

UNITED COMMUNITY BANKS INC

Form DEF 14A

March 25, 2004

Table of Contents

SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a)
of the Securities Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(6)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Under Rule 14A-12

UNITED COMMUNITY BANKS, INC.
(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
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 - (3) Filing Party: _____
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Table of Contents

March 25, 2004

Dear Shareholder:

It is my pleasure to invite you to attend the 2004 Annual Meeting of Shareholders of United Community Banks, Inc., which will be held April 28, 2004 at Brasstown Valley Resort, Young Harris, Georgia at 2:00 p.m. Shareholders of record as of March 10, 2004 are entitled to vote at the meeting.

Enclosed with this letter is the notice of the meeting, a proxy statement, a proxy, the 2003 annual report to shareholders and the 2003 annual report on Form 10-K filed with the Securities and Exchange Commission. In addition, enclosed is a recent news release related to our three for two stock split. The proxy statement contains information about actions to be taken at the meeting. We encourage you to review these materials so you will be fully informed about the matters that will be considered at the meeting. The notice of the meeting and proxy statement that appear on the following pages contain information about matters that are to be considered at the meeting.

Whether or not you are able to attend the meeting, please take a moment to complete your Proxy Card and at your earliest convenience and forward the card to our transfer agent in the envelope provided. If you do attend the meeting and would like to vote in person, you may do so even if you already sent in a proxy.

On behalf of the management, employees, and directors of United Community Banks, Inc., I want to thank you for your continued support.

Sincerely,

Jimmy C. Tallent,
President and Chief Executive Officer

United Community Banks, Inc. Post Office Box 398 63 Highway 515 Blairsville, Georgia 30514

Table of Contents

**63 HIGHWAY 515
BLAIRSVILLE, GEORGIA 30514-0398**

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To be Held on April 28, 2004

The Annual Meeting of Shareholders of United Community Banks, Inc. will be held on April 28, 2004 at 2:00 p.m. at Brasstown Valley Resort, Young Harris, Georgia, for the following purposes:

1. To elect eleven directors to constitute the Board of Directors to serve until the next annual meeting and until their successors are elected and qualified;
2. To approve an amendment to United's Restated Articles of Incorporation to increase the number of authorized shares of common stock from 50,000,000 to 100,000,000; and
3. To approve an amendment to United's 2000 Key Employee Stock Option Plan to increase the number of shares available for grant under the plan;
4. To consider and act upon any other matters that may properly come before the meeting and any adjournment thereof.

Only shareholders of record at the close of business on March 10, 2004 will be entitled to notice of, and to vote at, the meeting. A proxy statement and a proxy solicited by the Board of Directors are enclosed herewith. Please sign, date, and return the proxy promptly in the enclosed business reply envelope. If you attend the meeting you may, if you wish, withdraw your proxy and vote in person.

By Order of the Board of Directors,

Jimmy C. Tallent,
President and Chief Executive Officer

March 25, 2004

WHETHER OR NOT YOU EXPECT TO BE PRESENT AT THE ANNUAL MEETING, PLEASE COMPLETE AND RETURN THE ENCLOSED PROXY PROMPTLY SO THAT YOUR VOTE MAY BE RECORDED AT THE MEETING IF YOU DO NOT ATTEND.

Table of Contents

TABLE OF CONTENTS

	<u>Page</u>
<u>PROXY STATEMENT</u>	1
<u>QUESTIONS AND ANSWERS ABOUT THE ANNUAL MEETING</u>	1
<u>What is the purpose of the annual meeting?</u>	1
<u>Who is entitled to vote?</u>	1
<u>How do I vote?</u>	1
<u>What are the quorum and voting requirements?</u>	2
<u>How are votes counted?</u>	2
<u>Will other matters be voted on at the annual meeting?</u>	3
<u>Can I revoke my proxy instructions?</u>	3
<u>What other information should I review before voting?</u>	3
<u>PROPOSAL 1: ELECTION OF DIRECTORS</u>	3
<u>Introduction</u>	3
<u>Information Regarding Nominees And Other Directors</u>	4
<u>Board of Directors and Committees</u>	5
<u>Recommendation</u>	6
<u>PROPOSAL 2: APPROVAL TO AMEND THE RESTATED ARTICLES OF INCORPORATION</u>	6
<u>Introduction</u>	6
<u>Purpose of Authorizing Additional Common Stock</u>	6
<u>Effect of Proposal</u>	6
<u>Vote Required For Approval</u>	7
<u>Recommendation</u>	7
<u>PROPOSAL 3: APPROVAL OF AMENDMENT TO 2000 KEY EMPLOYEE STOCK OPTION PLAN</u>	7
<u>Introduction</u>	7
<u>Summary of the 2000 Key Employee Stock Option Plan</u>	8
<u>Vote Required For Approval</u>	11
<u>Recommendation</u>	11
<u>DIRECTOR NOMINATIONS</u>	11
<u>General</u>	11
<u>Nominating/Corporate Governance Committee Procedures</u>	11
<u>Shareholder Nominations</u>	11
<u>CODE OF ETHICAL CONDUCT</u>	12
<u>COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS</u>	13
<u>Director Compensation</u>	13
<u>Executive Compensation</u>	13
<u>Executive Contracts, Termination And Change-In-Control Arrangements</u>	15
<u>Compensation Committee Interlocks and Insider Participation</u>	16

Table of Contents

	Page
<u>REPORT ON EXECUTIVE COMPENSATION</u>	16
<u>General</u>	16
<u>Salary</u>	16
<u>Annual Incentive Compensation</u>	17
<u>Stock Options</u>	17
<u>Revenue Neutral Retirement Plan</u>	17
<u>SHAREHOLDER RETURN PERFORMANCE GRAPH</u>	19
<u>PRINCIPAL AND MANAGEMENT SHAREHOLDERS</u>	20
<u>Section 16(a) Beneficial Ownership Reporting Compliance</u>	21
<u>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS</u>	21
<u>AUDIT COMMITTEE REPORT</u>	22
<u>SHAREHOLDER COMMUNICATION</u>	23
<u>OTHER MATTERS</u>	23
<u>Independent Public Accountants</u>	23
<u>Expenses of Solicitation</u>	24
<u>Shareholder Proposals & Recommendations For Director Nominees</u>	24
<u>General</u>	24
<u>Appendix A Nominating/Corporate Governance Committee Charter</u>	
<u>Appendix B Amendment to Restated Articles of Incorporation</u>	
<u>Appendix C Amendment to United Community Banks, Inc. 2000 Key Employee Stock Option Plan</u>	
<u>Appendix D Shareholder Nomination & Communication Procedures</u>	
<u>Appendix E Audit Committee Charter</u>	

Table of Contents

March 25, 2004

**63 HIGHWAY 515
BLAIRSVILLE, GEORGIA 30514-0398**

PROXY STATEMENT

This proxy statement is furnished in connection with the solicitation of proxies by the Board of Directors of United Community Banks, Inc. for use at the 2004 Annual Meeting of Shareholders to be held on Wednesday, April 28, 2004 at 2 p.m., at Brasstown Valley Resort, Young Harris, Georgia, and at any adjournments or postponements of the annual meeting.

QUESTIONS AND ANSWERS ABOUT THE ANNUAL MEETING

What is the purpose of the annual meeting?

At the annual meeting, shareholders will act upon the matters set forth in the accompanying notice of meeting, including the election of eleven directors, an amendment to the Restated Articles of Incorporation, an amendment to the 2000 Key Employee Stock Option Plan and any other matters that may properly come before the meeting.

Who is entitled to vote?

All shareholders of record of United's common stock at the close of business on March 10, 2004, which is referred to as the record date, are entitled to receive notice of the annual meeting and to vote the shares of common stock held by them on the record date. Each outstanding share of common stock entitles its holder to cast one vote for each matter to be voted upon.

How do I vote?

If you hold your shares of common stock in your own name as a holder of record, you may vote in person at the annual meeting or instruct the proxy holders named in the enclosed proxy card how to vote your shares by marking, signing, dating and returning the proxy card in the postage-paid envelope that we have provided to you.

If your shares of common stock are held by a broker, bank or other nominee (i.e., in street name), you will receive instructions from your nominee which you must follow in order to have your shares voted.

Proxies that are executed, but do not contain any specific instructions, will be voted **FOR** the proposals specified herein.

Table of Contents

What are the quorum and voting requirements?

The presence, in person or by proxy, of holders of at least a majority of the total number of outstanding shares of common stock entitled to vote is necessary to constitute a quorum for the transaction of business at the annual meeting. As of the record date, there were 23,551,207 shares of common stock outstanding and entitled to vote at the annual meeting. After giving effect to the three for two stock split announced March 15, 2004 that will be effective April 14, 2004, there would have been 35,326,810 shares of common stock outstanding on the record date.

The required vote for each item of business at the annual meeting is as follows:

For Proposal 1, the election of directors, those nominees receiving the greatest number of votes at the annual meeting, assuming a quorum is present, shall be deemed elected, even though the nominees may not receive a majority of the votes cast.

For Proposal 2, the amendment to the Restated Articles of Incorporation, an affirmative vote of a majority of the shares of United entitled to vote at the meeting.

For Proposal 3, the amendment to the 2000 Key Employee Stock Option Plan, an affirmative vote of a majority of the shares represented at the meeting.

For any other business at the annual meeting, the vote of a majority of the shares voted on the matter, assuming a quorum is present, shall be the act of the shareholders on that matter, unless the vote of a greater number is required by law.

How are votes counted?

Abstentions and broker non-votes will be counted only for purposes of establishing a quorum, but will not otherwise affect the vote. Broker non-votes are proxies received from brokers or other nominees holding shares on behalf of their clients who have not been given specific voting instructions from their clients with respect to non-routine matters. Under the rules of certain self-regulatory organizations, such as the National Association of Securities Dealers, the election of directors is considered a routine matter and brokers and other nominees have discretionary voting power to vote such shares on routine matters in the absence of specific voting instructions.

In counting the votes cast, only those cast for and against a matter are included, although you cannot vote against a nominee for director. Because directors are elected by a plurality of the votes cast in favor, votes to withhold authority to vote for a certain nominee will have no effect.

If you hold your shares of common stock in your own name as a holder of record, and you fail to vote your shares, either in person or by proxy, the votes represented by your shares will be excluded entirely from the vote and will have no effect (other than with respect to establishing a quorum). If, however, your shares are held in street name and you fail to give instructions as to how you want your shares voted, the broker, bank or other nominee may vote the shares in their own discretion on certain routine matters.

Table of Contents

Will other matters be voted on at the annual meeting?

We are not aware of any other matters to be presented at the annual meeting other than those described in this proxy statement. If any other matters not described in the proxy statement are properly presented at the meeting, proxies will be voted in accordance with the best judgment of the proxy holders.

Can I revoke my proxy instructions?

You may revoke your proxy by:

filing a written revocation with the Secretary of United at the following address: **63 Highway 515, P.O. Box 398, Blairsville, Georgia 30514;**

filing a duly executed proxy bearing a later date; or

appearing in person and electing to vote by ballot at the annual meeting.

Any shareholder of record as of the record date attending the annual meeting may vote in person by ballot whether or not a proxy has been previously given, but the presence (without further action) of a shareholder at the annual meeting will not constitute revocation of a previously given proxy.

What other information should I review before voting?

The 2003 annual report to shareholders and the annual report on Form 10-K filed with the Securities and Exchange Commission, including financial statements for the fiscal year ended December 31, 2003, is included with this proxy statement. The annual report is not part of the proxy solicitation material. An additional copy of our annual report on Form 10-K may be obtained without charge by:

accessing United's web site at www.ucbi.com;

writing to the Secretary of United at the following address: **63 Highway 515, P.O. Box 398, Blairsville, Georgia 30514;** or

accessing the EDGAR database at the SEC's website at www.sec.gov.

You may also obtain copies of our Form 10-K from the SEC at prescribed rates by writing to the Public Reference Section of the SEC, 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at (800) SEC-0330 for further information on the SEC's public reference rooms.

PROPOSAL 1: ELECTION OF DIRECTORS

Introduction

The Bylaws of United provide that the number of directors may range from eight to fourteen. The Board of Directors of United has set the number of directors at eleven. The number of directors may be increased or decreased

from time to time by the Board of Directors by resolution, but no decrease shall have the effect of shortening the term of an incumbent director. The terms of office for directors continue until the next annual meeting and until their successors are elected and qualified.

Each proxy executed and returned by a shareholder will be voted as specified thereon by

Table of Contents

the shareholder. If no specification is made, the proxy will be voted for the election of the nominees named below to constitute the entire Board of Directors. If any nominee withdraws or for any reason is not able to serve as a director, the proxy will be voted for such other person as may be designated by the Board of Directors as a substitute nominee, but in no event will the proxy be voted for more than eleven nominees. Management of United has no reason to believe that any nominee will not serve if elected. All of the nominees are currently directors of United.

Directors are elected by a plurality of the votes cast by the holders of the shares entitled to vote in an election at a meeting at which a quorum is present. A quorum is present when the holders of a majority of the shares outstanding on the record date are present at a meeting in person or by proxy. An abstention or a broker non-vote would be included in determining whether a quorum is present at a meeting, but would not have an effect on the outcome of a vote.

Information Regarding Nominees and Other Directors

The following information as of March 1, 2004 has been furnished by the respective nominees for director. Except as otherwise indicated, each nominee has been or was engaged in his present or last principal employment, in the same or a similar position, for more than five years.

Name (Age)	Information About Nominee	Director Since
Jimmy C. Tallent (51)	President and Chief Executive Officer of United	1988
Robert L. Head, Jr. (64)	Chairman of the Board of Directors of United; Owner of Head Construction Company and Head-Westgate Corp., commercial construction companies, Blairsville, Georgia	1988
W. C. Nelson, Jr. (60)	Vice Chairman of the Board of United; Owner of Nelson Tractor Company, Blairsville, Georgia	1988
A. William Bennett (61)	Partner in Bennett, Davidson & Associates, LLP, Certified Public Accountants, Washington, Georgia	2003
Robert H. Blalock (56)	Owner of Blalock Insurance Agency, Inc., Clayton, Georgia	2000
Guy W. Freeman (67)	Executive Vice President of Banking of United	2001
Thomas C. Gilliland (56)	Executive Vice President, Secretary and General Counsel of United	1992
Charles E. Hill (66)	Retired Director of Pharmacy at Union General Hospital, Blairsville, Georgia	1988
Hoyt O. Holloway (64)	Owner of H&H Farms, poultry farm, Blue Ridge, Georgia	1993
Clarence W. Mason, Sr. (67)	Owner of Mason Lawn and Garden, Blue Ridge, Georgia	1992

Tim Wallis (52)

Owner of Wallis Printing Co., Rome, Georgia

1999

There are no family relationships between any director, executive officer, or nominee for director of United or any of its subsidiaries.

Table of Contents

Board of Directors and Committees

The United Board of Directors held seven meetings during 2003. All of the directors attended at least seventy-five percent (75%) of the meetings of the Board and meetings of the committees of the Board on which they served that were held during 2003.

The Board has determined that a majority of the members of the Board of Directors are independent as independent is defined under applicable federal securities laws and the recently revised Nasdaq Marketplace Rules. The independent directors are directors Nelson, Bennett, Blalock, Hill, Holloway and Mason. These independent directors intend to meet in executive sessions every quarter without management or the other directors.

Compensation Committee. The compensation committee of the Board of Directors is comprised of directors, Head, Nelson, Bennett, Blalock, Hill, Holloway, Mason and Wallis, all of the members of the Board who are not employees of United or any of its subsidiaries. The compensation committee makes compensation decisions for executive officers and key employees and administers the 2000 Key Employee Stock Option Plan. A majority of the compensation committee members are independent under the federal securities laws and the Nasdaq Marketplace Rules. The compensation committee met two times during 2003.

Audit Committee. The audit committee of the Board of Directors is comprised of directors Nelson, Bennett, Holloway and Parks. The audit committee serves as an independent and objective party to monitor United's financial reporting process and internal control systems; review and assess the performance of United's independent accountants and internal auditing department; and facilitate open communication among the independent accountants, financial and senior management, the internal auditing department, and the Board of Directors. Certain specific responsibilities of the audit committee include recommending the selection of independent auditors; meeting with the independent auditors to review the scope and results of the audit; reviewing with management and the internal auditor the systems of internal controls and internal audit reports; ensuring that United's books, records, and external financial reports are in accordance with generally accepted accounting principles; and reviewing all reports of examination made by regulatory authorities and ascertaining that any and all operational deficiencies are satisfactorily corrected. The Board of Directors has determined that all of the members of the audit committee are independent under applicable federal securities laws and the Nasdaq Marketplace Rules and have sufficient knowledge in financial and accounting matters to serve on the audit committee, including the ability to read and understand fundamental financial statements. In addition, the Board of Directors has determined that Mr. Bennett qualifies as an audit committee financial expert as defined by the federal securities laws and the Nasdaq Marketplace Rules. The audit committee met seven times during 2003.

Nomination/Corporate Governance Committee. The Board of Directors, by formal, written charter, established the nominating/corporate governance committee on January 19, 2004. The nominating/corporate governance committee of the Board of Directors is comprised of directors, Head, Nelson, Bennett, Blalock, Hill, Holloway, Mason and Wallis, all of the members of the Board who are not employees of United or any of its subsidiaries. The nominating/corporate governance committee reviews United's corporate governance policies and guidelines and monitors compliance. In addition, the nominating/corporate governance committee is responsible for identifying individuals qualified to become Board members and recommending to the Board of Directors the director nominees for election. It leads the Board in its annual review of the Board's performance and recommends to the Board director candidates for each committee for appointment by the Board. A majority of the nominating/corporate governance committee members are independent under applicable federal securities laws and the Nasdaq Marketplace Rules. The nominating/corporate governance committee was organized in January

Table of Contents

2004 and met one time to select the nominees for recommendation to be elected directors at this annual meeting. The nominating/corporate governance committee charter is available on United's website and is set forth as Appendix A hereto.

Recommendation

The Board of Directors unanimously recommends a vote FOR Proposal 1.

PROPOSAL 2: APPROVAL TO AMEND THE RESTATED ARTICLES OF INCORPORATION

Introduction

The Board of Directors unanimously approved, subject to shareholder approval, an amendment to the Restated Articles of Incorporation of United to increase the number of authorized shares of common stock, \$1.00 par value, from 50,000,000 to 100,000,000 shares. At December 31, 2003, United had 23,526,032 shares outstanding. Of the 26,473,968 remaining authorized shares on that date, 1,709,421 shares (2,388,737 shares, assuming Proposal 3 is approved by the shareholders) were reserved for issuance upon the exercise of options previously granted or available to be granted under United's option plans, 278,350 shares are held in treasury, and 248,000 shares were reserved for issuance upon the conversion of subordinated debt. The three for two stock split on April 14, 2004, will require the issuance and reservation of an additional 12,880,902 shares, leaving United with only 11,357,295 authorized but unissued shares of common stock uncommitted to any specific purpose. The Board believes that it would be in the best interests of United and its shareholders to increase this number of authorized but unissued shares.

Purpose of Authorizing Additional Common Stock

The purpose of increasing the authorized number of shares of common stock is to give the Board of Directors greater flexibility in connection with United's capital structure, possible future financing requirements, employee compensation and other corporate matters. The Board also believes that the shares remaining available for use are insufficient to enable the Board of Directors to act quickly to take advantage of various business opportunities, including acquisitions, financings, raising additional capital, stock splits and dividends, compensation plans, and other corporate purposes.

Effect of Proposal

If this proposal is approved, the Board of Directors will have the authority to issue the additional authorized shares, publicly or privately, to the persons and for the consideration as it may determine without further action by the shareholders. Any issues of additional common stock could have a dilutive effect on the book value and earnings per share of the outstanding shares and would decrease the relative voting power of current shareholders. Except as set forth herein and in connection with United's acquisition of Fairbanco Holding Company, announced March 16, 2004, United does not currently have any material commitments, arrangements, or understanding which would require the issuance of additional shares of common stock.

The Board of Directors does not believe that an increase in the number of authorized shares of common stock will have a significant impact on any attempt to gain control of United. It is possible, however, that the availability of authorized but unissued shares of common stock could discourage third parties from attempting to gain control since the Board could authorize the issuance of shares of common stock in a manner that could dilute the voting power of a person attempting to acquire control of United, increase the cost of acquiring such control or otherwise hinder such efforts. The Board

Table of Contents

is not aware of any present threat or attempt to gain control of United and this Proposal 2 is not in response to any such action nor is it being presented with the intent that it be utilized as a type of anti-takeover device.

If this proposal is adopted, the text of the first paragraph of Article V in United's Restated Articles of Incorporation would be amended to read as set forth in Appendix B. Although United intends to file the amendment with the Secretary of State of Georgia as promptly as possible after the amendment is approved by shareholders, the Board reserves the right to delay or abandon the amendment at its discretion.

Vote Required For Approval

The affirmative vote of holders of a majority of the shares of common stock outstanding on the record date is required to approve the amendment. Accordingly, any abstention or broker non-vote will count as a vote against the proposal.

Recommendation

The Board of Directors unanimously recommends that you vote FOR Proposal 2.

PROPOSAL 3: APPROVAL OF AMENDMENT TO 2000 KEY EMPLOYEE STOCK OPTION PLAN

Introduction

The 2000 Key Employee Stock Option Plan (the 2000 Plan), was previously approved at the 2000 annual meeting. At the 2004 annual meeting, the shareholders of United will be asked to approve an amendment to the 2000 Plan to increase the total number of shares available for awards and decrease the number of shares available for grant to an individual during a year under the 2000 Plan.

A maximum of 420,684 shares of common stock are currently available for grant under the 2000 Plan. The amendment would authorize 1,100,000 shares of common stock available for grant. If this amendment is adopted, all 1,100,000 shares available may be granted as incentive stock options. The amendment also provides that this maximum number of shares available for grant under the 2000 Plan will increase by 6% of any future increase in the issued and outstanding shares. Currently, the 2000 Plan provides that the number of shares available for grant shall not be less than approximately 6% of the issued and outstanding shares. In addition, the maximum number of shares which can be granted as an award under the 2000 Plan during any calendar year to any individual will be decreased from 400,000 to 100,000 shares pursuant to the amendment. The Board of Directors does not believe such a large number of shares available for grant to a single individual during a year is advisable.

As of December 31, 2003, the sum of United's outstanding stock options and stock options currently available for grant equaled 1,288,737. This total divided by the number of outstanding shares of 23,774,032, including those deemed to be outstanding under the 1996 convertible debentures, resulted in an overhang for United of 7%. Increasing the number of shares available for grant to 1,100,000 would cause United's overhang to equal 10% compared with an average of 12-13% for a peer group of high-performing bank holding companies with under \$10 billion in assets, as selected by an outside consultant.

Shareholder approval of the amendment is required by the Nasdaq Marketplace Rules and to provide the incentive stock option recipients with the favorable tax treatment afforded options under Section 422 of the Internal Revenue Code. Shareholder approval of the amendment to the 2000 Plan is

Table of Contents

also sought to comply with and to qualify the 2000 Plan under Section 162(m) of the Internal Revenue Code.

This proxy statement, including the above discussion in this Proposal 3 and the following Summary of the 2000 Plan, does not give effect to the three for two stock split announced March 15, 2004 and effective April 14, 2004. Giving effect to the stock split increases the number of shares being authorized for future grant, which may be granted as incentive stock options, from 1,100,000 to 1,650,000 shares.

If this proposal is adopted, the amendment to the 2000 Plan set forth in Appendix C hereto will be adopted.

Summary of the 2000 Key Employee Stock Option Plan

General

The purpose of the 2000 Plan is to secure for United and its shareholders the benefits of the incentive inherent in United stock ownership by key employees who perform services for United and its subsidiaries and who are largely responsible for its future growth and continued success. The 2000 Plan is further intended to provide flexibility to United in its ability to motivate, attract, and retain the services of individuals upon whose judgment, interest, and special effort the successful conduct of United's operation largely depends. The 2000 Plan became effective on December 8, 1999 and will continue in effect, unless earlier terminated, until December 7, 2009. Awards issued pursuant to the 2000 Plan prior to the termination date which have not expired or otherwise terminated as of such date may be exercised after such time in accordance with their terms. The 2000 Plan is not subject to any provisions of the Employee Retirement Income Security Act of 1974, nor is it subject to Section 401 of the Internal Revenue Code of 1986. A summary of the more important provisions of the 2000 Plan is set forth below. This summary does not purport to be complete, and reference to the full text of the 2000 Plan, a copy of which will be provided to any shareholder upon written request to United.

Administration

The 2000 Plan is administered by the Compensation Committee of United's Board of Directors. Each employee of United or any subsidiary (including an employee who is a member of the Board) whose judgment, initiative, and efforts contribute or may be expected to contribute materially to the successful performance of United or any subsidiary, is eligible to participate in the plan. Individuals who are not employees of United or a subsidiary are not eligible to receive grants of incentive stock options. The Compensation Committee is empowered to select, in their discretion, the individuals who will participate in the plan, the form and amount of the awards, the dates of grant, and the terms and provisions of each award, and to interpret the plan and any agreement entered into pursuant to the plan. All decisions and determinations of the Compensation Committee in the administration of the plan and on all questions concerning the plan are final and conclusive. Awards granted under the plan are evidenced by a written agreement in such form and containing such terms and conditions (which need not be identical for all award agreements) as the Compensation Committee determines, so long as the award agreement is in compliance with the terms of the plan.

Terms of Grant and Exercise of Awards

Stock Options. Stock options granted under the plan entitle a participant to purchase shares of common stock from United at the option price. The exercise price of an incentive stock options may not be less than the fair market

value of the common stock on the date of the grant. The exercise price of non-

Table of Contents

qualified stock options may be equal to, less than, or more than the fair market value of the common stock on the date that the option is awarded.

Full payment of the option price must be made when an option is exercised. The purchase price may be paid in cash or in such other form of consideration as the Compensation Committee may approve, which may include shares of common stock valued at their fair market value on the date of exercise, or by any other means which the Compensation Committee determines to be consistent with the plan's purpose and applicable law.

Options granted under the 2000 Plan will be exercisable, in whole or in part, by the option holder upon such terms and conditions as may be determined by the Compensation Committee. Options vest according to the schedule provided for by the Compensation Committee in the corresponding award agreement and are not exercisable later than ten years after the date of grant. Incentive stock options are also subject to the further restriction that the aggregated fair market value, determined as of the date of grant, of common stock as to which any incentive stock option first becomes exercisable in any calendar year is limited to \$100,000 per recipient. To the extent that options granted pursuant to the plan exceed such amount (or otherwise fail to qualify as incentive stock options), they will constitute non-qualified stock options.

Stock Appreciation Rights. The Compensation Committee may grant stock appreciation rights separately or in connection with another stock incentive, and the committee may provide that the holder may exercise them at any time or that they will be paid at a certain time or times or upon the occurrence or non-occurrence of certain events. Stock appreciation rights may be settled in shares of common stock or in cash, according to terms established by the compensation committee with respect to any particular award.

Restricted Stock; Stock Awards. Participants may also be awarded shares of common stock pursuant to a stock award. The Compensation Committee, in its discretion, may prescribe that a participant's rights in a stock award shall be nontransferable or forfeitable or both unless certain conditions are satisfied. These conditions may include, for example, a requirement that the participant continue employment with United for a specified period or that United or the participant achieve stated objectives. In addition, the restrictions may lapse incrementally.

At the time a grant of restricted stock is made, the Compensation Committee shall establish a period or periods of time applicable to such grant which, unless the compensation committee otherwise provides, shall not be less than one year. Subject to certain provisions, at the end of the restricted period, all restrictions shall lapse and the restricted stock shall vest in the participant. The Compensation Committee may, in its discretion, shorten or terminate the restricted period, or waive any conditions for the lapse or termination of restrictions with respect to all or any portion of the restricted stock at any time after the date the grant is made.

Upon a grant of restricted stock, a stock certificate representing the number of shares of restricted stock granted to the participant shall be registered in the participant's name and shall be held in custody by United or a bank selected by the Compensation Committee for the participant's account. Following such registration, the participant shall, subject to certain restrictions, have the rights and privileges of a shareholder as to such restricted stock, including the right to receive dividends and to vote such restricted stock, except that the right to receive cash dividends shall be the right to receive such dividends either in cash currently or by payment in restricted stock, as the Compensation Committee shall determine.

Performance Share Awards. The 2000 Plan also provides for the award of performance shares. A performance share award entitles the participant to receive a payment equal to the fair market

Table of Contents

value of a specified number of shares of common stock if certain performance standards are met. The Compensation Committee will prescribe the requirements that must be satisfied before a performance share award is earned. To the extent that performance shares are earned, the obligation may be settled in cash, in common stock or by a combination of the two.

No participant has, as a result of receiving a performance share award, any rights as a shareholder until and to the extent that the performance shares are earned and common stock is transferred to such participant. If the award agreement so provides, a participant may receive a cash payment equal to the dividends that would have been payable with respect to the number of shares of common stock covered by an award between (a) the date that the performance shares are awarded and (b) the date that a transfer of common stock to the participant, cash settlement, or combination thereof is made pursuant to the performance share award.

Termination of Awards

The terms of an award may provide that it will terminate, among other reasons, upon the holder's termination of employment or other status with United or its subsidiaries, upon a specified date, upon the holder's death or disability, or upon the occurrence of a change in control. Also, the Compensation Committee may, within the terms of the 2000 Plan, provide in the award agreement for the acceleration of vesting for any of the above reasons.

Amendment and Termination of the 2000 Key Employee Stock Option Plan; Adjustment of Shares

The Board of Directors may terminate, suspend, or amend the 2000 Plan at any time, but certain amendments will not become effective without shareholder approval. Generally, the Board or the Compensation Committee may not adversely affect the rights of a holder of an award without the holder's consent. The Compensation Committee may, in such manner as it shall determine in its sole discretion, appropriately adjust the number of shares subject to awards under the 2000 Plan, the purchase price per share, and the aggregate number of shares available for issuance in the event of any stock dividend issued by United, recapitalization of United's capital structure or exchange of the outstanding shares of common stock for shares of another class or company.

Expenses

United pays the administrative costs of the 2000 Plan, including the expenses of the Compensation Committee and the costs of issuing and delivering the shares subject to the plan.

Compliance with Section 162(m) of the Internal Revenue Code

Section 162(m) of the Internal Revenue Code denies a deduction by an employer for certain compensation in excess of \$1 million per year paid by a publicly traded corporation to its named executive officers. Compensation with respect to stock options, including upon exercise of a non-qualified stock option or upon a disqualifying disposition of an incentive stock option, or other compensation pursuant to the 2000 Plan, will be excluded from this deduction limit if it satisfies certain requirements. The requirements include: (1) the stock option or right must be granted at an exercise price not lower than fair market value at date of grant (or the award must be made on account of the attainment of performance goals that meet the requirements of Section 162(m)); (2) the stock option grant or other stock award must be made by a committee composed of two or more outside directors within the meaning of Section 162(m); (3) the plan under which the award is granted must state the maximum number of shares with respect to

which options or rights may be granted during a specified period to any individual; and (4) the material terms pursuant to which the compensation is to be paid must be disclosed

Table of Contents

to, and approved by, shareholders in a separate vote prior to payment. The 2000 Plan meets the requirements of paragraphs (1) through (3) above, and approval of the amendment to the 2000 Plan by United's shareholders is being proposed, in part, to comply with requirement (4), so that compensation with respect to stock options and stock awards may be excluded from the deduction limit under 162(m) of the Internal Revenue Code.

Vote Required for Approval

The amendment to the 2000 Plan will be approved upon the affirmative vote of a majority of the shares represented at the meeting at which a quorum is present. An abstention or broker non-vote would be included in determining whether a quorum is present at a meeting, but would not affect the outcome of a vote. Unless otherwise instructed, shares represented by properly executed proxies will be voted in favor of the amendment to the 2000 Plan.

Recommendation

The Board of Directors unanimously recommends a vote FOR Proposal 3.

DIRECTOR NOMINATIONS

General

The Board of Directors nominates individuals for election to the Board based on the recommendations of the nominating/corporate governance committee. A candidate for the Board of Directors must meet the eligibility requirements set forth in United's bylaws and in any Board or committee resolutions.

Nominating/Corporate Governance Committee Procedures

The nominating/corporate governance committee considers qualifications and characteristics that it from time to time deems appropriate when it selects individuals to be nominated for election to the Board of Directors. These qualifications and characteristics may include, without limitation, independence, integrity, business experience, education, accounting and financial expertise, age, diversity, reputation, civic and community relationships, and knowledge and experience in matters impacting financial institutions. In addition, prior to nominating an existing director for re-election to the Board of Directors, the nominating/corporate governance committee will consider and review an existing director's Board and committee attendance and performance and length of Board service.

Shareholder Nominations

The Board of Directors and nominating/corporate governance committee of the Board will consider all director nominees properly recommended by United shareholders in accordance with the analysis described above. Any shareholder wishing to recommend a candidate for consideration as a possible director nominee for election at an upcoming meeting of shareholders must provide timely, written notice to the Board of Directors in accordance with the procedures which are available on United's website and set forth as Appendix D hereto. Such notices shall be sent to the Secretary, United Community Banks, Inc., P.O. Box 398, 63 Highway 515, Blairsville, Georgia 30514-0398. Shareholder recommendations not made in accordance with the procedures in Appendix D will be disregarded by the

chairperson at the applicable meeting.

Table of Contents

CODE OF ETHICAL CONDUCT

United has adopted a Code of Ethical Conduct designed to promote ethical conduct by all of United's directors and principal financial and executive officers. The Code of Ethical Conduct complies with the federal securities law requirement that issuers have a code of ethics applicable to principal financial officers. United has also revised its employee Code of Conduct to comply with the Nasdaq Marketplace Rules. United's Code of Ethical Conduct is available on its website and was filed as Exhibit 14 to its Annual Report on Form 10-K for the year ended December 31, 2003. Any amendments to or waivers of the Code of Ethical Conduct will also be posted on United's website, www.ucbi.com.

Table of Contents**COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS****Director Compensation**

Non-employee Directors of United received an annual retainer of \$17,500 and a separate meeting fee of \$500 for each Board meeting attended during 2003. Certain members of United's Board of Directors also serve as members of one or more of the boards of directors or advisory boards of directors of United's bank subsidiaries, for which they are compensated by the bank subsidiaries.

Executive Compensation

The following table sets forth in summary form the compensation paid during the past three years to the Chief Executive Officer and the four other most highly compensated executive officers (collectively, the named executive officers) during 2003.

Executive Compensation Table

Executive Officers		Annual Compensation			Long-Term Compensation		
		Salary	Bonus	Other	Restricted Stock Award	Securities Underlying Options	All Other Compensation
Jimmy C. Tallent	2003	\$364,000	\$300,000	\$56,431 ⁽¹⁾	\$	30,000	\$ 22,661 ⁽²⁾
President and Chief Executive Officer	2002	350,000	265,000	62,812 ⁽¹⁾		40,000	22,556 ⁽²⁾
Guy W. Freeman	2001	291,000	225,000	58,374 ⁽¹⁾		30,000	18,918 ⁽²⁾
Executive Vice President of Banking	2003	246,000	165,500	(3)		20,000	16,979 ⁽⁴⁾
Rex S. Schuette ⁽⁵⁾	2002	236,500	140,000	(3)		16,000	16,306 ⁽⁴⁾
Executive Vice President and Chief Financial Officer	2001	225,000	120,000	(3)		12,000	43,890 ⁽⁴⁾
Thomas C. Gilliland	2003	246,000	127,500	(3)		18,000	16,979 ⁽⁷⁾
Executive Vice President and General Counsel	2002	236,500	115,000	(3)		16,000	101,696 ⁽⁷⁾
Ray K. Williams ⁽⁹⁾	2001	200,000	100,000	(3)	122,500 ⁽⁶⁾	35,000	150,951 ⁽⁷⁾
Executive Vice President of Risk Management	2003	229,000	112,000	(3)		17,000	18,153 ⁽⁸⁾
	2002	220,000	100,000	(3)		16,000	17,417 ⁽⁸⁾
	2001	195,000	75,000	(3)		12,000	16,362 ⁽⁸⁾
	2003	180,250	60,000	(3)		10,000	11,608 ⁽¹⁰⁾
	2002	140,750	25,000	(3)		10,000	624 ⁽¹⁰⁾

(1) Directors' fees for service on United's bank subsidiaries' boards of directors, country club dues and company provided automobile.

(2) Represents contributions by United of \$16,000, \$16,000, and \$15,500 for 2003, 2002 and 2001, respectively, on behalf of Mr. Tallent to United's profit sharing plan and life insurance premiums of \$6,661, \$6,556, and \$3,418 respectively, paid by United on behalf of Mr. Tallent.

- (3) Prerequisites do not meet the Securities and Exchange Commission threshold for disclosure, which is the lesser of \$50,000 or 10% of the total salary and bonus for the executive officer.
- (4) Represents contributions by United of \$16,000, \$16,000, and \$15,500 for 2003, 2002 and 2001, respectively, on

Table of Contents

behalf of Mr. Freeman to United's profit sharing plan and \$28,390 in 2001 to cover certain relocation expenses incurred with Mr. Freeman's move to Blairsville, including taxes owed on such amounts.

- (5) Mr. Schuette was appointed Executive Vice President and Chief Financial Officer in February 2001.
- (6) Represents 7,000 shares of restricted stock awarded to Mr. Schuette when he joined United which vest in equal installments over a three-year period. Dividends are paid on the shares during the vesting period. The value of the restricted stock award was based on \$17.50 per share, the market value of United's stock on the date of grant. At December 31, 2003, Mr. Schuette held 2,334 shares of restricted stock with a value of \$77,000 based upon United's closing stock price of \$32.87 on December 31, 2003.
- (7) Represents contributions by United of \$16,000 and \$14,159 for 2003 and 2002, respectively, on behalf of Mr. Schuette to United's profit sharing plan and \$87,231 paid in 2002 and \$150,951 paid in 2001 to cover certain relocation costs incurred with Mr. Schuette's move to Blairsville, including taxes owed on such amounts.
- (8) Represents contributions by United of \$16,000, \$16,000, and \$15,325 for 2003, 2002 and 2001, respectively, on behalf of Mr. Gilliland to United's profit sharing plan and life insurance premiums of \$2,153, \$1,417 and \$1,037 respectively, paid by United on behalf of Mr. Gilliland.
- (9) Mr. Williams was appointed Executive Vice President of Risk Management of United in March 2002.
- (10) Represents 2003 contributions by United of \$10,672 on behalf of Mr. Williams to United's profit sharing plan.

Option/SAR Grants in 2003

As of December 31, 2003, United had not granted stock appreciation rights or similar awards to any of its present or past executive officers. The following table sets forth information with respect to stock options granted to the named executive officers during the year 2003:

Executive Officers	Number of Securities Underlying Options Granted ⁽¹⁾	% of Total Options Granted to Employees in 2003	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term ⁽²⁾	
				5%	10%
Jimmy C. Tallent	30,000	9.1%	4/17/13	\$ 464,000	\$ 1,175,000
Guy W. Freeman	20,000	6.1	4/17/13	309,000	783,000
Rex S. Schuette	18,000	5.5	4/17/13	278,000	705,000
Thomas C. Gilliland	17,000	5.2	4/17/13	263,000	666,000
Ray K. Williams	10,000	3.0	4/17/13	155,000	392,000

- (1) Each option is exercisable for one share of common stock. Options were granted on April 17, 2003 and vest in equal amounts (25%) over a four-year period beginning on April 17, 2005. The exercise price of the options was \$24.58 per share, the fair market value on the date of grant, and the options expire in ten years on April 17,

2013.

- (2) The Potential Realizable Value is disclosed in response to SEC regulations that require such disclosure for illustration only. The values disclosed are not intended to be, and should not be interpreted as, representations or projections of the future value of United's Common Stock or of the stock price. Amounts are calculated at a 5% and 10% rate of annual appreciation in the value of the Common Stock (compounded annually over the option term of 10 years) and are not intended to forecast actual expected future appreciation, if any, of the Common Stock. The potential value to the optionee is the difference between the exercise price (price at the date of grant) and the appreciated value of the stock at the end of 10 years (at 5% and 10% growth rates) multiplied by the number of options. These amounts have been rounded to the nearest thousand dollars.

Table of Contents**Aggregated Option Exercises in 2003 and Year-End Option Values**

The following table sets forth the number and value of options exercised during 2003 by the named executive officers and the number of shares covered by both exercisable and unexercisable options, including the value of these options as of December 31, 2003:

Executive Officers	Shares Acquired On Exercise	Value Realized	Number of Unexercised Options at December 31, 2003		Value of Unexercised Options at December 31, 2003	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Jimmy C. Tallent	20,000	\$414,800	128,200	70,800	\$2,234,600	\$820,600
Guy W. Freeman	37,000	699,670	37,600	36,400	553,100	395,700
Rex S. Schuette			27,400	41,600	408,300	492,800
Thomas C. Gilliland	25,500	548,070	53,900	33,600	870,700	373,600
Ray K. Williams			4,000	16,000	53,500	