	2/21/2012							7,068(5)		\$ 375,000	
	Options 2012 ABP	2/27/2012	2/21/2012(9)	N/A	\$ 644,000	\$ 1,288,000					13,680(7)	\$ 53.05	\$ 125,000
Patrick McNamee	PSUs	2/27/2012	2/21/2012				3,134	8,953	22,383			\$ 475,000	
	RSUs	2/27/2012	2/21/2012							8,953(4)		\$ 475,000	
	Options	2/27/2012	2/21/2012								62,153(6)	\$ 53.05	\$ 950,000
	RSUs	2/27/2012	2/21/2012							7,068(5)		\$ 375,000	
	Options 2012 ABP	2/27/2012	2/21/2012(9)	N/A	\$ 646,500	\$ 1,293,000					13,680(7)	\$ 53.05	\$ 125,000
Keith Ebling	PSUs	2/27/2012	2/21/2012				2,804	8,011	20,028			\$ 425,000	
	RSUs	2/27/2012	2/21/2012							8,011(4)		\$ 425,000	
	Options	2/27/2012	2/21/2012								55,610(6)	\$ 53.05	\$ 850,000
	RSUs	2/27/2012	2/21/2012							4,241(5)		\$ 225,000	
	Options 2012 ABP	2/27/2012	2/21/2012(9)	N/A	\$ 571,125	\$ 1,142,250					8,208(7)	\$ 53.05	\$ 75,000

(1) Consistent with the terms of the equity award policy, at its February 21, 2012 meeting the Committee set the grant date of both the annual long-term incentive awards and the one-time special equity awards as February 27, 2012, which was the third trading date following the date of the Company's earnings release.

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- (2) The amounts in columns (c), (d) and (e) represent the threshold, target and maximum payouts under the Annual Bonus Plan for 2012. Payouts under the ABP depend on the achievement of adjusted EPS and adjusted EBITDA targets. As discussed in more detail in Compensation Discussion and Analysis Components of Executive Compensation Annual Bonus Plan above, the funding of the bonus pool is 0% if the adjusted EPS target is below a certain level. If the adjusted EPS target is achieved, the adjusted EBITDA target is used to determine the level of funding of the Annual Bonus Plan. If the adjusted EBITDA target is exceeded, then 50% of the amount by which adjusted EBITDA is greater than the adjusted EBITDA target is used to supplement the funding of the Annual Bonus Plan up to a maximum of 200% of the target funding. If the adjusted EBITDA target is not met, then the funding of the Annual Bonus Plan is reduced by 50% of the adjusted EBITDA shortfall until the funding is reduced to 0% or the adjusted EBITDA target is achieved. Accordingly, even if the adjusted EPS target is met, there could be no payment under the Annual Bonus Plan if the adjusted EBITDA is below certain levels. The actual payouts for 2012 can be found under Compensation Discussion and Analysis Components of Executive Compensation Annual Bonus Plan above.
- (3) The numbers in columns (f), (g) and (h) represent the threshold, target and maximum payouts with respect to the performance share awards made to our named executives for the January 1, 2012 through January 1, 2015 performance period. The number of shares of our common stock to be delivered upon settlement of the performance shares will be

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determined based upon our achievement of certain performance metrics over a three-year period relative to a defined industry peer group. Realization of the performance share awards and their actual value, if any, will depend on our achievement of the performance metrics relative to a defined industry peer group and the market value of our common stock on the date that the performance share awards are settled. See Compensation Discussion and Analysis Components of Executive Compensation Annual Long-Term Incentive Awards.

- (4) Numbers represent restricted stock unit awards. These restricted stock units are scheduled to vest in three substantially equal installments on February 28, 2013, February 28, 2014, and February 28, 2015, subject to acceleration under the terms of the 2011 LTIP and the applicable award agreement.
- (5) Numbers represent one-time special equity awards of restricted stock units. These restricted stock units are scheduled to vest in full on February 28, 2014 (and were previously subject to forfeiture if the Medco transactions were not consummated), subject to acceleration under the terms of the 2011 LTIP and the applicable award agreement.
- (6) Numbers represent non-qualified stock option awards. The stock options have an exercise price of \$53.05 (the closing price of our common stock on the grant date) and are scheduled to vest in three substantially equal installments on February 28, 2013, February 28, 2014, and February 28, 2015, subject to acceleration under the terms of the 2011 LTIP and the applicable award agreement, and will expire seven years following the date of grant.
- (7) Numbers represent one-time special equity awards of stock options. The stock options have an exercise price of \$53.05 (the closing price of our common stock on the grant date). These stock options are scheduled to vest in full on February 28, 2014 (and were previously subject to forfeiture if the Medco transactions were not consummated), subject to acceleration under the terms of the 2011 LTIP and the applicable award agreement, and will expire seven years following the date of grant.
- (8) The amounts in column (l) for restricted stock unit awards and performance share awards are based on the grant date fair value of the award. The amounts in column (l) for stock option awards are estimated on the date of grant using a Black-Scholes multiple option-pricing model. For additional information regarding equity-based compensation, including the assumptions used in the Black-Scholes model, refer to Note 10 to the Consolidated Financial Statements included in the financial statements in the 2012 10-K.
- (9) The Committee established the initial performance metrics for the 2012 Annual Bonus Plan at its February 21, 2012 meeting, and further refined the performance metrics at its May 8, 2012 meeting.

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Outstanding Equity Awards at 2012 Fiscal Year-End

The following table provides information on vested and unvested equity awards held by our named executive officers as of December 31, 2012:

Name	Grant Date	Option Awards				Stock Awards			Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Rights That Have Not Vested
		Number of Securities Underlying Unexercised Options (# Exercisable)	Number of Securities Underlying Unexercised Options (# Unexercisable)	Option Exercise Price	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested	Market Value of Shares or Units of Stock That Have Not Vested	Equity Incentive Plan Awards: Number of Shares, Units or Other Rights That Have Not Vested	
George Paz	2/22/2007	410,148		\$ 19.6625	2/22/2014				
	2/26/2008	286,552		31.92	2/26/2015				
	3/2/2009	394,956		22.87	3/2/2016				
	3/3/2010	116,256	58,130(1)	49.495	3/3/2017	11,786(5)	\$ 636,444	88,106(9)	\$ 4,757,724
	3/2/2011	53,888	107,778(2)	56.50	3/2/2018	21,239(6)	1,146,906	111,503(10)	6,021,162
	2/27/2012		209,358(3)	53.05	2/27/2019	37,700(7)	2,035,800	131,950(11)	7,125,300
Jeffrey Hall	5/27/2008	152,662		35.77	5/27/2015				
	3/2/2009	76,460		22.87	3/2/2016				
	3/3/2010	39,444	19,722(1)	49.495	3/3/2017	3,200(5)	172,800	17,081(9)	922,374
	3/2/2011	20,582	41,165(2)	56.50	3/2/2018	6,490(6)	350,460	24,335(10)	1,314,090
	2/27/2012		81,780(3)	53.05	2/27/2019	11,781(7)	636,174	29,435(11)	1,590,462
	2/27/2012		15,595(4)	53.05	2/27/2019	8,058(8)	435,132		
Ed Ignaczak	10/29/2004					13,520(12)	604,209		
	3/3/2010	34,254	17,128(1)	49.495	3/3/2017	2,778(5)	150,012	14,835(9)	801,090
	3/2/2011	32,745	16,372(2)	56.50	3/2/2018	5,162(6)	278,748	19,358(10)	1,045,332
	2/27/2012		62,153(3)	53.05	2/27/2019	8,953(7)	483,462	22,383(11)	1,208,682
	2/27/2012		13,680(4)	53.05	2/27/2019	7,068(8)	381,762		
Patrick McNamee	2/26/2008	77,518		31.92	2/26/2015				
	3/2/2009	106,454		22.87	3/2/2016				
	3/3/2010	35,292	17,646(1)	49.495	3/3/2017	2,862(5)	154,548	15,283(9)	825,282
	3/2/2011	16,138	32,277(2)	56.50	3/2/2018	5,088(6)	274,752	19,080(10)	1,030,320
	2/27/2012		62,153(3)	53.05	2/27/2019	8,953(7)	483,462	22,383(11)	1,208,682
	2/27/2012		13,680(4)	53.05	2/27/2019	7,068(8)	381,672		
Keith Ebling	2/22/2007	16,780		19.6625	2/22/2014				
	2/26/2008	14,476		31.92	2/26/2015				
	3/2/2009	22,504(13)		22.87	3/2/2016				
	3/2/2009	102,882		22.87	3/2/2016				
	3/3/2010	31,140	15,570(1)	49.495	3/3/2017	2,526(5)	136,404	13,485(9)	728,190
	3/2/2011	15,203	30,406(2)	56.50	3/2/2018	4,794(6)	258,876	17,975(10)	970,650
	2/27/2012		55,610(3)	53.05	2/27/2019	8,011(7)	432,594	20,028(11)	1,081,512
	2/27/2012		8,208(4)	53.05	2/27/2019	4,241(8)	229,014		

(1) The unvested portion of this stock option award vested on February 28, 2013.

(2) One half of the unvested portion of this stock option award vested on February 28, 2013 and the remainder is scheduled to vest on February 28, 2014.

- (3) One-third of the unvested portion of this stock option award vested on February 28, 2013 and the remainder is scheduled to vest in two (2) equal installments on February 28, 2014 and February 28, 2015.
- (4) This stock option award is scheduled to vest in full on February 28, 2014. The award was previously subject to forfeiture if the Medco transactions were not consummated.
- (5) The unvested portion of this restricted stock unit award vested on February 28, 2013.
- (6) One half of the unvested portion of this restricted stock unit award vested on February 28, 2013 and the remainder is scheduled to vest on February 28, 2014
- (7) One-third of the unvested portion of this restricted stock unit award vested on February 28, 2013 and the remainder is scheduled to vest in two (2) equal installments on February 28, 2014 and February 28, 2015.

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- (8) This restricted stock unit award is scheduled to vest in full on February 28, 2014. The award was previously subject to forfeiture if the Medco transactions were not consummated.
- (9) Performance shares became payable following the end of the performance period on January 1, 2013 and were settled on March 5, 2013. The stated numbers reflect a payout of 178% of target, which was distributed as a result of the achievement of the performance metrics relative to a defined industry peer group during the performance period.
- (10) Performance shares become payable following the end of the performance period on January 1, 2014. In accordance with SEC rules, because our performance in 2011 and 2012 was above target level, we are reporting the maximum number (250% of target) for these outstanding performance share awards. The number of shares payable may decrease from the maximum amount based upon the achievement of the performance metrics relative to a defined industry peer group during the remainder of the performance period.
- (11) Performance shares become payable following the end of the performance period on January 1, 2015. In accordance with SEC rules, because our performance in 2012 was above target level, we are reporting the maximum number (250% of target) for these outstanding performance share awards. The number of shares payable may decrease from the maximum amount based upon the achievement of the performance metrics relative to a defined industry peer group during the remainder of the performance period.
- (12) Restricted stock unit award with original vesting date of October 29, 2014, with potential for accelerated vesting based on the achievement of certain performance metrics. Based upon the achievement of such performance metrics, the vesting of 70,776 shares was accelerated to March 31, 2007 and the balance of 13,520 shares is scheduled to vest on October 29, 2014.
- (13) Stock option award was approved by our board of directors on December 9, 2008; however, since the grant occurred during a closed window, the grant date for the stock option award was March 2, 2009. All such stock options were vested as of December 9, 2011.

Option Exercises and Stock Vested Table

The following table provides information on the value realized by our named executive officers with respect to stock options and SSARs (which we no longer grant to our executive officers) exercised during 2012, and with respect to restricted stock units (RSUs) and performance share awards (PSUs) that vested during 2012:

Name	Type of Award(1)	Option Awards		Stock Awards	
		Number of Shares Acquired on Exercise	Value Realized on Exercise(2)	Number of Shares Acquired on Vesting	Value Realized on Vesting(3)
George Paz	SSARs	275,696	\$ 9,021,461		
	PSUs			211,496	\$ 11,006,252
	RSUs			47,583	2,559,014
Jeffrey Hall	Options	50,000	1,997,080		
	PSUs			38,696	2,013,740
	RSUs			12,892	693,332
Ed Ignaczak	Options	93,536	3,179,801		
	PSUs			31,480	1,638,219
	RSUs				

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				10,607	570,444
Patrick McNamee	SSARs	101,004	3,350,784		
	PSUs			32,572	1,695,047
	RSUs			10,836	582,760
Keith Ebling	Options	36,960	1,582,432		
	SSARs	9,984	28,889		
	PSUs			31,480	1,638,219
	RSUs			10,170	546,943

- (1) All awards reported in this table were granted under the 2000 LTIP.
- (2) With respect to stock options, amounts reflect the value of the stock options exercised based on the difference between the exercise price for the stock options and the actual market value of our stock upon exercise.
- (3) Amounts reflect the value of the vested stock based on the closing price for our stock on the vesting date.

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The following table provides the EDCP account balance as of December 31, 2012 as well as 2012 EDCP contributions and earnings for each of our named executives. None of our named executive officers received payments under the EDCP during 2012:

Name	Executive Contributions in Last FY(1)	Registrant Contributions in Last FY(2)	Aggregate Earnings in Last FY(3)	Aggregate Withdrawals/Distributions(4)	Aggregate Balance at Last FYE(5)
George Paz		\$ 187,961	\$ 13,042		\$ 6,098,284
Jeffrey Hall		77,057	4,556		285,799
Ed Ignaczak		69,134	4,533		1,310,513
Patrick McNamee		70,785	3,637		483,407
Keith Ebling		60,872	3,424		181,349

- (1) Executives are entitled to defer up to 50% of their annual base salary and up to 100% of their ABP award.
- (2) Amounts reflect contributions made by the Company to each named executives EDCP account during 2012. These amounts are equal to 6% of all cash compensation (base salary and ABP award) received by the named executive during 2012. These contributions vest on December 31 of the third year after the year for which they were calculated, in this case December 31, 2014, unless the executive is eligible for retirement as defined under the EDCP, in which case these contributions vest immediately.
- (3) A named executive's account under the EDCP is deemed to be invested in the hypothetical investment options selected by the participant from among the investment options available under the Company's 401(k) plan, which provided returns ranging from 2.19% to 21.03% in 2012 and a Company Stock Fund, which provided a return of 20.83% in 2012. A participant may change the investment options during the annual open window period. The EDCP account is credited with gains or losses actually experienced by the selected hypothetical investments. Accordingly, the EDCP does not credit above-market or preferential earnings on nonqualified deferred compensation.
- (4) Upon a termination for any reason other than death, disability or retirement (as defined in the EDCP), all unvested contributions (i.e. Company EDCP contributions) are forfeited. Upon a termination due to death or disability or upon becoming eligible for retirement, all Company EDCP contributions are accelerated and vested. Withdrawals/distributions of vested amounts can be made after termination from the Company, either at a fixed time in a lump sum payment or pursuant to a fixed schedule as previously specified. Distribution of a participant's EDCP account shall be made in cash, except for those amounts that are invested in the Company Stock Fund, which will be distributed in whole shares of our common stock with fractional shares paid in cash. All withdrawals and distributions are made in compliance with Section 409A of the Internal Revenue Code.
- (5) Amounts include 2012 executive and Company contributions and related earnings, as well as Company contributions and deferrals of base salary and ABP awards (together with related earnings) from past participation in the EDCP.

Employment Agreements and Potential Payments Upon Termination or Change in Control

We have employment agreements with all of our named executive officers which we refer to as the agreements.

General Terms

The agreements are substantially identical (except as specifically set forth below) and together with the applicable equity award agreements, provide for the following:

Term of Employment Agreements. The agreement with Mr. Paz runs through March 31, 2014 without renewal other than through the mutual agreement of the parties. The employment period under the agreements for our other named executive officers (other than Mr. Paz) runs through March 31 of each year and is automatically renewed for successive one-year periods unless either party provides at least ninety days notice prior to the end of the then current term. Neither party under any of the agreements provided such notice prior to the end of the most recent employment period (which ends on March 31, 2013), and, as a result, each of these agreements has been renewed through March 31, 2014.

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Compensation and Benefits. Each of the agreements generally provides for: (i) the payment of an annual base salary (which may not be reduced after any increase); (ii) a guaranteed minimum ABP target equal to a fixed percentage of the named executive officer's base salary pursuant to and in accordance with our Annual Bonus Plan; (iii) participation in our employee benefit plans (other than bonus and incentive plans) on the same basis as such plans are generally made available to our other senior executives; (iv) the right to receive restricted stock unit awards, stock option awards and other equity awards and deferred compensation, to the extent determined by us and our board of directors; (v) the reimbursement of reasonable business expenses incurred in performing the named executive officer's duties; and (vi) such perquisites and fringe benefits to which our other senior executive officers are entitled and which are suitable for the named executive's position.

Benefits Upon Termination of Employment Prior to Expiration of Employment Period. Each agreement provides for the provision and forfeiture of certain benefits if the named executive officer's employment is terminated prior to the expiration of the employment period (including any renewal period in effect). In general, if the named executive officer's employment is terminated at any time, the named executive officer is not entitled to receive any further payments or benefits that have not already been paid or provided except that the named executive officer will be entitled to (i) all previously earned and accrued, but unpaid, base salary; (ii) reimbursement for any business expenses properly incurred prior to termination; and (iii) such other employee benefits (if any) to which the named executive officer may be entitled under our employee benefit plans.

i *Benefits Upon Termination by us Other Than for Cause.* If the named executive officer's employment is terminated by us other than for cause (as defined in the applicable agreement), the named executive officer is entitled to the following:

Any annual bonus earned for a previously completed fiscal year but unpaid as of the termination date, payable to the extent the corporate bonus pool is approved by the Committee.

A severance benefit equal to (i) 18 months of base salary plus (ii) 150% of the executive officer's target bonus for the year in which the termination date occurs, multiplied by the average percentage of the named executive officer's target annual bonus earned over the past three full year period, pro-rated for the portion of the termination year in which the named executive officer was employed. The percentage of the named executive officer's target annual bonus used in calculating the average percentage of the target annual bonus earned over the past three full year period is limited to 100% (for any individual year or in the aggregate) of the executive officer's target annual bonus even if the actual bonus paid exceeds the target. The Severance Benefit is payable in 18 substantially equal monthly installments beginning the first full month after termination; provided that Mr. Paz's severance benefits following certain terminations of employment, to the extent otherwise due during the first six months following termination of employment, will be accrued and paid in a lump sum on the first day of the first month which is more than six months following such termination of employment, with a reasonable rate of interest, as determined by the Company.

Reimbursement for the cost of continuing medical insurance under COBRA for a period of 18 months after termination (for Mr. Paz, payments for 36 months equal to either the cost of continuing medical insurance under COBRA or, following expiration of the COBRA period, equivalent medical insurance coverage).

For performance share awards, the named executive shall vest in a number of unvested performance shares equal to the lesser of (i) the number of performance shares which would have vested and been paid based on the full achievement of the performance metrics at the end of the performance period, or (ii) the number of performance shares which would have vested and been paid based on an assumed performance period ending as of the most recently completed fiscal quarter prior to termination, in either case, pro-rated for the portion of the performance period during which the named executive was employed by the Company.

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- i *Benefits Upon Termination by the Named Executive for Good Reason* If the named executive officer terminates employment with us for good reason (as defined in the applicable agreement and other than in connection with a change in control), the named executive officer is entitled to the benefits set forth under Benefits Upon Termination by us Other Than for Cause above, except that all unvested and unpaid performance shares shall be forfeited.

- i *Benefits Upon Termination On Account of Death or Disability*. If the named executive officer's employment terminates on account of death or disability (as those terms are defined in the applicable agreement) prior to the end of the initial employment period under the agreement, the named executive officer is generally entitled to the following:

Any annual bonus earned for a previously completed fiscal year but unpaid as of the termination date, payable to the extent the corporate bonus pool is approved by the Committee.

Reimbursement for the cost of continuing medical insurance under COBRA for a period of 18 months after termination (for Mr. Paz, payments for 36 months equal to either the cost of continuing medical insurance under COBRA or, following expiration of the COBRA period, equivalent medical insurance coverage).

All unvested stock options shall vest and become exercisable in full, and all vested stock options may be exercised by the named executive's successor at any time, or from time to time, within one year after the date of death.

All unvested restricted stock units shall vest, pro-rated for the portion of the period from the grant date through the last vesting date on the vesting schedule with respect to each RSU award during which the named executive was employed by the Company.

For performance share awards, the named executive shall vest in a number of unvested performance shares to the extent that the performance criteria are ultimately achieved and any payment of performance shares is pro-rated for the portion of the performance period during which the named executive was employed by the Company.

All Company EDCP contributions to the named executive's EDCP account are accelerated and vested.

- i *Benefits Upon Non-Renewal of the Employment Period*.

If the named executive elects not to renew the agreement at the end of any employment period, the named executive officer will be entitled to receive any annual bonus earned for a previously completed fiscal year but unpaid as of the termination date, payable to the extent the corporate bonus pool is approved by the Committee.

If the Company elects not to renew the agreement at the end of any employment period, the named executive officer is entitled to the benefits set forth under Benefits Upon Termination by the Named Executive for Good Reason.

- i *Benefits Upon Tenured Retirement*. If the named executive officer's employment terminates on account of a tenured retirement (59.5 years of age and 4.5 years of service as a senior executive), the named executive is generally entitled to the following:

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Any annual bonus earned for a previously completed fiscal year but unpaid as of the termination date, payable to the extent the corporate bonus pool is approved by the Committee.

Reimbursement for the cost of continuing medical insurance under COBRA for a period of 18 months after termination (for Mr. Paz, payments for 36 months equal to either the cost of continuing medical insurance under COBRA or, following expiration of the COBRA period, equivalent medical insurance coverage).

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For all stock option awards or stock appreciation rights granted after January 1, 2008 (i) vested awards shall remain vested and exercisable through the end of their term, and (ii) unvested awards shall continue to vest in accordance with their term as if the named executive were still employed by the Company, and remain vested and exercisable through the end of their term.

All unvested restricted stock unit awards shall continue to vest in accordance with their term as if the named executive were still employed by the Company.

Unvested performance share awards shall vest in full, but the performance shares are only paid out to the extent the performance metrics are ultimately achieved; provided, however, that if the named executive's termination date occurs prior to the third calendar month of the final year of the applicable performance period, the performance shares eligible for a payout greater than 100% of target with respect to such performance period shall be pro-rated based on the named executive's employment tenure at the Company and the remaining performance shares are subject to a maximum payout equal to 100% of target.

i *Benefits Upon Early Retirement.* If the named executive officer's employment terminates on account of early retirement (54.5 years of age, 4.5 years of service as a senior executive and the sum of the named executive's age the named executive's cumulative years of service as a senior executive equal at least 64 years), the named executive is generally entitled to the following:

Any annual bonus earned for a previously completed fiscal year but unpaid as of the termination date, payable to the extent the corporate bonus pool is approved by the Committee.

Reimbursement for the cost of continuing medical insurance under COBRA for a period of 18 months after termination (for Mr. Paz, payments for 36 months equal to either the cost of continuing medical insurance under COBRA or, following expiration of the COBRA period, equivalent medical insurance coverage).

For all stock option awards:

vested awards shall remain vested and exercisable until the earlier of (i) the end of their term and (ii) one year plus an additional month for each month the named executive was employed by the Company past his 55th birthday (the early retirement extension period); and

unvested awards that are scheduled to vest prior to the early retirement option expiration date (the date that is a certain number of months from the termination date 12 months plus the number of months worked past age 55) shall vest on schedule, pro-rated based on the number of months employed past the age of 55 divided by 60 and remain vested and exercisable through the early retirement option expiration date.

For all unvested restricted stock unit awards, a pro-rated portion (determined based on the number of months worked past age 55 through retirement, divided by 60) of the awards that are scheduled to vest on or prior to the third anniversary of the termination date (or six months following delivery of the named executive's notice of retirement, whichever comes later) shall continue to vest in accordance with their terms as if the executive officer were still employed by the Company.

Unvested performance share awards shall vest, pro-rated based on the number of months such named executive officer has worked past the age of 60 and such vested PSUs are only paid out to the extent the performance metrics are ultimately achieved; provided, however, that if the named executive's termination date occurs prior to the third calendar month of the

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final year of the applicable performance period, the performance shares eligible for a payout greater than 100% of target with respect to such performance period shall be pro-rated based on the named executive's employment tenure at the Company and the remaining performance shares are subject to a maximum payout equal to 100% of target.

- i *Benefits Upon Retirement.* If the named executive officer's employment terminates on account of retirement (any voluntary termination by the named executive officer effective after 59.5 years of

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age) and such retirement is not treated as an early retirement or a tenured retirement, the named executive is generally entitled to the following:

Any annual bonus earned for a previously completed fiscal year but unpaid as of the termination date, payable to the extent the corporate bonus pool is approved by the Committee.

Reimbursement for the cost of continuing medical insurance under COBRA for a period of 18 months after termination (for Mr. Paz, payments for 36 months equal to either the cost of continuing medical insurance under COBRA or, following expiration of the COBRA period, equivalent medical insurance coverage).

All unvested stock options shall vest and become exercisable in full, and all vested stock options may be exercised by the named executive's successor at any time, or from time to time, within one year after the date of death.

All unvested restricted stock units shall vest, pro-rated for the portion of the period from the grant date through the last vesting date on the vesting schedule with respect to each RSU award during which the named executive was employed by the Company.

For performance share awards, the named executive shall vest in a number of unvested performance shares to the extent that the performance criteria are ultimately achieved and any payment of performance shares is pro-rated for the portion of the performance period during which the named executive was employed by the Company.

All Company EDCP contributions to the named executive's EDCP account are accelerated and vested.

i **Benefits Upon a Change in Control.**

With respect to a severance benefit, if the named executive officer is terminated within one year following a change in control, and such termination constitutes good reason under the applicable employment agreement, then the named executive officer shall be entitled to a severance benefit under the agreements equal to (i) 18 months of base salary plus (ii) 150% of the executive officer's target bonus for the year in which the termination date occurs, multiplied by the average percentage of the named executive officer's target annual bonus earned over the past three full year period. The severance benefit is payable in 18 substantially equal monthly installments beginning the first full month after termination; provided that Mr. Paz's severance benefits following certain terminations of employment, to the extent otherwise due during the first six months following termination of employment, will be accrued and paid in a lump sum on the first day of the first month which is more than six months following such termination of employment, with a reasonable rate of interest, as determined by the Company.

If the named executive officer is terminated and such termination constitutes good reason under the applicable employment agreement for failure to obtain or maintain comparable employment in connection with a change in control, then the named executive officer shall be entitled to reimbursement for the cost of continuing medical insurance under COBRA for a period of 18 months after termination (for Mr. Paz, payments for 36 months equal to either the cost of continuing medical insurance under COBRA or, following expiration of the COBRA period, equivalent medical insurance coverage).

With respect to stock options, if following the change in control date there will be no generally recognized U.S. public market for the Company's common stock or any common stock for which the Company's common stock is exchanged, then all unvested stock options shall vest and become fully exercisable and each stock option shall be cancelled on the change in

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control date and the Company shall provide payment in connection with such cancellation at a purchase price equal to the excess (if any) of the per share change in control purchase price over the exercise price of the option. If following the change in control date there will be a generally recognized U.S. public market for the Company's common stock or any common stock for which the Company's

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common stock is exchanged, then all unvested stock options shall vest and become fully exercisable and each outstanding stock option shall be assumed, exchanged or substituted by a successor or acquirer entity and shall relate to the common stock of such successor or acquirer entity and shall continue to vest according to its original schedule or upon acceleration; the Committee, at its discretion, may provide for different treatment of stock options that are not assumed, exchanged or substituted or are cancelled in connection with a change in control.

With respect to restricted stock units, if the named executive officer (i) is not offered comparable employment (as defined in the applicable restricted stock unit award agreement) on or before the change in control date or (ii) is involuntarily terminated without cause after the change in control date or voluntarily terminates employment for failure to maintain comparable employment relative to employment immediately before the change in control date, then all unvested restricted stock units shall vest as of the change in control date, in the case of clause (i) above and as of the date of termination, in the case of clause (ii) above. If the named executive officer is offered and accepts comparable employment with the Company or any successor of the Company's business on or before the change in control date, then one-half of all unvested restricted stock units shall vest as of the change in control date. If the named executive officer is offered and does not accept comparable employment with the Company or any successor of the Company's business on or before the change in control date, then all unvested restricted stock units shall be forfeited. If following the change in control date there will be no generally recognized U.S. public market for the Company's common stock or any common stock for which the Company's common stock is exchanged, then all vested restricted stock units shall be cancelled as of the change in control date and the Company shall pay, in respect of each cancelled restricted stock unit, a purchase price equal to the per share change in control purchase price and all unvested restricted stock units shall be cancelled and the Company shall pay into escrow, in respect of each cancelled restricted stock unit, a purchase price equal to the per share change in control purchase price, to be disbursed on the date on which the cancelled restricted stock unit would have vested, either according to its original schedule or upon acceleration, as applicable. If following the change in control date there will be a generally recognized U.S. public market for the Company's common stock or any common stock for which the Company's common stock is exchanged, then each outstanding restricted stock unit shall be assumed, exchanged or substituted by a successor or acquirer entity and shall relate to the common stock of such successor or acquirer entity and shall continue to vest according to its original schedule or upon acceleration; the Committee, at its discretion, may provide for different treatment of restricted stock units that are not assumed, exchanged or substituted or are cancelled in connection with a change in control.

With respect to performance share awards, if the named executive officer is employed by the Company on the change in control date, then the named executive officer shall receive in cash the value of one share of the Company's common stock as of the last trading day before the change in control date, multiplied by the greater of (i) the target grant with respect to each performance share award and (ii) the portion of each performance share award which would have vested and been paid based on an assumed performance period ending the day immediately preceding the change in control date. If the named executive officer's employment has terminated due to death, disability or retirement (as defined in the award agreement), then the named executive officer shall receive in cash the value of one share of the Company's common stock as of the last trading day before the change in control date, multiplied by the target grant with respect to each performance share award. If the named executive officer's employment has been terminated by the Company without cause prior to the change in control date, then the named executive officer shall receive in cash the value of one share of the Company's common stock as of the last trading day before the change in control date, multiplied by the greater of (i) the target grant with respect to each performance share award and (ii) the portion of each performance share award which would have vested and been paid based on an assumed performance period ending as of the most recently completed fiscal quarter prior to termination, in either case, pro-rated for the portion of the actual performance period during which the named executive officer was employed. The

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Committee, at its discretion, may provide for different treatment of performance share awards that are not assumed, exchanged or substituted or are cancelled in connection with a change in control.

Restrictive Covenants. Upon termination of employment, each named executive officer is prohibited from (i) soliciting certain clients or prospective clients of ours for a period of two years after termination; (ii) soliciting or hiring any employee of ours for a period of two years after termination; (iii) competing with us for a period of eighteen months after termination; or (iv) disclosing certain confidential information with respect to us or our business. If, following either a tenured retirement or an early retirement, the named executive violates any of these covenants, then the named executive would forfeit all unvested or unexercised equity awards, and would be required to reimburse the Company for any realized benefits resulting from his retirement.

Tax Indemnification. In the event that any amount or benefit paid or distributed to an named executive officer (other than Mr. Paz) pursuant to the agreement, taken together with any amounts or benefits otherwise paid or distributed to such named executive by the Company pursuant to any other arrangement or plan (we refer to such payments as covered payments), would result in the named executive's liability for the payment of an excise tax under Section 4999 of the Internal Revenue Code of 1986, as amended, we will make a gross-up payment to the named executive officer to fully offset the excise tax, provided the aggregate present value of the covered payments is equal to or exceeds 125% of the maximum total payment which could be made to the named executive officer without triggering the excise tax. If the aggregate present value of the covered payments, however, exceeds such maximum amount, but is less than 125% of such maximum amount, then we may, in our discretion, reduce the covered payments so that no portion of the covered payments is subject to the excise tax, and no gross-up payment would be made. Pursuant to the amendment of the employment agreement of Mr. Paz in 2010, he is not eligible to receive such a tax gross-up payment.

Estimated Benefits

The following tables reflect the amount of incremental compensation that would be paid to each named executive officer upon the termination of his employment or upon a change in control. These amounts assume that such termination or change in control was effective as of December 31, 2012 and that the price of our common stock upon which certain of the calculations are made was the closing price of \$54.00 per share on that date. Accordingly, the computation of these amounts requires us to make certain estimates that are further described above in the description of the agreement or in the accompanying footnotes. Some of these amounts are payable pursuant to the terms of the agreement while others arise from the terms of the applicable grant and/or benefit plan. Those amounts payable pursuant to the agreement generally require the named executive officer to sign a general release and to comply with certain contractual terms including those related to noncompetition, nonsolicitation and non-disparagement.

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Because the incremental amount of payments to be made depends on several factors, the actual amounts to be paid out upon termination of employment or a change in control can only be determined at the time of the event. The tables do not include the nonqualified deferred compensation that would be paid, which is set forth in the Nonqualified Deferred Compensation Table above, except to the extent an individual is entitled to an additional benefit as a result of the termination or change in control. The estimated payments upon termination and change in control are as follows:

GEORGE PAZ

Executive Benefits and Payments Upon Termination	Voluntary Termination	Retirement (4)	Good Reason or Involuntary Not For Cause Termination			Change in Control(1)	
			for Cause Termination	For Cause Termination	Death or Disability	With Offer of Comparable Employment	Without Offer of Comparable Employment
Compensation:							
Severance Benefit	\$	\$	\$ 4,335,000(2)	\$	\$	\$	\$4,725,150(2)(3)
Long-term Incentive:							
PSUs		5,990,220	9,690,678(5)		9,690,678(5)	15,541,686(6)	15,541,686(6)
Stock Options Unvested & Accelerated		222,703(12)			460,766	460,766	460,766
RSUs Unvested & Accelerated		1,845,990(13)			1,867,428	1,909,602(7)	3,819,150
Deferred Compensation							
Unvested & Accelerated		(9)			(9)		
Benefits:							
Post-termination Health Care		51,724(10)	51,724(10)		51,724(10)		51,724(10)
280G Tax Gross-up						(11)	(11)
Total		8,110,637	14,077,402		12,070,596	17,912,054	24,598,476

JEFFREY HALL

Executive Benefits and Payments Upon Termination	Voluntary Termination	Retirement (4)	Good Reason or Involuntary Not For Cause Termination			Change in Control(1)	
			for Cause Termination	For Cause Termination	Death or Disability	With Offer of Comparable Employment	Without Offer of Comparable Employment
Compensation:							
Severance Benefit	\$	N/A	\$ 2,145,000(2)	\$	\$	\$	\$2,305,875(2)(3)
Long-term Incentive:							
PSUs		N/A	2,010,204(5)		2,010,204(5)	3,309,552(6)	3,309,552(6)
Stock Options Unvested & Accelerated		N/A			181,354	181,354	181,354
RSUs Unvested & Accelerated		N/A			674,946	797,310(7)	1,594,566
Deferred Compensation Unvested & Accelerated							
		N/A			248,599(8)		
Benefits:							
Post-termination Health Care		N/A	25,862(10)		25,862(10)		25,862(10)
280G Tax Gross-up		N/A					1,925,925
Total		N/A	4,181,066		3,140,965	4,288,216	9,343,134

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Executive Benefits and Payments Upon Termination	Retirement		Good Reason or Involuntary Not for Cause Termination			Change in Control(1)	
	Voluntary Termination	(4)	For Cause Termination	For Cause Termination	Death or Disability	With Offer of Comparable Employment	Without Offer of Comparable Employment
Compensation:							
Severance Benefit	\$	N/A	\$ 2,025,000(2)	\$	\$	\$	\$ 2,176,875(2)(3)
Long-term Incentive:							
PSUs		N/A	1,648,512(5)		1,648,512(5)	2,646,324(6)	2,646,324(6)
Stock Options Unvested & Accelerated		N/A			149,203	149,203	149,203
RSUs Unvested & Accelerated		N/A			1,140,580	1,012,014(7)	2,023,974
Deferred Compensation Unvested & Accelerated		N/A			240,961(8)		
Benefits:							
Post-termination Health Care		N/A	25,862(10)		25,862(10)		25,862(10)
280G Tax Gross-up		N/A					
Total		N/A	3,699,374		3,205,118	3,807,541	7,022,238

PATRICK MCNAMEE

Executive Benefits and Payments Upon Termination	Retirement		Good Reason or Involuntary Not for Cause Termination			Change in Control(1)	
	Voluntary Termination	(4)	For Cause Termination	For Cause Termination	Death or Disability	With Offer of Comparable Employment	Without Offer of Comparable Employment
Compensation:							
Severance Benefit	\$	N/A	\$ 2,025,000(2)	\$	\$	\$	\$ 2,176,875(2)(3)
Long-term Incentive:							
PSUs		N/A	1,666,062(5)		1,666,062(5)	2,660,526(6)	2,660,526(6)
Stock Options Unvested & Accelerated		N/A			151,537	151,537	151,537
RSUs Unvested & Accelerated		N/A			554,148	647,244(7)	1,294,434
Deferred Compensation Unvested & Accelerated		N/A			228,872(8)		
Benefits:							
Post-termination Health Care		N/A	25,862(10)		25,862(10)		25,862(10)
280G Tax Gross-up		N/A					
Total		N/A	3,716,924		2,626,481	3,459,307	6,309,234

Table of Contents**KEITH EBLING**

Executive Benefits and Payments Upon Termination	Good Reason or Involuntary Not for Cause			Change in Control(1)		
	Voluntary Retirement Termination (4)	Termination	For Cause Termination	Death or Disability	With Offer of Comparable Employment	Without Offer of Comparable Employment
Compensation:						
Severance Benefit	\$ N/A	\$ 1,800,000(2)	\$	\$	\$	\$ 1,935,000(2)(3)
Long-term Incentive:						
PSUs	N/A	1,502,172(5)		1,502,172(5)	2,402,838(6)	2,402,838(6)
Stock Options Unvested & Accelerated	N/A			130,770	130,770	130,770
RSUs Unvested & Accelerated	N/A			470,826	528,498(7)	1,056,888
Deferred Compensation Unvested & Accelerated	N/A			178,128(8)		
Benefits:						
Post-termination Health Care	N/A	25,862(10)		25,862(10)		25,862(10)
280G Tax Gross-up	N/A					
Total	N/A	3,328,034		2,307,758	3,062,106	5,551,358

(1) Both the 2000 LTIP and the 2011 LTIP under which the awards reflected in this table were granted, generally define a change in control as:

- i) a change in the composition of a majority of our board of directors without the approval of the incumbent directors;
- ii) an acquisition of more than 25% of our common stock or voting power;
- iii) any merger, unless (1) our stockholders possess more than 50% of the surviving company's outstanding stock, (2) no person or group who did not own 25% or more of our common stock before the change in control owns 25% or more of the stock of the surviving company, and (3) at least a majority of the board of directors of the surviving company were members of the incumbent directors of our Company before the change in control;
- iv) the sale of all or substantially all of our assets; or
- v) a stockholder-approved dissolution of our Company.

The 2000 LTIP and the award agreements under the 2011 LTIP, pursuant to which the awards reflected in this table were granted, generally define comparable employment as employment with us or our successor following a change in control pursuant to which:

the responsibilities and duties of the named executive officer are substantially the same as before the change in control, and the other terms and conditions of employment following the change in control do not impose obligations materially more burdensome;

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the aggregate compensation is substantially economically equivalent to or greater than the named executive officer's aggregate compensation immediately prior to the change in control; and

the named executive officer remains employed in the metropolitan area in which he was employed immediately preceding the change in control.

The definitions of change in control and comparable employment appear in Section 2 of the 2000 LTIP, Section 2 of the 2011 LTIP, and in the applicable award agreements.

- (2) Severance benefit under the agreements is equal to (i) 18 months of base salary plus (ii) 150% of the executive officer's target bonus for the year in which the termination date occurs, multiplied by the average percentage of the named executive officer's target annual bonus earned over the past three full year period, pro-rated for the portion of the termination year in which the named executive officer was employed; provided that no such pro-ration shall occur if the termination date constitutes "good reason" under the applicable employment agreement and occurs within one year following a Change in Control. The percentage of the named executive officer's target annual bonus used in calculating the average percentage of the target annual bonus earned over the past three full year period is limited to 100% (for any individual year or in the aggregate) of the executive officer's target annual bonus even if the actual bonus paid exceeds the target; provided that no such limitation shall apply if the termination date constitutes "good reason" under the applicable employment agreement and occurs within one year following a Change in Control. The severance benefit is payable in 18 substantially equal monthly installments beginning the first full month after termination; provided that if the executive officer is determined to

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be a specified employee in accordance with Section 409A of the Internal Revenue Code, then payment of such benefit will be delayed six months to the extent required under Section 409A.

- (3) Assumes termination of employment agreement concurrent with change in control, either by us without cause or by the executive officer for good reason.
- (4) In 2010, Mr. Paz became eligible for early retirement under his employment agreement. No other named executive officers were retirement eligible as of December 31, 2012. If Mr. Paz's employment is terminated due to death or disability, the termination event, at the option of Mr. Paz or his estate, as applicable, may be treated as early retirement. None of our named executive officers were eligible for retirement tenured retirement as of December 31, 2012.
- (5) Upon an involuntary not for cause termination, the named executive vests in a number of performance shares equal to the lesser of (i) the number of performance shares which would have vested and been paid based on the full achievement of the performance metrics at the end of the performance period, or (ii) the number of performance shares which would have vested and been paid based on an assumed performance period ending as of the most recently completed fiscal quarter prior to termination, in either case, pro-rated for the portion of the performance period during which the named executive was employed by the Company. The amounts set forth in the table are calculated based on an assumed performance period ending as of December 31, 2012 and are pro-rated for the portion of the performance period during which the named executive was employed by the Company. The awards under the 2010 grant were based on 178% of target payout as the three year performance period with respect to the 2010 grant ended on December 31, 2012. The awards are payable in shares of our common stock. This amount is based on involuntary not for cause termination; the amount would be \$0 for a good reason termination.

Upon a termination due to death or disability, the named executive vests in a number of unvested performance shares to the extent that the performance criteria are ultimately achieved and any payment of performance shares is pro-rated for the portion of the performance period during which the named executive was employed by the Company. Because we are unable to calculate the number of performance shares which would have vested and been paid (other than for 2010 award), the amounts set forth in the table are calculated based on an assumed performance period ending as of December 31, 2012 and are prorated for the portion of the performance period during which the named executive was employed by the Company.
- (6) Payable in cash following a change in control and performance shares would be terminated. If the named executive is employed by the Company on the date of the change in control, the named executive shall receive in cash the value of one share of our common stock on the last trading day before the change in control multiplied by the greater of (i) the target amount of performance shares and (b) the portion of the performance shares which would have vested and been paid based on an assumed performance period ending as of the day immediately preceding the change in control, in each case, without pro-ration. The amounts set forth in the table above are calculated based on an assumed performance period ending on December 31, 2012.
- (7) This amount assumes the offer of comparable employment is accepted; however, if the offer of comparable employment is not accepted then the amount is \$0.
- (8) Upon a termination due to death or disability (as defined in the EDCP), all Company EDCP contributions are accelerated and vested. Withdrawals/distributions of vested amounts can be made after termination from the Company, either at a fixed time in a lump sum payment or pursuant to a fixed schedule as previously specified. Distribution of a participant's EDCP account shall be made in cash, except for those amounts that are invested in the Company Stock Fund, which will be distributed in whole shares of our common stock with fractional shares paid in cash. All withdrawals and distributions are made in compliance with Section 409A of the Internal Revenue Code.
- (9) Mr. Paz is currently eligible for retirement (as defined in the EDCP) and accordingly, all of the Company EDCP contributions to Mr. Paz have fully vested. For the total amount payable to Mr. Paz under the EDCP upon his termination of employment, see the Nonqualified Deferred Compensation in 2012 table above.

(10) Reimbursement for cost of continuing health insurance under COBRA for 18 months after termination (for Mr. Paz, payments for 36 months after termination equal to either the cost of continuing medical insurance under COBRA or, following expiration of the COBRA period, equivalent medical insurance coverage). Amounts are calculated based on the current monthly cost for COBRA for the highest cost options under our current health plans.

(11) Pursuant to the employment agreement of Mr. Paz, as amended, he is not eligible to receive a tax gross-up payment.

(12) Amount reflects unvested stock options that continue to vest on schedule following the date of termination.

(13) Amount reflects unvested restricted stock units that continue to vest on schedule following the date of termination.

Table of Contents**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT****Stock Ownership of Directors and Executive Officers**

The following table contains certain information regarding the beneficial ownership of our common stock as of February 15, 2013 (unless otherwise noted) by (i) each of our directors and director nominees, (ii) each of our executive officers named in the Summary Compensation Table above, and (iii) all of our current executive officers and directors as a group. Unless otherwise indicated, each of the persons or entities listed below exercises sole voting and investment power over the shares that each of them beneficially owns. The business address for each of our directors and executive officers listed below is c/o Express Scripts Holding Company, One Express Way, St. Louis, MO 63121.

Name	Shares of Common Stock	Stock Options Exercisable within 60 days	Shares Issuable within 60 days(1)	Other Stock- Based Holdings(2)	Total Shares Beneficially Owned(3)(4)
	Beneficially Owned Directly or Indirectly				
George Paz	2,147,005	181,805	123,077	67,608	2,519,495
Gary G. Benanav	82,958	0	0	0	82,958
Maura C. Breen	62,160	0	0	0	62,160
William J. DeLaney	2,094	0	0	0	2,094
Nicholas J. LaHowchic	82,571	0	0	0	82,571
Thomas P. Mac Mahon	80,787	0	0	0	80,787
Frank Mergenthaler	29,259	0	0	0	29,259
Woodrow A. Myers	45,887	0	0	0	45,887
John O. Parker, Jr.	67,128	0	0	0	67,128
William L. Roper	48,420	0	0	0	48,420
Samuel K. Skinner	82,599	0	0	0	82,599
Seymour Sternberg	68,478	0	0	0	68,478
Jeffrey Hall	337,976	67,564	27,453	538	433,531
Keith Ebling	438,611	49,309	21,078	222	509,220
Edward Ignaczak	130,474	54,217	23,178	4,297	212,166
Patrick McNamee	366,311	54,501	23,673	2,094	446,579
Directors and Executive Officers as a Group (16 persons)	4,072,718	407,396	218,459	74,759	4,773,332

(1) Includes shares that may be acquired within 60 days of February 15, 2013 upon the vesting of restricted stock units (RSUs) and the payout of performance shares (PSUs). RSUs vesting on February 28, 2013 are as follows: Mr. Paz 34,971; Mr. Hall 10,372; Mr. Ignaczak 8,343; Mr. McNamee 8,390; Mr. Ebling 7,593; and for executive officers as a group 69,669. PSUs approved for payout on March 5, 2013 are as follows: Mr. Paz 88,106; Mr. Hall 17,081; Mr. Ignaczak 14,835; Mr. McNamee 15,283; Mr. Ebling 13,485; and executive officers as a group 148,790.

(2) Includes phantom shares representing fully-vested investments in the Company stock fund under the EDCP, as to which no voting or investment power exists.

(3) The total beneficial ownership for any individual, and total for the directors and executive officers as a group is less than 1%, based on 818,567,605 shares of common stock issued and outstanding on February 15, 2013.

(4)

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Includes shares in which voting and investment power are shared with the director s or executive s spouse or held in family trust(s), as follows: Mr. Paz 129,110 shares; Mr. Ebling 183,148 shares; Mr. McNamee 52,918 shares; Mr. Benanav 27,687 shares; Mr. Sternberg 19,589 shares; and directors and executive officers as a group 412,452 shares.

Table of Contents**Five Percent Owners of Company Stock**

The following table sets forth information as to each person or entity known to us, based on information available to us, to be the beneficial owner of more than five percent of the outstanding shares of our common stock as of March 11, 2013 (percent of common stock outstanding based on shares of common stock issued and outstanding on March 11, 2013).

Name and Mailing Address	Number of Shares	Percent of Common Stock Outstanding
BlackRock, Inc. 40 East 52nd Street New York, NY 10022	51,677,844(1)	6.3%

- (1) Information based on Schedule 13G filed with the SEC on January 30, 2013 by BlackRock, Inc., including on behalf of certain subsidiaries. Such filing reports that the beneficial owner, BlackRock, Inc. holds sole voting and dispositive power with respect to all of the 51,677,844 shares reported. The filing also reports that various persons have the right to receive or the power to direct the receipt of dividends from, or the proceeds from the sale of the shares and that no one person's interest in the shares is greater than five percent (5%) of the total number of outstanding shares.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires our directors and executive officers, persons who beneficially own more than ten percent of a registered class of our equity securities, and certain other persons to file reports of ownership and changes in ownership on Forms 3, 4 and 5 with the SEC and The Nasdaq Global Select Market, and to furnish the Company with copies of the forms. Based solely on our review of the forms we received or filed with the SEC, or written representations from reporting persons, we believe that all of our directors, executive officers and greater than ten percent beneficial owners complied with all such filing requirements during 2012.

REPORT OF THE AUDIT COMMITTEE

Our Audit Committee is composed of four directors who, in the judgment of our board of directors, meet the independence requirements of The Nasdaq Global Select Market. The same directors served as members of the Express Scripts, Inc. audit committee prior to the consummation of the Medco transactions. The audit committees of Express Scripts, Inc. and Express Scripts Holding Company held joint meetings from the time the Audit Committee for Express Scripts Holding Company was established in December 2011 through the consummation of the Medco transactions.

Since 1992 the Audit Committee has operated under a charter adopted by our board of directors. The charter, as amended, can be found on the Investor Relations Governance Corporate Governance Documents section of our website at www.express-scripts.com. The primary function of the Audit Committee is to assist our board of directors in its oversight of the integrity of our Company's financial reporting processes and system of internal controls with respect to finance and accounting. Management is responsible for our financial statements and overall reporting process, including the system of internal controls. The independent registered public accountants are responsible for conducting annual audits and quarterly reviews of our financial statements and expressing an opinion as to the conformity of the annual financial statements with generally accepted accounting principles.

The Audit Committee submits the following report pursuant to SEC rules:

The Audit Committee has reviewed and discussed with management the audited consolidated financial statements of Express Scripts Holding Company for the year ended December 31, 2012 (which we refer to as the Financial Statements).

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The Audit Committee has discussed with PricewaterhouseCoopers LLP, or PwC, our Company's independent registered public accountants, the matters required to be discussed by Statement on Auditing Standards No. 61, as amended, as adopted by the Public Company Accounting Oversight Board, or PCAOB, in Rule 3200T, which include among other items, matters related to the conduct of the audit of the Financial Statements.

The Audit Committee has received from PwC the written disclosures and the letter required by the applicable requirements of the PCAOB regarding the independent accountant's communications with the Audit Committee concerning independence (which relates to the auditor's independence from our Company and its related entities), and has discussed with PwC the independence of PwC from us.

Based upon the aforementioned review and discussions, the Audit Committee recommended to the board of directors that the Financial Statements be included in the Express Scripts Holding Company Annual Report on Form 10-K for the fiscal year ended December 31, 2012 for filing with the SEC.

Respectfully submitted,

Frank Mergenthaler, Chairman

William J. DeLaney

John O. Parker, Jr.

Seymour Sternberg

The Report of the Audit Committee will not be deemed incorporated by reference by any general statement incorporating by reference this proxy statement or portions thereof into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that we specifically incorporate this information by reference, and will not otherwise be deemed filed under such Acts.

Table of Contents**Proxy Item No. 2:****RATIFICATION OF APPOINTMENT OF INDEPENDENT****REGISTERED PUBLIC ACCOUNTANTS**

The firm of PricewaterhouseCoopers LLP served as our independent registered public accountants for the year ended December 31, 2012. The Audit Committee of the board of directors has appointed PricewaterhouseCoopers LLP to act in that capacity for the year ending December 31, 2013. A representative of PricewaterhouseCoopers LLP is expected to be present at the annual meeting, will have the opportunity to make a statement if he or she desires to do so, and will be available to respond to appropriate questions from stockholders.

Although we are not required to submit this appointment to a stockholder vote, the Audit Committee continues to believe that it is appropriate as a matter of policy to request that our stockholders ratify the appointment of PricewaterhouseCoopers LLP as our principal independent registered public accountants. If the stockholders do not ratify the appointment, the Audit Committee will investigate the reasons for stockholder rejection and consider whether to retain PricewaterhouseCoopers LLP or appoint another auditor. Even if the appointment is ratified, the Audit Committee in its discretion may direct the appointment of a different independent auditor at any time during the year if it determines that such a change would be in the best interests of the Company and our stockholders.

Principal Accountant Fees

The following table presents fees for professional services rendered by PricewaterhouseCoopers LLP for the audit with respect to our annual financial statements for the years ended December 31, 2011 and December 31, 2012, as well as fees billed for other services rendered by PricewaterhouseCoopers LLP during those periods. Amounts displayed for 2012 reflect fees for Express Scripts, Inc. for the period beginning January 1, 2012 through April 2, 2012 (the date of the consummation of the Medco transactions) and for Express Scripts Holding Company for the period beginning April 2, 2012 through December 31, 2012.

	2011	2012
Audit fees(1)	\$ 2,258,750	\$ 4,943,786
Audit-related fees(2)	103,000	777,000
Tax fees(3)	4,976	11,397
All other fees(4)	5,200	5,200
Total Fees	\$ 2,371,926	\$ 5,737,383

- (1) Audit fees are fees paid for professional services rendered for the audit of our annual consolidated financial statements, for reviews of our interim consolidated financial statements and SEC filings, and for the audit of internal controls over financial reporting. Audit fees also include fees for work generally only the independent auditor can be expected to provide such as services associated with documents filed with the SEC and with assistance in responding to SEC comment letters, as well as reports, specific audits and agreed upon procedures as required by regulators.
- (2) Audit related fees are fees paid for assurance and related services performed by our independent registered public accountant including services related to SSAE16 reports for 2012 and for due diligence services related to contemplated mergers and acquisitions for 2011.
- (3) Tax fees are fees paid for state tax apportionment work, preparation and review of international tax filings and international tax consulting and advice related to compliance with international tax laws.
- (4)

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All other fees include any fees earned for services rendered by PricewaterhouseCoopers LLP during 2011 and 2012 which are not included in any of the above categories. The other fees for 2011 and 2012 consist of licensing fees paid by us with respect to certain accounting research software.

Policy Regarding Pre-Approval of Services Provided by the Independent Registered Public Accountants

The Audit Committee charter requires the Audit Committee's pre-approval of all services, both audit and permitted non-audit, to be performed for the Company by the independent auditors. In determining whether proposed services are permissible, the Audit Committee considers whether the provision of such services is compatible with maintaining auditor independence. As part of its consideration of proposed services, the Audit

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Committee may (i) consult with management as part of the decision-making process, but may not delegate this authority to management and (ii) delegate, from time to time, its authority to pre-approve such services to one or more Audit Committee members, provided that any such approvals are presented to the full Audit Committee at the next scheduled Audit Committee meeting.

The board of directors unanimously recommends a vote FOR the ratification of PricewaterhouseCoopers LLP as our independent registered public accountants for the year ending December 31, 2013.

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Proxy Item No. 3:

NON-BINDING VOTE ON EXECUTIVE COMPENSATION

Section 14A of the Securities Exchange Act requires that we include in this proxy statement a non-binding stockholder vote on our executive compensation as described in this proxy statement.

We encourage stockholders to review the Compensation Discussion and Analysis, or CD&A, beginning on page 23. The CD&A provides additional details of our executive compensation program, including our compensation philosophy and objectives, the individual elements of our executive compensation program and how our executive compensation program is administered.

The board of directors believes that the executive compensation as disclosed in the CD&A, tabular disclosures, and other narrative executive compensation disclosures in this proxy statement aligns with our compensation philosophy and objectives as well as the pay practices of our Peer Group Companies. The board of directors strongly endorses the Company's executive compensation program and recommends that stockholders vote in favor of the following resolution:

RESOLVED, that the stockholders approve the compensation of the named executive officers, as disclosed pursuant to the compensation disclosure rules of the SEC, including the Compensation Discussion and Analysis section and the tabular and narrative disclosure included in the Company's 2013 annual meeting proxy statement.

Because the vote is advisory, it will not be binding upon the board of directors or the Compensation Committee and neither the board nor the Compensation Committee will be required to take any action as a result of the outcome of the vote on this proposal. The board of directors values the opinions of the Company's stockholders as expressed through their votes and other communications. Although the resolution is non-binding, the board of directors and the Compensation Committee will consider the outcome of the advisory vote on executive compensation and those opinions when making future compensation decisions. We currently intend to hold a non-binding stockholder vote on our executive compensation each year at the annual meeting of our stockholders.

The board of directors unanimously recommends a vote FOR the approval of the above resolution and the Company's executive compensation.

Table of Contents**SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS**

The following table summarizes information as of December 31, 2012 relating to our equity compensation plans under which equity securities are authorized for issuance:

Plan Category	Number of securities to be issued upon exercise of outstanding options and rights (a)	Weighted-average exercise price of outstanding Options and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity Compensation Plans approved by security holders(1)	45,499,675(2)	\$ 40.94(3)	47,876,040(4)
Equity Compensation Plans not approved by security holders	0	0	0
Total	45,499,675(2)	\$ 40.94(3)	47,876,040(4)

(1) All shares reflected in this table are issuable pursuant to equity incentive plans that were approved prior to the consummation of the Medco transactions by (i) Express Scripts, Inc., in its capacity as our sole stockholder, and (ii) shareholders of either Express Scripts, Inc. or Medco Health Solutions, Inc., as applicable.

(2) Does not include stock options, restricted stock units or performance shares awarded after December 31, 2012.

The following is a summary of the 2011 LTIP as of December 31, 2012:

There are 4,323,768 shares of stock to be issued upon exercise of outstanding options, with a weighted average exercise price of \$51.28.

The number of outstanding and unvested shares of restricted stock units and performance shares (assuming vesting at target) is 803,226. Assuming that all performance shares vest at the maximum level, the amount shown in column (a) would be increased by 166,817 shares.

The following is a summary of the Medco Health Solutions, Inc. 2002 Stock Incentive Plan (the Medco 2002 SIP):

There are 28,291,159 shares of stock to be issued upon exercise of outstanding options, with a weighted average exercise price of \$40.42.

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The number of outstanding and unvested shares of restricted stock units is 3,104,547 and the number of outstanding vested deferred restricted stock units (which were previously offered under the Medco 2002 SIP prior to April 2, 2012) is 120,182.

The following is a summary of our 2000 Long-Term Incentive Plan (the 2000 LTIP):

There are 8,539,776 shares of stock to be issued upon exercise of outstanding options and SSARs, with a weighted average exercise price of \$37.41.

The number of outstanding and unvested shares of restricted stock units and performance shares (assuming vesting at target) is 437,199. Assuming that all performance shares vest at the maximum level, the amount shown in column (a) would be increased by 293,004 shares.

Pursuant to the terms of the 2011 LTIP, no grants of equity awards may be made under the 2000 LTIP after June 1, 2011.

The table does not include outstanding options and restricted stock units granted pursuant to the Accredo Health, Incorporated 2002 Long-Term Incentive Plan (the Accredo Plan). We assumed the sponsorship of the Accredo Plan, and awards granted thereunder, upon the consummation of the Medco transactions; however, no further awards may be made under the Accredo Plan. As of December 31, 2012, there are 2,965,839 shares of stock to be issued upon exercise of outstanding options, with a weighted average exercise price of \$37.75, and the number of outstanding and unvested restricted stock units under the Accredo Plan is 423,802.

- (3) Shares issuable upon vesting of restricted stock units or performance shares are not included in the weighted average computation.

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- (4) Includes shares available for issuance under the 2011 LTIP, the Express Scripts, Inc. Employee Stock Purchase Plan (the ESPP), the Medco 2002 SIP and the EDCP. Because no further grants under the 2000 LTIP or the Accredo Plan may be made, shares available for issuance under the 2000 LTIP and the Accredo Plan are not included. The number of shares available for issuance includes 25,100,185 shares remaining available for future issuance under the 2011 LTIP, 5,889,884 shares remaining available for future issuance under the EDCP, 2,156,187 shares remaining available for future issuance under the ESPP (including 27,159 shares issued for the month of January 2013) and 14,729,784 shares remaining available for future issuance under the Medco 2002 SIP.

OTHER MATTERS

Other Business at the Annual Meeting

Management does not intend to bring before the meeting any matters other than those specifically described above and knows of no matters other than the foregoing to come before the meeting. If any other matters or motions properly come before the meeting, it is the intention of the persons named in the accompanying proxy to vote shares of our common stock subject to such proxy in accordance with the recommendation of management on such matters or motions, including any matters dealing with the conduct of the meeting.

Future Stockholder Proposals

In accordance with our bylaws, a stockholder who, at any annual meeting of our stockholders, intends to nominate a person for election as a director or present a proposal must so notify our Corporate Secretary, in writing, describing such nominee(s) or proposal and providing information concerning such stockholder and the underlying beneficial owner, if any, including, among other things, such information as name, address, occupation, shares, rights to acquire shares and other derivative securities, and any relevant understandings or arrangements between the stockholder and beneficial owner, if any, and the reasons for and interest of such stockholder and beneficial owner, if any, in the proposal. Generally, to be timely, such notice must be received by our Corporate Secretary not less than 90 days nor more than 120 days in advance of the first anniversary of the preceding year's annual meeting, provided that in the event that no annual meeting was held the previous year or the date of the annual meeting has been changed by more than 30 days from the date of the previous year's meeting, or in the event of a special meeting of stockholders called to elect directors, not later than the close of business on the tenth day following the day on which notice of the date of the meeting was mailed or public disclosure of the date of the meeting was made, whichever occurs first. For our annual meeting to be held in 2014, any such notice must be received by us at our principal executive offices between January 9, 2014 and February 8, 2014 to be considered timely for purposes of the 2014 annual meeting. Any person interested in offering such a nomination or proposal should request a copy of the relevant bylaw provisions from our Corporate Secretary. Please note that these time periods also apply in determining whether notice is timely for purposes of rules adopted by the SEC relating to the exercise of discretionary voting authority, which rules are separate from and in addition to the SEC requirements (discussed above) that a stockholder must meet in order to have a proposal included in our proxy statement.

Our bylaws also set out specific eligibility requirements that nominees for director must satisfy, which require nominees to:

complete and return a written questionnaire with respect to the background and qualification of the nominee and the background of any other person or entity on whose behalf the nomination is being made; and

provide a written representation and agreement that the nominee:

- i will abide by the advance resignation requirements of our bylaws in connection with director elections;
- i is not and will not become a party to (1) any agreement, arrangement or understanding with, and has not given any commitment or assurance to, any person or entity as to how such prospective nominee, if elected as a director, will act or vote on any issue or question (a Voting Commitment) that has not been disclosed to us or (2) any Voting Commitment that could limit or interfere with the nominee's ability to comply, if elected as a director, with the nominee's fiduciary duties under applicable law;

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- i is not and will not become a party to any agreement, arrangement or understanding with any person or entity other than us with respect to any direct or indirect compensation, reimbursement or indemnification in connection with service or action as a director that has not been disclosed therein; and
- i if elected as a director, would be in compliance and will comply with all of our applicable corporate governance, conflict of interest, confidentiality and stock ownership and trading policies and guidelines.

Stockholder proposals intended to be presented at the 2014 annual meeting must be received by us at our principal executive office no later than November 28, 2013, in order to be eligible for inclusion in our proxy statement and proxy relating to that meeting. Upon receipt of any proposal, we will determine whether to include such proposal in accordance with SEC rules and regulations.

Householding of Proxy Materials

The SEC has adopted rules which permit companies and intermediaries such as brokers to satisfy delivery requirements for Notice of Internet Availability of Proxy Material with respect to two or more stockholders sharing the same address by delivering a single Notice of Internet Availability of Proxy Material addressed to those stockholders. This process, which is commonly referred to as householding, potentially provides extra convenience for stockholders and cost savings for companies. We and some brokers household proxy materials, delivering a single proxy statement to multiple stockholders sharing an address unless contrary instructions have been received from the affected stockholders. Once you have received notice from your broker or us that they or we will be householding materials to your address, householding will continue until you are notified otherwise or until you revoke your consent. If, at any time, you no longer wish to participate in householding and would prefer to receive a separate proxy statement, or if you currently receive multiple proxy statements and would prefer to participate in householding, please notify your broker if your shares are held in a brokerage account or us if you hold registered shares. You can notify us by sending a written request to Express Scripts Holding Company, Attention: Investor Relations, One Express Way, Saint Louis, Missouri 63121, or by telephone at 314-702-7516, and we will promptly deliver these documents to you or start householding following our receipt of such request.

Solicitation of Proxies

We will bear the cost of the solicitation of proxies for the meeting. Brokerage houses, banks, custodians, nominees and fiduciaries are being requested to forward the proxy material to beneficial owners and their reasonable expenses therefore will be reimbursed by us. Solicitation will be made by mail and may also be made personally or by telephone, facsimile or other means by our executive officers, directors and employees, without special compensation for such activities. We have hired MacKenzie Partners, Inc. to assist in the solicitation of proxies. MacKenzie will receive a fee for such services of approximately \$10,000, plus reasonable out-of-pocket expenses, which will be paid by us.

By Order of the Board of Directors

Keith J. Ebling

Executive Vice President, General Counsel and Corporate Secretary

March 28, 2013

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EXPRESS SCRIPTS HOLDING COMPANY

ONE EXPRESS WAY

SAINT LOUIS, MO 63121

VOTE BY INTERNET - www.proxyvote.com

Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 P.M. Eastern Time on May 8, 2013.* Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form.

ELECTRONIC DELIVERY OF FUTURE PROXY MATERIALS

If you would like to reduce the costs incurred by our company in mailing proxy materials, you can consent to receiving all future proxy statements, proxy cards and annual reports electronically via e-mail or the Internet. To sign up for electronic delivery, please follow the instructions above to vote using the Internet and, when prompted, indicate that you agree to receive or access proxy materials electronically in future years.

VOTE BY PHONE - 1-800-690-6903

Use any touch-tone telephone to transmit your voting instructions up until 11:59 P.M. Eastern Time on May 8, 2013.* Have your proxy card in hand when you call and then follow the instructions.

VOTE BY MAIL

Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717.

***Up until 11:59 p.m. Eastern Time on May 6, 2013 for participants in the Express Scripts, Inc. 401(k) Plan.**

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS:

M54607-P33532-Z59589 KEEP THIS PORTION FOR YOUR RECORDS
THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED. DETACH AND RETURN THIS PORTION ONLY

EXPRESS SCRIPTS HOLDING COMPANY

The Board of Directors recommends you vote FOR each of the following nominees:

1. Election of Directors

Nominees:	For	Against	Abstain
1a. Gary G. Benanav

1b. Maura C. Breen	The Board of Directors recommends you vote FOR each of the following proposals:	For	Against	Abstain
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1c. William J. DeLaney	"	"	"				
1d. Nicholas J. LaHowchic	"	"	"	2	To ratify the appointment of PricewaterhouseCoopers LLP as the Company's independent registered public accountants for the Company's current fiscal year.	"	"
1e. Thomas P. Mac Mahon	"	"	"				
1f. Frank Mergenthaler	"	"	"				
1g. Woodrow A. Myers, Jr., MD	"	"	"	3.	To approve, by non-binding vote, executive compensation.	"	"
1h. John O. Parker, Jr.	"	"	"				
1i. George Paz	"	"	"				
1j. William L. Roper, MD, MPH	"	"	"		Please indicate if you plan to attend this meeting.	"	"
1k. Samuel K. Skinner	"	"	"			Yes	No
1l. Seymour Sternberg	"	"	"				

Please sign exactly as your name(s) appear(s) hereon. When signing as attorney, executor, administrator, or other fiduciary, please give full title as such. Joint owners should each sign personally. All holders must sign. If a corporation or partnership, please sign in full corporate or partnership name by authorized officer.

Signature [PLEASE SIGN WITHIN BOX]

Signature (Joint Owners)

Date

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Admission Ticket

EXPRESS SCRIPTS HOLDING COMPANY

Annual Meeting of Stockholders

Thursday, May 9, 2013

8:00 a.m., Central Time

The Company's facility

One Express Way

Saint Louis, Missouri 63121

Please present this top portion of the proxy card at the meeting if you wish to attend. Please remember to indicate that you plan to attend this meeting on reverse side.

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting:

The Notice and Proxy Statement and Annual Report are available at www.proxyvote.com.

M54608-P33532-Z59589

EXPRESS SCRIPTS HOLDING COMPANY

This Proxy is solicited on behalf of the Board of Directors

Annual Meeting of Stockholders

May 9, 2013

The stockholder(s) hereby appoint(s) George Paz and Keith J. Ebling, or either of them, as proxies, each with the power to appoint his substitute, and hereby authorize(s) them to represent and to vote, as designated on the reverse side of this ballot, all of the shares of Common Stock of Express Scripts Holding Company that the stockholder(s) is/are entitled to vote at the Annual Meeting of Stockholders to be held at 8:00 a.m. Central Time on May 9, 2013, at the Company's facility located at One Express Way, Saint Louis, Missouri 63121 and any adjournment or postponement thereof. **THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED AS DIRECTED BY THE STOCKHOLDER(S). IF NO SUCH DIRECTIONS ARE MADE, THE PROXIES SHALL VOTE: (i) FOR THE ELECTION OF EACH NOMINEE LISTED ON THE REVERSE SIDE FOR THE BOARD OF DIRECTORS, (ii) FOR PROPOSALS NO. 2 AND NO. 3 AND (iii) IN THEIR DISCRETION UPON OTHER BUSINESS AS MAY PROPERLY COME**

BEFORE THE MEETING AND ANY ADJOURNMENTS OR POSTPONEMENTS THEREOF.

NOTICE TO PARTICIPANTS IN THE EXPRESS SCRIPTS, INC. 401(K) PLAN

This card also constitutes voting instructions for participants in the Express Scripts, Inc. 401(k) Plan (the Savings Plan). The signature on the reverse side of this form will direct the New York Life Trust Company (the Trustee), as trustee of the Savings Plan, to vote all shares of Common Stock of Express Scripts Holding Company credited to the applicable Savings Plan account, in accordance with the instructions indicated on the reverse side of this card. Except if otherwise required by law, if no instructions are received back to the Trustee on or before May 6, 2013, shares credited to the respective Savings Plan account will not be voted by the Trustee. Under the terms of the Savings Plan and trust agreement, any direction shall be held in confidence and the Trustee (and its agents) shall not disclose how individuals in the Savings Plan have voted to the Plan Sponsor board or employees.

PLEASE MARK, SIGN, DATE AND RETURN THIS PROXY CARD PROMPTLY USING THE ENCLOSED ENVELOPE

Continued and to be signed on reverse side