

FISERV INC
Form 10-Q
November 02, 2006
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

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

For the quarterly period ended September 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 0-14948

FISERV, INC.

(Exact Name of Registrant as Specified in Its Charter)

WISCONSIN
(State or Other Jurisdiction of
Incorporation or Organization)

255 FISERV DRIVE, BROOKFIELD, WI
(Address of Principal Executive Offices)

39-1506125
(I. R. S. Employer

Identification No.)

53045
(Zip Code)

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(262) 879-5000

(Registrant's Telephone Number, Including Area Code)

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 Exchange Act). Yes No

As of October 30, 2006, there were 173,175,707 shares of common stock, \$.01 par value, of the registrant outstanding.

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FISERV, INC. AND SUBSIDIARIES

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Table of Contents**PART I. FINANCIAL INFORMATION****ITEM I. FINANCIAL STATEMENTS****FISERV, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2006	September 30, 2005	September 30, 2006	September 30, 2005
Revenues:				
Processing and services	\$ 763,404	\$ 722,984	\$ 2,265,885	\$ 2,125,928
Product	393,141	288,661	1,080,525	855,257
Total revenues	1,156,545	1,011,645	3,346,410	2,981,185
Expenses:				
Cost of processing and services	488,284	470,787	1,461,831	1,365,062
Cost of product	336,424	239,680	886,727	690,175
Selling, general and administrative	146,097	129,659	434,970	379,168
Total expenses	970,805	840,126	2,783,528	2,434,405
Operating income	185,740	171,519	562,882	546,780
Interest expense - net	(9,987)	(3,429)	(24,867)	(8,371)
Realized gain from sale of investment				43,452
Income from continuing operations before income taxes	175,753	168,090	538,015	581,861
Income tax provision	65,665	58,751	200,736	218,880
Income from continuing operations	110,088	109,339	337,279	362,981
Income from discontinued operations, net of tax		3,600	6,689	2,981
Net income	\$ 110,088	\$ 112,939	\$ 343,968	\$ 365,962
Basic net income per share:				
Continuing operations	\$ 0.63	\$ 0.58	\$ 1.92	\$ 1.90
Discontinued operations		0.02	0.04	0.02
Total	\$ 0.63	\$ 0.60	\$ 1.95	\$ 1.92
Diluted net income per share:				
Continuing operations	\$ 0.63	\$ 0.58	\$ 1.89	\$ 1.88
Discontinued operations		0.02	0.04	0.02
Total	\$ 0.63	\$ 0.60	\$ 1.93	\$ 1.90

Shares used in computing net income per share:

Basic	173,426	187,406	175,963	190,556
Diluted	175,875	189,676	178,403	192,799

See notes to condensed consolidated financial statements.

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FISERV, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

(Unaudited)

	September 30,	December 31,
	2006	2005
Assets		
Cash and cash equivalents	\$ 170,897	\$ 184,471
Trade accounts receivable	591,684	530,802
Prepaid expenses and other assets	154,106	128,382
Investments	2,005,588	2,126,538
Property and equipment, net	253,624	226,013
Intangible assets, net	616,645	593,808
Goodwill	2,372,500	2,249,502
Total	\$ 6,165,044	\$ 6,039,516
Liabilities and Shareholders Equity		
Trade accounts payable	\$ 238,054	\$ 194,409
Accrued expenses	348,115	388,251
Accrued income taxes	6,148	4,266
Deferred revenues	232,079	240,105
Customer funds held and retirement account deposits	1,892,604	1,985,368
Deferred income taxes	171,588	165,992
Long-term debt	829,144	595,385
Total liabilities	3,717,732	3,573,776
Shareholders equity:		
Preferred stock, no par value: 25,000,000 shares authorized; none issued		
Common stock, \$0.01 par value: 450,000,000 shares authorized; 197,796,239 and 197,507,892 shares issued	1,978	1,975
Additional paid-in capital	706,250	693,715
Accumulated other comprehensive income	685	1,321
Accumulated earnings	2,780,945	2,436,977
Treasury stock, at cost, 24,455,827 and 15,753,675 shares	(1,042,546)	(668,248)
Total shareholders equity	2,447,312	2,465,740
Total	\$ 6,165,044	\$ 6,039,516

See notes to condensed consolidated financial statements.

Table of Contents**FISERV, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands)

(Unaudited)

	Nine Months Ended	
	September 30, 2006	2005
Cash flows from operating activities:		
Net income	\$ 343,968	\$ 365,962
Adjustment for discontinued operations	(6,689)	(2,981)
Adjustments to reconcile net income to net cash provided by operating activities from continuing operations:		
Realized gain from sale of investment		(43,452)
Deferred income taxes	18,485	16,646
Share-based compensation expense	23,999	2,579
Excess tax benefit from exercise of options	(3,742)	
Depreciation and amortization	142,948	132,452
Changes in assets and liabilities, net of effects from acquisitions and dispositions of businesses:		
Trade accounts receivable	(35,694)	(48,238)
Prepaid expenses and other assets	(8,942)	(6,925)
Trade accounts payable and accrued expenses	(8,565)	5,079
Deferred revenues	(16,162)	(18,829)
Accrued income taxes	2,970	(9,737)
Net cash provided by operating activities from continuing operations	452,576	392,556
Cash flows from investing activities:		
Capital expenditures, including capitalization of software costs for external customers	(149,965)	(109,481)
Payment for acquisitions of businesses, net of cash acquired	(183,947)	(495,040)
Proceeds from sale of businesses, net of expenses paid	4,480	283,273
Cash distribution received from discontinued operations prior to sale		68,000
Investments	121,021	(278,712)
Net cash used in investing activities from continuing operations	(208,411)	(531,960)
Cash flows from financing activities:		
Repayments of short-term debt - net		(50,000)
Proceeds from long-term debt - net	224,768	83,163
Issuance of common stock and treasury stock	27,914	26,723
Purchases of treasury stock	(421,399)	(458,502)
Excess tax benefit from exercise of stock options	3,742	
Customer funds held and retirement account deposits	(92,764)	195,906
Net cash used in financing activities from continuing operations	(257,739)	(202,710)
Change in cash and cash equivalents	(13,574)	(342,114)
Beginning balance	184,471	516,127
Ending balance	\$ 170,897	\$ 174,013

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Discontinued Operations Cash Flow Information (Revised-Note 1)

Net cash used in operating activities	\$	\$ (6,306)
Net cash used in investing activities		(36,749)
Net cash provided by financing activities		39,600
Total net cash used in discontinued operations		(3,455)
Cash and cash equivalents - beginning of period		35,849
Cash and cash equivalents - sold		32,394
Cash and cash equivalents - end of period	\$	\$

See notes to condensed consolidated financial statements.

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FISERV, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Principles of Consolidation

The condensed consolidated financial statements for the three and nine month periods ended September 30, 2006 and 2005 are unaudited. In the opinion of management, all adjustments necessary for a fair presentation of such condensed consolidated financial statements have been included. Such adjustments consisted only of normal recurring items. Interim results are not necessarily indicative of results for a full year. The financial statements and notes are presented as permitted by Form 10-Q and do not contain certain information included in the annual consolidated financial statements and notes of Fiserv, Inc. and subsidiaries (the Company). The Company's interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2005. At December 31, 2005, the Company revised the presentation of its condensed consolidated statements of cash flows to present separate disclosure of the cash flows from operating, investing and financing activities of the discontinued operations. During the third quarter of 2006, the Company revised the classification of accounts payable within the condensed consolidated balance sheets such that trade accounts payable are reported separately and other liabilities, which do not pertain to trade accounts payable, are reported as accrued expenses or customer funds held and retirement account deposits, as appropriate. Certain other amounts reported in prior periods have been reclassified to conform to the current presentation.

The condensed consolidated financial statements include the accounts of Fiserv, Inc. and all majority owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

2. Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation (FIN) No. 48, Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken, or expected to be taken, in a tax return, and provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is currently assessing the impact that the adoption of FIN 48 will have on its financial statements.

In June 2006, the FASB ratified Emerging Issues Task Force (EITF) No. 06-2, Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB Statement No. 43, Accounting for Compensated Absences (SFAS 43) (EITF 06-2). EITF 06-2 provides guidelines under which sabbatical leave or other similar benefits provided to an employee are considered to accumulate, as defined in SFAS 43. If such benefits are deemed to accumulate, then the compensation cost associated with a sabbatical or other similar benefit arrangement should be accrued over the requisite service period. The provisions of EITF 06-2 are effective for fiscal years beginning after December 15, 2006 and allow for either retrospective application or a cumulative effect adjustment approach upon adoption. The Company is currently assessing the impact, if any, that the adoption of EITF 06-2 will have on its financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standard (SFAS) No. 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. The Company is currently assessing the impact that the adoption of SFAS 157 will have on its financial statements.

3. Discontinued Operations

On March 24, 2005, the Company completed the sale of its securities clearing businesses to Fidelity Global Brokerage Group, Inc. (Fidelity). In the second quarter of 2006, the Company finalized and recognized a \$10.6 million pre-tax gain related to a contingent payment that was received from Fidelity based on the securities clearing businesses' achievement of certain revenue targets established in the stock purchase agreement.

The Company is investigating a matter identified in an indemnification notice delivered pursuant to the stock purchase agreement. The matter relates to the securities clearing businesses' past maintenance of certain documentation related to introducing broker dealers' customers. The Company is unable to estimate or predict the ultimate outcome of this matter or to determine whether this matter will have a material adverse impact on the Company's discontinued operations' results.

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The Company's securities clearing businesses are excluded from reported total revenues and total expenses and have been reported as discontinued operations for all periods presented. The Company reports its cash flows from continuing operations separate from cash flows from discontinued operations on its condensed consolidated statements of cash flows. The discontinued operations' cash flow disclosure includes a \$68.0 million cash distribution in 2005 that the securities clearing business made to the Company prior to completion of the sale. Summarized financial information for discontinued operations included in the financial statements is as follows:

<i>(In thousands)</i>	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2005	2006	2005	2005
Total revenues	\$		\$	\$ 26,391
Total expenses				26,809
Operating loss before income taxes				(418)
Income tax benefit		3,600		3,762
Gain (loss) on sale of businesses, net of income taxes of \$3,900 and \$48,670, respectively			6,689	(363)
Income from discontinued operations, net of tax	\$	3,600	\$ 6,689	\$ 2,981

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4. Long-Term Debt

The Company maintains a five-year, \$900 million revolving credit facility, which matures on March 24, 2011, under which \$210.0 million was outstanding at September 30, 2006. The Company may increase the availability under the revolving credit facility up to \$1.25 billion at the Company's discretion, subject to certain conditions, which include, among other things, the absence of any default under the credit agreement. Borrowings under the commercial paper program of \$329.8 million, discussed below, reduce the availability under the revolving credit facility such that \$360.2 million was available under the revolving credit facility at September 30, 2006. The Company intends to use the revolving credit facility for general corporate purposes.

The revolving credit facility contains various restrictions and covenants applicable to the Company and certain of its subsidiaries. Among other requirements, the Company must limit its consolidated indebtedness to no more than three and one-half times the Company's consolidated net earnings before interest, taxes, depreciation and amortization. The Company was in compliance with all debt covenants at September 30, 2006.

The Company also maintains a \$500 million unsecured commercial paper program under which \$329.8 million was outstanding at September 30, 2006. The Company may issue commercial paper, which is exempt from registration under the Securities Act of 1933, with maturities of up to 397 days from the date of issuance, and maintains the above revolving credit facility to support 100% of the outstanding commercial paper.

5. Share-Based Compensation

Statement of Financial Accounting Standard No. 123 (revised 2004), Share-Based Payment (SFAS 123R), requires companies to expense the value of employee stock purchase plans, stock option grants and similar awards. The Company adopted SFAS 123R on January 1, 2006 under the modified prospective method. Accordingly, prior periods do not include share-based compensation expense related to SFAS 123R. The modified prospective method requires the application of SFAS 123R to new awards and to awards modified, repurchased, or cancelled after the effective date. Additionally, compensation cost for the portion of outstanding awards for which service had not been rendered (such as unvested options) that were outstanding as of the date of adoption are recognized as the remaining services are rendered. The Company recognizes the fair value of stock-based compensation awards in cost of processing and services and selling, general and administrative expense in the condensed consolidated statements of income on a straight-line basis over the vesting period.

The Company's share-based compensation primarily consists of the following:

Stock Options: The Company generally grants stock options to employees and directors at exercise prices equal to the fair market value of the Company's stock at the dates of grant. Stock options are typically granted in the first quarter of the year, generally vest 20% on the date of grant and 20% each year thereafter and expire 10 years from the date of the award. The Company recognizes compensation expense for the fair value of the stock options over the requisite service period of the stock option award.

Restricted Stock: The Company awards shares of stock to employees and directors that are restricted. During the period of restriction, the holder of restricted stock has voting rights and is entitled to receive all distributions, including dividends, paid with respect to the stock. The Company recognizes stock compensation expense relating to the issuance of restricted stock based on the market price on the date of award over the period during which the restrictions expire, which is generally four years from the date of grant, on a straight-line basis.

Employee Stock Purchase Plan: The Company maintains an employee stock purchase plan that grants eligible employees the right to purchase a limited number of shares of common stock each quarter through payroll deductions at 85% of the closing price of the Company's common stock on the last business day of each calendar quarter. Compensation expense related to the 15% discount under the employee stock purchase plan is recognized on the purchase date.

During the three months ended September 30, 2006 and 2005, the Company recognized approximately \$4.7 million (\$3.2 million in selling, general and administrative expenses and \$1.5 million in cost of processing and services) and \$1.4 million (in selling, general and administrative expenses) of stock-based compensation expense and \$1.5 million and \$0.5 million in related tax benefits, respectively. During the nine months ended September 30, 2006 and 2005, the Company recognized approximately \$24.0 million (\$18.3 million in selling, general and administrative expenses and \$5.7 million in cost of processing and services) and \$2.6 million (in selling, general and administrative expenses) of stock-based compensation expense and \$8.1 million and \$1.0 million in related tax benefits, respectively. As of September 30, 2006, the total remaining unrecognized compensation cost related to non-vested stock options and restricted stock awards, net of estimated forfeitures, was approximately \$33.0 million.

Prior to January 1, 2006, the Company accounted for its stock options, restricted stock and employee stock purchase plan in accordance with the intrinsic value provisions of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25). Under APB 25,

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the difference between the quoted market price on the date of grant and the contractual purchase price of shares was recognized as compensation expense over the vesting period on a straight-line basis. The Company did not recognize compensation expense in its consolidated financial statements for stock options, because the exercise price was not less than 100% of the fair value of the underlying common stock on the date of grant, or with respect to the employee stock purchase plan, because the plan's discount did not exceed 15%.

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The following table illustrates the effect on net income and net income per share had the Company recognized compensation expense consistent with the fair value provisions of SFAS No. 123, Accounting for Stock-Based Compensation, prior to the adoption of SFAS 123R:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2005		2005	
<i>(In thousands, except per share data)</i>				
Net income:				
As reported	\$	112,939	\$	365,962
Add: reported stock compensation expense - net of tax		843		1,585
Less: fair value stock compensation expense - net of tax		(3,971)		(19,218)
Pro forma	\$	109,811	\$	348,329
Reported net income per share:				
Basic	\$	0.60	\$	1.92
Diluted		0.60		1.90
Pro forma net income per share:				
Basic	\$	0.59	\$	1.83
Diluted		0.58		1.81

The fair values of stock options granted were estimated on the date of grant using a binomial option-pricing model with the following assumptions:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2006	2005	2006	2005
Expected life (in years)	6.4	6.1	4.9	5.3
Average risk-free interest rate	5.2%	3.8%	4.7%	3.8%
Expected volatility	31.5%	32.2%	30.5%	32.3%
Expected dividend yield	0%	0%	0%	0%

The Company determined the expected life of the stock options using historical data adjusted for known factors that would alter historical exercise behavior including announced retirement dates. The risk-free interest rate is based on the U.S. treasury yield curve in effect as of the grant date. Expected volatility was determined using a weighted average of implied market volatility combined with historical volatility. The Company determined that a blend of historical volatility and implied volatility better reflects future market conditions and better indicates expected volatility than purely historical volatility.

The weighted-average estimated fair value of stock options granted during the nine months ended September 30, 2006 and 2005 was \$13.41 and \$13.59 per share, respectively.

The table below presents information related to stock option activity for the nine months ended September 30, 2006 and 2005:

<i>(In thousands)</i>	Nine Months Ended	
	September 30, 2006	September 30, 2005
Total intrinsic value of stock options exercised	\$ 19,570	\$ 61,646
Cash received from stock option exercises	13,341	26,593
Gross income tax benefit from the exercise of stock options	7,150	22,681

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A summary of stock option activity for the nine months ended September 30, 2006 is as follows:

	Number of Shares (In thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (In thousands)
Outstanding, December 31, 2005	10,114	\$ 31.67		
Granted	1,582	41.00		
Forfeited	(123)	36.91		
Exercised	(1,118)	26.73		
Outstanding, September 30, 2006	10,455	\$ 33.54	5.9	\$ 141,665
Exercisable, September 30, 2006	7,566	\$ 31.23	5.0	\$ 119,997

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A summary of restricted stock activity for the nine months ended September 30, 2006 is as follows:

	Number of Shares (In thousands)	Weighted Average Fair Value	Weighted Average Remaining Vesting Term (years)	Aggregate Intrinsic Value (In thousands)
Outstanding, December 31, 2005	84	\$ 43.35		
Granted	302	40.21		
Forfeited	(3)	41.81		
Vested	(13)	40.56		
Outstanding, September 30, 2006	370	\$ 40.89	1.7	\$ 17,423

At September 30, 2006, options to purchase 2.6 million shares were available for grant under the Company's Stock Option and Restricted Stock Plan and 0.6 million shares were available for grant under its employee stock purchase plan.

6. Shares Used in Computing Net Income Per Share

The computation of the number of shares used in calculating basic and diluted net income per share is as follows:

<i>(In thousands)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Weighted-average shares outstanding used for calculation of net income per share-basic	173,426	187,406	175,963	190,556
Common stock equivalents	2,449	2,270	2,440	2,243
Total shares used for calculation of net income per share-diluted	175,875	189,676	178,403	192,799
Weighted-average shares under share-based compensation awards excluded from the calculation of common stock equivalents as the impact was anti-dilutive	503	27	1,283	29

7. Comprehensive Income

Comprehensive income is comprised of net income, unrealized gains and losses on available-for-sale investment securities, foreign currency translation and fair market value adjustments on cash flow hedges and is as follows:

<i>(In thousands)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Net income	\$ 110,088	\$ 112,939	\$ 343,968	\$ 365,962
Components of other comprehensive income - net	(1,887)	2,813	(636)	(26,505)
Comprehensive income	\$ 108,201	\$ 115,752	\$ 343,332	\$ 339,457

The components of other comprehensive income for the nine month period ended September 30, 2005 were negatively impacted by the realized gain on the sale of the Company's remaining ownership of 3.2 million shares of Bisys Group, Inc. common stock in the first quarter of 2005.

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Revenues and operating income for the Company's reporting segments are as follows:

<i>(In thousands)</i>	Financial	Health	Investment	Total
Three months ended September 30, 2006:				
Processing and services	\$ 637,554	\$ 91,822	\$ 34,028	\$ 763,404
Product	150,125	243,016		393,141
Total revenues	\$ 787,679	\$ 334,838	\$ 34,028	\$ 1,156,545
Operating income	\$ 164,993	\$ 15,386	\$ 5,361	\$ 185,740
Three months ended September 30, 2005:				
Processing and services	\$ 596,661	\$ 93,613	\$ 32,710	\$ 722,984
Product	122,270	166,391		288,661
Total revenues	\$ 718,931	\$ 260,004	\$ 32,710	\$ 1,011,645
Operating income	\$ 145,844	\$ 20,126	\$ 5,549	\$ 171,519
Nine months ended September 30, 2006:				
Processing and services	\$ 1,875,691	\$ 286,114	\$ 104,080	\$ 2,265,885
Product	461,119	619,406		1,080,525
Total revenues	\$ 2,336,810	\$ 905,520	\$ 104,080	\$ 3,346,410
Operating income	\$ 490,195	\$ 53,674	\$ 19,013	\$ 562,882
Nine months ended September 30, 2005:				
Processing and services	\$ 1,747,034	\$ 278,721	\$ 100,173	\$ 2,125,928
Product	383,925	471,332		855,257
Total revenues	\$ 2,130,959	\$ 750,053	\$ 100,173	\$ 2,981,185
Operating income	\$ 466,149	\$ 61,259	\$ 19,372	\$ 546,780

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Management's discussion and analysis of financial condition and results of operations is provided as a supplement to the accompanying unaudited condensed consolidated financial statements and footnotes to help provide an understanding of the Company's financial condition, the changes in its financial condition and its results of operations. In this section, the Company provides an analysis of the results of operations presented in the accompanying unaudited condensed consolidated statements of income by comparing the results for the three and nine month periods ended September 30, 2006 to the results for the three and nine month periods ended September 30, 2005. The Company also provides a discussion and analysis of its cash flows and outstanding debt at September 30, 2006. Finally, the Company discusses recent material accounting pronouncements.

Forward Looking Statements

Certain matters discussed herein are forward-looking statements intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. These statements can generally be identified as forward-looking because they include words such as believes, anticipates, expects, or words of similar import. Similarly, statements that describe future plans, objectives or goals of the Company are also forward-looking statements. Forward-looking statements are subject to a number of assumptions, risks and uncertainties that may cause actual results to differ materially from those contemplated by such forward-looking statements. The factors that may adversely affect the Company's results include, among others, changes in customer demand for the Company's products and services, pricing and other actions by competitors, potential impact of initiatives implemented as a result of the Company's strategic review process, general changes in economic conditions and other factors discussed in the Company's prior filings with the Securities and Exchange Commission, including its Annual Report on Form 10-K. Shareholders, potential investors and other readers are urged to consider these factors carefully in evaluating the forward-looking statements and are cautioned not to place undue reliance on such forward-looking statements. The Company assumes no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.

Results of Operations

The following table presents, for the periods indicated, selected amounts included in the Company's condensed consolidated statements of income, the relative percentage that those amounts represent to revenues and the change in those amounts from year to year. This information should be read along with the condensed consolidated financial statements and notes thereto.

	Three months ended September 30,				2006 vs. 2005	
	<i>(In millions)</i>		Percentage (1) (2)		Increase	
	2006	2005	2006	2005	\$	%
Revenues:						
Processing and services	\$ 763.4	\$ 723.0	66%	71%	\$ 40.4	6%
Product	393.1	288.7	34%	29%	104.5	36%
Total revenues	1,156.5	1,011.6	100%	100%	144.9	14%
Expenses:						
Cost of processing and services (1)	488.3	470.8	64%	65%	17.5	4%
Cost of product (1)	336.4	239.7	86%	83%	96.7	40%
			58,842	59,654	57,469	
Deposits	57,202	52,580	53,200	50,373		
Stockholders' equity	5,880	5,999	5,944	5,857		

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Results of Operations:

Net interest income	\$	1,152	\$	1,048	\$	2,218	\$	2,403
Provision for loan losses								150
Other income		228		151		268		150
Other expenses		1,378		1,201		2,540		1,936
Net earnings (loss)		1				(32)		290

Per Share Data:

Diluted & basic earnings (loss) per share	\$		\$		\$	(.05)	\$.48
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Key Performance Ratios:

Return on average equity						(.01)		4.95%
Return on average assets								.50%
Average equity to average assets		9.31%		10.20%		10.00%		10.19%
Average loans to average deposits		82.00%		78.59%		80.02%		90.00%
Net interest margin		4.02%		3.97%		4.11%		4.56%

Management's Discussion and Analysis of Financial Condition and Results of Operations

This discussion and analysis is intended to assist you in understanding the financial condition and results of operations of Eagle. You should read this commentary in conjunction with the financial statements and the related notes and the other statistical information included elsewhere in this report.

Overview

The organizers of Eagle National Bank filed applications on March 8, 1996, to charter the bank with the Office of the Comptroller of the Currency and the FDIC on August 16, 1996. Preliminary approvals were received from the OCC and the FDIC by February 18, 1997, and the bank opened to the public December 2, 1997, in Stockbridge, Georgia. Transactions of the organizational entity from inception to the date the bank opened to the public related primarily to expenditures for incorporating and organizing the bank, including raising capital and securing banking facilities. These expenditures were funded by line of credit borrowings and organizer advances, which were in turn repaid with proceeds from the sale of Eagle's common stock, with 600,000 shares issued on December 12, 1997 at \$10 per share.

From its inception through 1999, Eagle's profitability was negatively affected, to a large extent, by increasing operating expenses. With Eagle's continued growth during that period, as evidenced by the consecutive increases in net interest income, more employees were hired to accommodate the growth. From 2000 through 2002, Eagle's interest earning assets provided interest and dividend income resulting in net earnings during those periods. In 2003, however, profitability was negatively affected by an increase in Eagle's operating expenses and a decrease in interest rates on its loans. The increase in operating expenses was primarily due to the opening of a new branch in McDonough, Georgia on April 28, 2003. The branch was introduced to stimulate loan and deposit generation, as Eagle has experienced a slight decrease in loan income resulting from new banks in the Henry County area in the past two years.

In addition, between 2002 and 2003, earnings were negatively impacted by the expense and amount of time spent away from Eagle's core business due to extraordinary regulatory compliance issues. Eagle signed a Memorandum of Understanding in May 2002 with the OCC to address several concerns that arose as a result of Eagle's September 2001 examination, primarily related to management, credit quality, asset/liability management and risk management. The Memorandum was terminated in February 2004. Eagle does not expect a future impact on earnings as a result of extraordinary regulatory compliance.

Eagle's performance in 2002 and 2003 was also impacted by management turnover. Of Eagle's original six directors, only four remain. Eagle has also lost key executives. During the last three quarters, though, Eagle has added two additional directors and hired several new key executives.

Critical Accounting Policy

The accounting principles Eagle follows and its methods of applying these principles conform with accounting principles generally accepted in the United States of America and with general practices within the banking industry. In connection with the application of those principles, Eagle has made judgments and estimates that, in the case of the establishment of its allowance for loan losses, have been critical to the determination of its financial position, results of operations and cash flows.

The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged against the allowance for loan losses when management believes that the collection of the principal is unlikely. The allowance represents an amount, which in management's judgment, will be adequate to absorb probable losses on existing loans that may become uncollectible.

Eagle management's judgment in determining the adequacy of the allowance is based on evaluations of the probability of collection of loans. These evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, current economic conditions that may affect the borrower's ability to pay, overall portfolio quality, and review of specific loan problems. Eagle uses an external independent loan reviewer to challenge and corroborate its loan grading system and provide additional analysis in determining the adequacy of its allowance for loan losses.

Eagle management believes the allowance for loan losses is adequate. In addition, regulatory agencies, as part of their examination process, periodically review the allowance for loan losses. Such regulators may require additions to the allowance based on their judgment of information available to them at the time of such examination.

Offering Related Charges

During the second quarter of 2004, Eagle's management determined that additional equity capital was required to continue to support forecasted asset growth, to further develop product and service offerings and for other general corporate purposes. Accordingly, an offering circular was compiled which provided for the sale of 300,000 shares of common stock at an offering price of \$14.50 per share. Prior to the culmination of an offering to the public, discussions were initiated which resulted in the signing of a definitive agreement with United as more completely described herein. Certain expenses were incurred in the formulation of the offering circular, including legal, accounting and consulting fees which totaled \$51,390. In accordance with generally accepted accounting principals, these fees have been expensed effective June 30, 2004.

Results of Operations

Net income was \$20,500 for the three months ended June 30, 2004, an increase of \$45,900 from the net loss of \$25,400 experienced during the same period of 2003. For the six months ended June 30, 2004, net income of \$1,000 was reflected, up from a loss of \$200 for the six months ended June 30, 2003. The majority of this change is a result of increased net interest income coupled with the recognition of a gain of \$99,000 on sale of an SBA loan, offset by increases in occupancy and related expenses associated with our new McDonough branch together with the impact of the offering expenses mentioned above.

Total revenues, which are comprised of net interest income and non-interest income, for the three months ended June 30, 2004 were \$751,500 as compared to \$597,900 for the second quarter of 2003, an increase of \$153,600 or 25.7%. For the six months ended June 30, 2004 total revenue was \$1,380,000, compared to total revenues for the six months ended June 30, 2003 of \$1,201,000, an increase of \$179,000 or 14.9%. The increase in both periods is directly related to increases in net interest income as more completely described below and the recognition of a gain on the sale of an SBA loan of \$99,000 during the second quarter of 2004 offset by marginal changes in mortgage loan and related fees.

Net Interest Income and Net Interest Expense. Net interest income is the single largest contributor to earnings. Net interest income is the interest earned on loans and investments, reduced by the interest paid on deposit accounts. Net interest income was negatively impacted during 2003 by the general decline in interest rates. While Eagle initially benefited from the declining rate environment in terms of acquiring new loan business, as rates continued to decline it became increasingly difficult to grow net interest income at a pace consistent with our asset growth. As loans with higher interest rates are paid off, the newly established loans are earning interest at a lower rate, thus reducing our interest income from loans. This is the primary reason for the decrease in net interest income from loans despite a 13% increase in average loans as of June 30, 2004 as compared to June 30, 2003.

The banking industry uses two key ratios to measure relative profitability of net interest income: net interest rate spread and net interest margin. The net interest rate spread measures the difference between the average yield on earning assets and the average rate paid on interest-bearing liabilities. The interest rate spread eliminates the impact of noninterest bearing deposits and gives a direct perspective on the effect of market interest rate movements. The net interest margin is defined as net interest income as a percent of average total earning assets and takes into account the positive impact of investing noninterest-bearing deposits and capital, to the extent not invested in non-earning assets.

Eagle's net interest spread for the second quarter of 2004 increased 2 basis points to 3.62% when compared to the second quarter of 2003, while the net interest margin decreased from 3.97% to 3.88% during the same period. For the first six months of 2004, the net interest spread was 3.75%, and the net interest margin was 4.02% compared to the same period in 2003, when the net interest spread was 3.58%, and the net interest margin on average earning assets was 3.97%. The results for the year to date indicate, when compared to the first six months of 2003, Eagle is beginning to experience some benefits of the lower rate environment, as the impact from the repricing of its deposit portfolio to lower rates is offsetting a corresponding drop in yields on earning assets, most significantly the loan portfolio. The average yield on the loan portfolio decreased 79 basis points, offset by a 60 basis point decrease in deposit costs. The effect of loan fees and non-interest bearing funds has declined significantly during the first six months of 2004, contributing only 68 basis points to the net interest margin, compared to a 100 basis point impact in 2003. As of June 2004, Eagle's cost of interest bearing liabilities, in the form of the average rate paid on interest bearing liabilities, is declining at a faster pace than our average rate of interest income from its interest bearing assets.

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The following table shows the relationship between interest income and expense and the average balances of interest earning assets and interest bearing liabilities for the three months ended June 30, 2004 and 2003:

	Three Months Ended June 30, 2004			Three Months Ended June 30, 2003		
	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
ASSETS						
Federal funds sold and interest bearing deposits	\$ 4,510,029	10,454	.93%	5,628,015	16,580	1.18%
Investment securities	7,100,190	67,153	3.79%	6,931,650	72,572	4.20%
Loans	48,052,334	754,058	6.29%	39,901,396	710,900	7.14%
Total interest earning assets	59,662,553	831,665	5.61%	52,461,061	800,052	6.12%
Non interest earning assets	5,641,897			5,800,963		
Total assets	\$ 65,304,450			58,262,024		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Interest bearing liabilities:						
Interest bearing deposits:						
Transaction accounts	\$ 18,947,433	71,253	1.51%	10,310,608	33,409	1.30%
Savings accounts	540,874	676	0.50%	694,691	1,299	0.75%
Certificates of deposit	32,208,954	183,861	2.30%	33,573,070	245,470	2.93%
Total interest bearing deposits	51,697,261	255,790	1.99%	44,578,369	280,178	2.52%
Noninterest bearing liabilities	7,704,073			7,520,538		
Other liabilities	2,685			174,637		
Stockholders' equity	5,900,431			5,988,480		
Total liabilities and stockholders' equity	\$ 65,304,450			58,262,024		
Net interest spread			3.62%			3.60%
Net interest income		575,875			519,874	
Net interest margin on average earning assets			3.88%			3.97%

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The following table shows the relationship between interest income and expense and the average balances of interest earning assets and interest bearing liabilities for the six months ended June 30, 2004 and 2003:

	Six Months Ended June 30, 2004			Six Months Ended June 30, 2003		
	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
ASSETS						
Federal funds sold and interest bearing deposits	\$ 3,248,552	14,957	.93%	6,146,850	35,974	1.18%
Investment securities	7,419,738	149,518	4.07%	5,842,060	135,061	4.66%
Loans	46,910,198	1,490,088	6.39%	41,322,660	1,471,634	7.18%
Total interest earning assets	57,578,488	1,654,563	5.78%	53,311,570	1,642,669	6.21%
Non interest earning assets	5,559,165			5,530,832		
Total assets	\$ 63,137,653			58,842,402		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Interest bearing liabilities:						
Interest bearing deposits:						
Transaction accounts	\$ 18,074,655	135,315	1.51%	9,476,976	58,736	1.25%
Savings accounts	565,537	1,412	0.36%	683,656	2,830	0.84%
Certificates of deposit	31,294,444	366,007	2.35%	35,353,765	532,258	3.04%
Total interest bearing deposits	49,934,636	502,734	2.03%	45,514,397	593,824	2.63%
Noninterest bearing liabilities	7,267,009			7,066,074		
Other liabilities	55,342			262,812		
Stockholders' equity	5,880,666			5,999,119		
Total liabilities and stockholders' equity	\$ 63,137,653			58,842,402		
Net interest spread			3.75%			3.58%
Net interest income		1,151,829			1,048,845	
Net interest margin on average earning assets			4.02%			3.97%

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The following table shows the relative impact on net interest income of changes in the average outstanding balances (volume) of interest earning assets and interest bearing liabilities and the rates earned and paid by Eagle on such assets and liabilities for the three and six month periods ended June 30, 2004 compared to June 30, 2003. 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.

Changes in Interest Income and Expense

(in thousands)

	Three Months Ended June 30, 2004 Compared to June 30, 2003 Increase (decrease) due to changes in			Six Months Ended June 30, 2004 Compared to June 30, 2003 Increase (decrease) due to changes in		
	Volume	Rate	Total	Volume	Rate	Total
Interest earning assets:						
Loans	\$ 134,288	\$ (91,130)	\$ 43,158	\$ 187,038	\$ (168,584)	\$ 18,454
Investment securities	1,723	(7,142)	(5,419)	33,107	(18,650)	14,457
Federal funds sold	(2,955)	(3,171)	(6,126)	(14,564)	(6,453)	(21,017)
Total interest earning assets	133,056	(101,443)	31,613	205,581	(193,687)	11,894
Interest-bearing liabilities:						
Transaction accounts	31,756	6,088	37,844	62,300	14,279	76,579
Savings deposits	(249)	(374)	(623)	(430)	(988)	(1,418)
Certificates of deposit	(3,217)	(58,392)	(61,609)	(139,592)	(26,659)	(166,251)
Total interest-bearing deposits	28,290	(52,678)	(24,388)	(77,722)	(13,368)	(91,090)
Increase in net interest revenue	104,766	(48,765)	56,001	283,303	(180,319)	102,984

Noninterest income. Noninterest income consists primarily of service charges on deposit accounts, mortgage origination fees and other miscellaneous revenues and fees. Because fees from the origination of mortgage loans, as well as various other components of noninterest income, often reflects market conditions, Eagle's noninterest income may tend to have more fluctuations on a quarter to quarter basis than does net interest income.

For the quarter ended June 30, 2004, non-interest income increased \$98,000 or 125% to \$176,000 when compared to the same period in 2003. The majority of this increase was attributed to the recognition of a gain on the sale of the guaranteed portion of an SBA loan of \$99,000 during the second quarter. Management continues to seek such sources of revenue, although it is anticipated that it is not a frequently recurring one, and there are no immediate plans to realize such gains in the near term future. Mortgage loan and related fee revenues increased slightly to \$44,000, up \$7,000 or 18% from the same period in 2003 as a result of increased activity in this source of revenue. Service charge and fees also increased slightly, up \$2,000 or 8.8%, reflecting slight increases in NSF and related service charge income.

For the six months ended June 30, 2004, our noninterest income was \$228,000, which was an increase of \$76,000 or 50.1%, when compared to the six months ended June 30, 2003. Noninterest income comprised 16.5% of our total revenues (net interest income plus noninterest income) for the first six months of 2004. The primary reason for the increase in noninterest income for the first six months of 2004 as compared to the same period for 2003 is due to significant fee income on an SBA loan. Service charges increased slightly during the first six months of 2004 while the majority of the recurring income decreased with the \$22,000 reduction in mortgage loan and related income as the increase in interest rates has resulted in decreased fee income. During 2004, an SBA loan was sold

resulting in a gain of approximately \$99,000. It is anticipated that this source of revenue is not a recurring one, and there are no immediate plans to realize gains such as this in the near term future.

Noninterest Expense. Noninterest expense consists of salaries and employee benefits, occupancy expenses, and other operating expenses, increased \$82,000 or 12.9% for the second quarter of 2004 as compared to the same period of 2003. For the six months ended June 30, 2004, Eagle incurred approximately \$1,378,000 in noninterest expenses compared to \$1,201,000 for the six months ended June 30, 2003, an increase of \$177,000 or 14.7%. The primary component of the increase in noninterest expense is salaries and employee benefits, up \$32,000 or 9% and \$82,000 or 12% for the three-month and six-month periods of 2004 versus 2003, respectively, the majority of which is attributable to the opening of the new branch office in McDonough in April 2003.

Year Ended December 31, 2003 Compared to Year Ended December 31, 2002

Eagle reported a net loss for the year ended December 31, 2003 of approximately \$32,000, compared to net earnings of approximately \$290,000 for the year ended December 31, 2002. Net interest income was \$2.2 million in 2003 compared to \$2.4 million in 2002. Other income was \$268,000 for the year ended December 31, 2003 as compared to \$150,000 in 2002. Other expenses for the year ended 2003 totaled \$2.5 million, compared to \$1.9 million in 2002.

Interest Income and Interest Expense. In 2003, average interest earning assets increased to \$54 million, but decreased to 90.5% of average total assets compared to 91.8% of total average assets at December 31, 2002. The increase in interest earning assets was primarily due to the increase in investment securities and federal funds sold. Average loans outstanding for 2003 decreased to \$42.6 million when compared to \$45.1 million in 2002. Average interest-bearing liabilities for 2003 increased to \$46.4 million from \$44.4 million at December 31, 2002, and average interest rates paid on these liabilities decreased to 2.37% from 2.94% in 2002.

Eagle's net interest spread for the period ended December 31, 2003 and 2002 was 3.77% and 4.09% respectively, while its net interest margin was 4.11% and 4.56%, respectively for those same periods. Eagle's net interest margin decreased in 2003 both because of the precipitous decline in interest rates with interest earning assets repricing more quickly than interest bearing liabilities, as discussed above, and because average loan balances, which is Eagle's highest interest earning asset, decreased in 2003 as a percentage of total earning assets.

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The following table shows the relationship between interest income and expense and the average balances of interest earning assets and interest bearing liabilities for 2003 and 2002 (in thousands):

	For the Year Ended December 31, 2003			For the Year Ended December 31, 2002		
	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
ASSETS						
Federal funds sold and interest bearing deposits	\$ 4,159	\$ 46	1.11%	\$ 2,681	\$ 42	1.57%
Investment securities	7,274	301	4.14%	4,959	299	6.03%
Loans	42,570	2,969	6.97%	45,097	3,369	7.47%
Total interest earning assets	54,003	3,316	6.14%	52,737	3,710	7.03%
Noninterest earning assets	5,651			4,732		
Total assets	\$ 59,654			\$ 57,469		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Interest-bearing deposits	\$ 46,016	\$ 1,093	2.38%	\$ 43,490	\$ 1,287	2.96%
Other borrowings	364	5	1.37%	927	20	2.16%
Total interest-bearing liabilities	46,380	1,098	2.37%	44,417	1,307	2.94%
Non interest bearing deposits	7,184			6,883		
Other noninterest bearing liabilities	146			312		
Stockholders' equity	5,944			5,857		
Total liabilities and stockholders' equity	\$ 59,654			\$ 57,469		
Net interest spread			3.77%			4.09%
Net interest income		\$ 2,218			\$ 2,403	
Net interest margin on average earning assets			4.11%			4.56%

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The following table shows the relative impact on net interest income of changes in the average outstanding balances (volume) of interest earning assets and interest bearing liabilities and the rates earned and paid by Eagle on such assets and liabilities for the period ended December 31, 2003 compared to December 31, 2002. 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.

Changes in Interest Income and Expense

(in thousands)

	December 31, 2003 compared to December 31, 2002 Increase (decrease) due to changes in		
	Volume	Rate	Total
Interest income on:			
Loans (including loan fees)	\$ (183)	\$ (217)	\$ (400)
Investment securities	6	(4)	2
Federal funds sold and interest bearing deposits with other banks	9	(5)	4
	(168)	(226)	(394)
Interest expense on:			
Interest bearing deposits	81	(275)	(194)
Federal funds purchased	(9)	(6)	(15)
	72	(281)	(209)
Increase (decrease) in net interest income	\$ (240)	\$ 55	\$ (185)

Noninterest income and Noninterest expense. Other operating income, representing service charges on deposit accounts, mortgage origination income, and other miscellaneous income for the year ended December 31, 2003 totaled \$268,000, which was an increase of approximately \$118,000 over the amount for December 31, 2002. This increase is primarily attributable to the growth of \$109,000 in mortgage origination income, precipitated by the increase in the volume of loan activity associated with the general decline in mortgage interest rates.

Changes in Financial Condition

Total assets at June 30, 2004 were \$64.1 million, representing a \$3 million, or 5%, increase from the December 31, 2003 balance of \$61.0 million. Deposits at June 30, 2004 increased \$3.1 million, or 5.6% to \$58 million, from the December 31, 2003 total of \$55.0 million. The balance of net loans at June 30, 2004 showed an increase of \$3 million, to \$47.9 million from \$44.7 million at December 31, 2003. The allowance for loan losses at June 30, 2004 totaled \$732,000, representing 1.51% of total loans compared to the December 31, 2003 total of \$552,000, which represented 1.2% of total loans. Cash and cash equivalents increased \$981,000 from December 31, 2003.

Loan Portfolio

Because loans typically provide higher interest yields than do other types of earning assets, Eagle's intent is to channel a substantial percentage of earning assets into loans. Total net loans outstanding at June 30, 2004, December 31, 2003 and 2002 were \$47.9 million, \$44.7 million and \$42.0 million, respectively.

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Major classifications of loans (in thousands) as of June 30, 2004, December 31, 2003 and December 31, 2002 are summarized as follows:

	June 30, 2004		December 31, 2003		December 31, 2002	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Commercial, financial and agricultural	\$ 2,953	6%	\$ 3,616	8%	\$ 5,569	13%
Real estate mortgage	8,994	19%	7,684	17%	2,570	6%
Real estate construction	35,702	73%	32,998	73%	32,128	75%
Consumer	984	2%	904	2%	2,570	6%
Total loans	48,633	100%	45,202	100%	42,837	100%
Less: Allowance for loan losses	732	1.51%	552	1.22%	778	1.82%
Total net loans	\$ 47,901		\$ 44,650		\$ 42,059	

The largest component of Eagle's loan portfolio was real estate loans, which represented 92%, 90% and 81% of the loan portfolio as of June 30, 2004, December 31, 2003 and December 31, 2002, respectively. Real estate loans are further classified into those collateralized by commercial properties and those secured by residential real estate.

Eagle classifies loans as non-accrual generally when they are past due in principal or interest payments for more than 90 days or it is otherwise not reasonable to expect collection of principal and interest under the original terms. Exceptions are allowed for 90-day past-due loans when such loans are well secured and in process of collection. Generally, payments received on non-accrual loans are applied directly to principal. Eagle has adopted the principles of Financial Accounting Standards Board ("FASB") SFAS No. 114 and No. 118 relating to accounting for impaired loans. A loan is considered impaired when, based on current information and events, it is probable that all amounts due according to the contractual terms of the loan will not be collected. Impaired loans are measured based on the present value of expected collateral if the loan is collateral dependent. As of June 30, 2004 and December 31, 2003, Eagle had no non-accrual loans or loans past due greater than 90 days.

Provision and Allowance for Loan Losses

Additions to the allowance for loan losses are made in an effort to maintain the allowance at an appropriate level based on management's analysis of the potential risk in the loan portfolio and other factors, including practices of other banking organizations. The judgments and estimates associated with Eagle's determination of the allowance for loan losses are described under "Critical Accounting Policy" above.

As of June 30, 2004, the allowance for loan losses was \$732,000, or 1.51% of outstanding loans, as compared to \$552,000, or 1.22% of outstanding loans at December 31, 2003, and \$778,000, or 1.82% of outstanding loans as of December 31, 2002. Eagle management uses an external independent loan reviewer to challenge and corroborate management's loan gradings and provide additional analysis, including peer group comparisons, in determining the adequacy of the allowance for loan losses and necessary provisions to the allowance.

There was no provision added to the allowance for loan losses for the periods ended June 30, 2004 or December 31, 2003. For the year ended December 31, 2002 there was a provision of \$150,000 for loan losses.

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The following presents an analysis of the allowance for loan losses, including charge-off activity:

	June 30, 2004	December 31, 2003	December 31, 2002
Balance at beginning of period	\$ 551,878	\$ 777,592	\$ 627,592
Charge-offs:			
Commercial, financial and agricultural			
Commercial real estate		(208,981)	
Real estate		(16,105)	
Consumer		(5,730)	
		(230,816)	
Recoveries:			
Commercial, financial and agricultural			
Commercial real estate	172,109	4,412	
Real estate	3,748		
Consumer	4,407	690	
	180,264	5,102	
Net (charge-offs) recoveries	180,264	(225,714)	
Provision charged to operations			150,000
Balance at end of period	\$ 732,142	\$ 551,878	\$ 777,592
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	*	..005%	

* Not Material.

Investment Portfolio

The investment securities portfolio outstanding as of June 30, 2004 and December 31, 2003 was \$6.6 million and \$7.8 million, respectively. All investment securities were classified as available for sale. The decrease in the investment portfolio was due to paydowns of mortgage backed securities. Eagle believes the investment portfolio provides a balance to interest rate and credit risk of other categories of the balance sheet while providing a vehicle for the investment of available funds.

The amortized cost and estimated fair value of investment securities available for sale at June 30, 2004 and December 31, 2003, by contractual maturity, are shown below (in thousands). Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations without call or prepayment penalties. Mortgage backed securities amortize in accordance with the terms of the underlying mortgages, including prepayments as a result of refinancing and other early payouts.

June 30, 2004		December 31, 2003	
Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value

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	June 30, 2004		December 31, 2003	
Mortgage-backed securities	\$ 6,058	\$ 6,090	\$ 7,456	\$ 7,377
Trust preferred securities	500	500	500	500
Total	\$ 6,558	\$ 6,590	\$ 7,956	\$ 7,877

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As of June 30, 2004 and December 31, 2003 and 2002, Eagle had short-term investments in federal funds sold of \$2.4 million, \$1.6 million and \$9.4 million, respectively. The federal funds are sold on an overnight basis to other banks.

Deposits

Core deposits, which exclude time deposits of \$100,000, provide a relatively stable funding source for its loan portfolio and other earning assets. Eagle's core deposits were \$49.7 million as of June 30, 2004, \$47.6 million as of December 31, 2003 and \$46.7 million as of December 31, 2002.

The average balance of Eagle's deposits and the average rates paid on such deposits as of June 30, 2004, December 31, 2003, and December 31, 2002 were as follows (in thousands):

	June 30, 2004		December 31, 2003		December 31, 2002	
	Amount	Rate	Amount	Rate	Amount	Rate
Noninterest bearing demand	\$ 7,267		\$ 7,184		\$ 6,883	
Interest bearing demand and savings	18,641	1.51%	12,720	1.29%	10,871	1.38%
Time deposits	31,294	2.35%	33,296	2.79%	32,619	3.49%
	49,935	2.03%	46,016	2.37%	43,490	2.94%
Total deposits	\$ 57,202		\$ 53,200		\$ 50,373	

The maturity distribution of Eagle's time deposits of \$100,000 or more as of June 30, 2004, December 31, 2003 and December 31, 2002 is as follows (in thousands):

	June 30, 2004	December 31, 2003	December 31, 2002
Three months or less	\$ 1,792	\$ 1,937	\$ 1,340
Over three through twelve months	5,813	2,023	3,303
Over one year through three years	604	1,788	1,641
Over three years	229	1,701	3,057
Total	\$ 8,438	\$ 7,449	\$ 9,341

Liquidity

Eagle must maintain, on a daily basis, sufficient funds to cover the withdrawals from depositors' accounts and to supply new borrowers with funds. To meet these obligations, Eagle keeps cash on hand, maintains account balances with correspondent banks, and purchases and sells federal funds and other short-term investments. Asset and liability maturities are monitored in an attempt to match these maturities to meet liquidity needs. It is Eagle's policy to monitor its liquidity to meet regulatory requirements and local funding requirements. Eagle believes its current level of liquidity is adequate to meet its needs.

Eagle's primary source of liquidity is a stable base of deposits. Eagle raises deposits by providing deposit services in its market. Scheduled repayments on loans, and interest and maturities of Eagle's investments also provide liquidity. All of Eagle's securities are classified as available-for-sale. If necessary, Eagle has the ability to sell a portion of its investment securities to manage our interest sensitivity gap or provide further liquidity. Eagle may also utilize cash due from banks and federal funds sold to meet liquidity needs.

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At June 30, 2004, Eagle had arrangements with two commercial banks for short term unsecured advances up to \$2 million and \$1.4 million. As of June 30, 2004, Eagle had no outstanding balances under these arrangements.

Eagle's cash flows are composed of three classifications: cash flows from operating activities, cash flows from investing activities, and cash flows from financing activities.

For the six months ended June 30, 2004, cash and cash equivalents increased by \$981,800 to \$4.9 million. This increase was primarily due to an increase in deposits of \$3.1 million which was offset by an increase in loans outstanding of \$3.3 million. The remaining portion of the increase was due to standard recurring operating activities and other investing activities, including proceeds from matured investments.

Cash and cash equivalents at December 31, 2003, were \$3.9 million, which is a decrease of \$8.1 million from the December 31, 2002 balance of \$12.0 million. The decrease in 2003 resulted from \$7.1 million in purchases of securities and an increase in loan activity of \$2.6 million. These investing activity increases were partially offset by \$3.4 million in proceeds related to sales, calls, maturities and paydowns of other investments. The decrease in cash and cash equivalents was further impacted by a \$1.1 million dollar decrease in deposits.

Interest Rate Sensitivity

Asset/liability management is the process by which Eagle monitors and controls the mix and maturities of its assets and liabilities. The essential purposes of asset/liability management are to ensure adequate liquidity and to maintain an appropriate balance between interest sensitive assets and interest sensitive liabilities to minimize potentially adverse impacts on earnings from changes in market interest rates. Interest rate sensitivity can be managed by repricing assets or liabilities, selling securities available-for-sale, replacing an asset or liability at maturity, or adjusting the interest rate during the life of an asset or liability. Managing the amount of assets and liabilities repricing in the same time interval helps to minimize interest rate risk and manage net interest income in changing interest rate environments.

Eagle uses income simulation modeling as its primary tool to measure interest rate risk and to manage its interest rate sensitivity. Simulation modeling considers not only the impact of changing market rates of interest on future net interest income, due to its effect on Eagle's interest-earning assets and interest-bearing liabilities, but also other potential causes of variability such as changes in earning asset levels, mix, yield, and general market conditions by simulating various increasing and decreasing interest rates. In managing interest rate sensitivity, Eagle's simulation modeling allows it to focus on the maturity of assets and liabilities and their repricing characteristics during periods of changing interest rates. This process allows Eagle to manage both its assets and liabilities to respond quickly to changes in interest rates, thereby minimizing the effects of interest rate movements on its net interest income. This analysis indicates that Eagle faces risk primarily from rising interest rates. If interest rates were to increase, the cost of interest bearing liabilities would increase faster than the yield on earning assets, leading to a decline in the margin. The extent of this decline would depend on the degree to which retail deposit rates change relative to market rates.

Another monitoring technique that Eagle employs is the measurement of its interest sensitivity "gap", which is the positive or negative dollar difference between assets and liabilities that are subject to interest rate repricing within a given period of time. Eagle's net interest income generally would benefit from rising interest rates when it has an asset-sensitive gap position. Conversely, Eagle's net interest income generally would benefit from decreasing interest rates of interest when Eagle has a liability-sensitive gap position.

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To measure its interest sensitivity gap, Eagle continually evaluates the asset mix of its balance sheet in terms of several variables: yield, credit quality, appropriate funding sources and liquidity. To effectively manage the liability mix of the balance sheet, Eagle focuses on expanding the various funding sources. The interest rate sensitivity position as of June 30, 2004 is presented in the following table (dollars in thousands). The difference between rate sensitive assets and rate sensitive liabilities, or the interest rate sensitivity gap, is shown at the bottom of the table. Since all interest rates and yields do not adjust at the same velocity, the gap is only a general indicator of rate sensitivity. The table may not be indicative of Eagle's rate sensitivity position at other points in time.

	<u>One year or less</u>	<u>After one but within five years</u>	<u>After five years</u>	<u>Total</u>
Rate sensitive assets:				
Investment portfolio	\$	\$ 2,003	\$ 4,587	\$ 6,590
Short term investments fed funds	2,391			2,391
Loans	25,873	22,586	193	48,652
Total rate sensitive assets	28,264	24,589	4,780	57,633
Rate sensitive liabilities Interest bearing deposits				
	46,684	2,878		49,562
Interest sensitive gap	(18,420)	21,711	4,780	8,071
Cumulative interest sensitivity gap	(18,420)	3,291	8,071	
Ratio of cumulative interest sensitivity gap to total earning assets	(33.5)%	6.00%	14.70%	

At June 30, 2004, the difference between Eagle's liabilities and assets repricing or maturing within one year was \$18.4 million. This indicates that due to an excess of liabilities repricing or maturing within one year, a rise in interest rates would cause Eagle's net interest income to decline.

Gap analysis, however, is not a precise indicator of Eagle's interest rate sensitivity position. The analysis presents only a static view of the timing of maturities and repricing opportunities, without taking into consideration that changes in interest rates do not affect all assets and liabilities equally. Varying interest rate environments can create unexpected changes in the prepayment of assets and liabilities that are not reflected in the gap interest rate sensitivity analysis. For this reason, Eagle places greater emphasis on the simulation modeling analysis than the gap analysis.

Capital Adequacy

Eagle is subject to various regulatory capital requirements administered by the federal banking agencies. As of June 30, 2004, Eagle maintained capital ratios in the "well capitalized" classification.

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The following tables present Eagle's regulatory capital position at December 31, 2003 and June 30, 2004:

Risk-Based Capital Ratios	June 30, 2004	December 31, 2003
Tier 1 Tangible Capital, actual	11.10%	11.31%
Tier 1 Tangible Capital minimum requirement	4.00%	4.00%
Total Capital, actual	12.35%	12.37%
Total Capital minimum requirement	8.00%	8.00%
Leverage Ratio		
Tier 1 Tangible Capital to Adjusted Total Assets, actual	9.04%	9.68%
Minimum leverage requirement	4.00%	4.00%

Impact of Inflation and Changing Prices

The effect of relative purchasing power over time due to inflation has not been taken into effect in Eagle's financial statements. Rather, the statements have been prepared on an historical cost basis in accordance with generally accepted accounting principles in the United States.

Because most of the assets and liabilities of a financial institution are monetary in nature, the effect of changes in interest rates will have a more significant impact on Eagle's performance than will the effect of changing prices and inflation in general. Interest rates may generally increase as the rate of inflation increases, although not necessarily in the same magnitude.

LEGAL MATTERS

Kilpatrick Stockton LLP, counsel to United, has provided an opinion as to the legality of the United common stock to be issued in connection with the merger and the income tax consequences of the merger. As of the date of this proxy statement/prospectus, members of Kilpatrick Stockton LLP participating in this matter own an aggregate of 21,336 shares of United common stock.

EXPERTS

The audited financial statements of United and its subsidiaries incorporated by reference in this proxy statement/prospectus and elsewhere in the registration statement have been audited by Porter Keadle Moore LLP, independent public accountants, as indicated in its related audit reports, and are included on the authority of that firm as experts in giving those reports.

The audited financial statements of Eagle, for each of the two years in the period ended December 31, 2003, included in this proxy statement/prospectus have been audited by Porter Keadle Moore LLP independent public accountants, as stated in their report, which is included and incorporated by reference herein, and has been so included and incorporated in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

OTHER MATTERS

Management of Eagle knows of no other matters which may be brought before the special shareholders' meeting. If any matter other than the proposed merger or related matters should properly come before the special meeting, however, the persons named in the enclosed proxies will vote proxies in accordance with their judgment on those matters.

WHERE YOU CAN FIND MORE INFORMATION

United is subject to the information requirements of the Securities Exchange Act of 1934, which means that they are required to file certain reports, proxy statements, and other information, all of which are available at the Public Reference Section of the Securities and Exchange Commission at Room 1024, 450 Fifth Street, NW, Washington, D.C. 20549. You may also obtain copies of the reports, proxy statements, and other information from the Public Reference Section of the SEC, at prescribed rates, by calling 1-800-SEC-0330. The SEC maintains a World Wide Web site on the Internet at <http://www.sec.gov> where you can access reports, proxy, information and registration statements, and other information regarding registrants that file electronically with the SEC through the EDGAR system.

United has filed a registration statement on Form S-4 to register the United common stock to be issued to the Eagle shareholders in the merger. This proxy statement/prospectus is a part of that registration statement and constitutes a prospectus of United in addition to being a proxy statement of Eagle for the special meeting of Eagle shareholders to be held on October 1, 2004, as described herein. As allowed by SEC rules, this proxy statement/prospectus does not contain all of the information you can find in the registration statement or the exhibits to the registration statement. This proxy statement/prospectus summarizes some of the documents that are exhibits to the registration statement, and you should refer to the exhibits for a more complete description of the matters covered by those documents.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

This document incorporates important business and financial information about United which is not included in or delivered with this proxy statement/prospectus. The following documents previously

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filed by United under the Securities Exchange Act of 1934 are incorporated by reference into this proxy statement/prospectus:

United's Form 10-K for the fiscal year ended December 31, 2003 (which incorporates certain portions of United's Proxy Statement for the 2004 Annual Meeting);

All other reports filed by United pursuant to Sections 13(a) or 15(d) of the Exchange Act since December 31, 2003 and prior to the date the merger is completed; and

All documents subsequently filed pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act prior to the date the merger is completed.

Documents incorporated by reference are available from United without charge, excluding all exhibits, unless an exhibit has been specifically incorporated by reference in this proxy statement/prospectus. Eagle shareholders may obtain documents incorporated by reference in this proxy statement/prospectus by requesting them in writing or by telephone from Rex S. Schuette, Chief Financial Officer, United Community Banks, Inc., at P.O. Box 398, 63 Highway 515, Blairsville, Georgia 30512, telephone number (706) 745-2151. If you would like to request documents, please do so by _____, 2004 to receive them before the special shareholders meeting.

All information concerning United and its subsidiaries has been furnished by United, and all information concerning Eagle and its subsidiary has been furnished by Eagle. Eagle shareholders should rely only on the information contained or incorporated by reference in this proxy statement/prospectus in making a decision to vote on the merger. No person has been authorized to provide Eagle shareholders with information that is different from that contained in this proxy statement/prospectus.

This proxy statement/prospectus is dated September 8, 2004. You should not assume that the information contained in this proxy statement/prospectus is accurate as of any date other than such date, and neither the mailing of this proxy statement/prospectus to shareholders nor the issuance of United common stock in the merger shall create any implication to the contrary.

This proxy statement/prospectus does not constitute an offer to sell, or a solicitation of an offer to buy, any securities, or the solicitation of a proxy, in any jurisdiction to or from any person to whom it is not lawful to make any such offer or solicitation in such jurisdiction. Neither the delivery of this proxy statement/prospectus nor any distribution of securities made hereunder shall, under any circumstances, create an implication that there has been no change in the affairs of United or Eagle since the date hereof, or that the information herein is correct as of any time subsequent to its date.

A WARNING ABOUT FORWARD-LOOKING STATEMENTS

This proxy statement/prospectus (and other documents to which it refers) contains forward-looking statements regarding United and Eagle, including, without limitation, statements relating to United's and Eagle'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 are intended to identify forward-looking statements. These statements are based on the beliefs, assumptions, and expectations of United's and Eagle's management, and on information currently available to those members of management. They are expressions based on historical fact, but do not guarantee future performance. Forward-looking statements include information concerning possible or assumed future results of operations of United after the proposed merger. Forward-looking statements involve risks, uncertainties, and assumptions, and certain factors could cause actual results to differ from results expressed or implied by the forward-looking statements, including:

economic conditions (both generally, and more specifically in the markets where United and Eagle operate);

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competition from other companies that provide financial services similar to those offered by United and Eagle;

government regulation and legislation;

changes in interest rates;

unexpected changes in the financial stability and liquidity of United's and Eagle's credit customers;

combining the businesses of United and Eagle may cost more or take longer than expected;

integrating the businesses and technologies of United and Eagle may be more difficult than expected;

retaining key personnel of United and Eagle may be more difficult than expected;

revenues of the combined entity following the merger may be lower than expected, and the operating costs of the combined entity may be higher than expected;

expected cost savings resulting from the merger may not be fully realized, or may not be realized as soon as expected; and

technological changes may increase competitive pressures and increase costs.

We believe these forward-looking statements are reasonable, but we caution that the foregoing list of factors is not exclusive and that you should not place undue reliance on these forward-looking statements, because the future results and shareholder values of United following completion of the merger may differ materially from those expressed or implied by these forward-looking statements. We do not intend to update any forward-looking statement, whether written or oral, relating to the matters discussed in this proxy statement/prospectus.

EAGLE NATIONAL BANK

Unaudited Financial Statements

June 30, 2004

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EAGLE NATIONAL BANK

Balance Sheet
(Unaudited)

June 30, 2004

Assets	
Cash and due from banks	\$ 2,467,555
Federal funds sold	2,391,000
	<hr/>
Cash and cash equivalents	4,858,555
Investment securities available-for-sale	6,589,652
Other securities	416,686
Loans, net	47,900,640
Premises and equipment, net	3,623,509
Accrued interest receivable and other assets	743,937
	<hr/>
Total assets	\$ 64,132,979
	<hr/>
Liabilities and Shareholders' Equity	
Liabilities:	
Deposits:	
Demand	\$ 8,577,972
Interest-bearing demand	3,094,440
Savings and money market	15,793,136
Time	30,674,670
	<hr/>
Total deposits	58,140,218
Accrued interest payable and other liabilities	187,404
	<hr/>
Total liabilities	58,327,622
	<hr/>
Shareholders' equity:	
Common stock, \$5.00 par value, 10,000,000 shares authorized, 600,000 shares issued and outstanding	3,000,000
Additional paid-in capital	2,970,862
Accumulated deficit	(67,502)
Accumulated other comprehensive income (loss)	(98,003)
	<hr/>
Total shareholders' equity	5,805,357
	<hr/>
Total liabilities and shareholders' equity	\$ 64,132,979
	<hr/>

See accompanying notes to unaudited financial statements.

EAGLE NATIONAL BANK

Statements of Operations
(Unaudited)

For the Three and Six Months Ended June 30, 2004 and 2003

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Interest and dividend income:				
Interest and fees on loans	\$ 754,058	710,900	1,490,088	1,471,634
Interest on federal funds sold	10,454	16,580	14,957	35,974
Interest and dividends on investment securities	67,153	72,572	149,518	135,061
Total interest income	831,665	800,052	1,654,563	1,642,669
Interest expense deposits	255,790	280,178	502,734	593,824
Net interest income	575,875	519,874	1,151,829	1,048,845
Provision for loan losses				
Net interest income after provision for loan losses	575,875	519,874	1,151,829	1,048,845
Other income:				
Fees and service charges on deposits	26,589	24,429	54,448	50,188
Mortgage loan and related fees	43,773	37,054	61,613	83,589
Other	105,266	16,514	111,994	18,208
Total other income	175,628	77,997	228,055	151,985
Other expense:				
Salaries and benefits	386,414	354,204	764,459	682,604
Net occupancy and equipment expense	77,150	70,389	155,279	131,452
Other operating expense	256,996	213,567	458,697	387,002
Total other expenses	720,560	638,160	1,378,435	1,201,058
Earnings (loss), before income taxes	30,943	(40,289)	1,449	(228)
Income tax (expense) benefit	(10,450)	14,919	(450)	
Net earnings (loss)	\$ 20,493	(25,370)	999	(228)
Basic and diluted loss per share	\$ 0.03	(0.03)	0.00	0.00

See accompanying notes to unaudited financial statements.

EAGLE NATIONAL BANK

Statements of Comprehensive Income
(Unaudited)

For the Three and Six Months Ended June 30, 2004 and 2003

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Net earnings (loss)	\$ 20,493	(25,370)	999	(228)
Other comprehensive income (loss):				
Unrealized holding gains (losses) on investment securities available for sale arising during period	(156,180)	(16,997)	(69,665)	1,898
Income taxes related to unrealized holding gains (losses) on investment securities available for sale arising during period	53,101	5,779	23,686	(645)
Total other comprehensive (loss) income, net of tax	(103,079)	(11,218)	(45,979)	1,253
Total comprehensive income (loss)	\$ (82,586)	(36,588)	(44,980)	1,025

See accompanying notes to unaudited financial statements.

EAGLE NATIONAL BANK

Statements of Cash Flows
(Unaudited)

For the Six Months Ended June 30, 2004 and 2003

	2004	2003
	<u> </u>	<u> </u>
Cash flows from operating activities:		
Net earnings (loss)	\$ 999	(228)
Adjustments to reconcile net earnings (loss) to net cash used by operating activities:		
Depreciation, amortization, and accretion	88,707	63,056
Change in other assets and liabilities	(53,199)	(302,978)
	<u> </u>	<u> </u>
Net cash provided (used) by operating activities	36,507	(240,150)
	<u> </u>	<u> </u>
Cash flows from investing activities:		
Proceeds from maturities, calls and paydowns of investment securities available-for-sale	1,217,862	1,618,897
Purchase of securities available-for-sale		(7,178,992)
Net change in loans	(3,249,955)	967,243
Net change in other investments	(76,500)	71,418
Purchases of premises and equipment	(54,139)	(790,201)
	<u> </u>	<u> </u>
Net cash (used) provided by investing activities	(2,162,732)	(5,311,635)
	<u> </u>	<u> </u>
Cash flows from financing activities consisting of changes in deposits	3,108,095	(2,988,534)
	<u> </u>	<u> </u>
Net change in cash and cash equivalents	981,870	(8,540,319)
Cash and cash equivalents at beginning of period	3,876,685	12,021,352
	<u> </u>	<u> </u>
Cash and cash equivalents at end of period	\$ 4,858,555	3,481,033
	<u> </u>	<u> </u>

See accompanying notes to unaudited financial statements.

EAGLE NATIONAL BANK

**Notes to Financial Statements
(Unaudited)**

(1) Organization

Nature of Operations

Eagle National Bank (the "Bank") is a community oriented commercial bank that opened to the public on December 2, 1997. The main emphasis of the Bank is on retail banking and it offers such customary banking services as consumer and commercial checking accounts, savings accounts, certificates of deposit, commercial and consumer loans, money transfers and a variety of other banking services. The Bank's main office is in Stockbridge (Henry County), Georgia, and operates one branch facility located in McDonough (Henry County), Georgia conducting banking activities primarily in Henry and surrounding counties.

(2) Basis of Presentation

The auditing standards and accounting principles followed by the Bank and the methods of applying these standards and principles conform with accounting principles generally accepted in the United States of America ("GAAP") and with general practices within the banking industry. In preparing financial statements in conformity with GAAP, management is required to make estimates and assumptions that affect the reported amounts in the financial statements. Actual results could differ significantly from those estimates. Material estimates common to the banking industry that are particularly susceptible to significant change in the near term include, but are not limited to, the determination of the allowance for loan losses, the valuation of real estate acquired in connection with or in lieu of foreclosure on loans, and valuation allowances associated with deferred tax assets, the recognition of which are based on future taxable income.

The interim financial statements included in this report are unaudited but reflect all adjustments which, in the opinion of management, are necessary for a fair presentation of the financial position and results of operations for the interim periods presented. All such adjustments are of a normal recurring nature. The results of operations for the periods ended June 30, 2004 are not necessarily indicative of the results of a full year's operations.

(3) Proposed Merger

On August 2, 2004, the Board of Directors approved an agreement to merge with United Community Banks, Inc. ("United") a Blairsville, Georgia-based bank holding company. The agreement calls for each share of Bank stock to be exchanged for \$20.32 in cash or .8636 shares of United common stock or a combination of cash and United common stock with a limit of 120,000 Bank shares in cash. The merger is subject to shareholder and regulatory approval.

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EAGLE NATIONAL BANK

Financial Statements

December 31, 2003 and 2002

(with Independent Accountants' Report thereon)

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors and Stockholders
Eagle National Bank
Stockbridge, Georgia

We have audited the accompanying balance sheets of Eagle National Bank as of December 31, 2003 and 2002, and the related statements of operations, comprehensive income, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Eagle National Bank as of December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ PORTER KEADLE MOORE, LLP

Atlanta, Georgia
April 7, 2004

EAGLE NATIONAL BANK

Balance Sheets

December 31, 2003 and 2002

	2003	2002
Assets		
Cash and due from banks	\$ 2,235,685	2,634,352
Federal funds sold	1,641,000	9,387,000
	<u>3,876,685</u>	<u>12,021,352</u>
Cash and cash equivalents	3,876,685	12,021,352
Investment securities available for sale	7,877,179	4,255,016
Other investments	340,186	411,604
Loans, net	44,650,685	42,059,338
Premises and equipment, net	3,658,077	2,981,005
Accrued interest receivable and other assets	634,471	757,591
	<u>\$ 61,037,283</u>	<u>62,485,906</u>
Liabilities and Stockholders' Equity		
Deposits:		
Demand	\$ 6,092,385	6,685,507
Interest-bearing demand	3,916,394	4,539,314
Savings and money market	13,862,653	6,513,263
Time	31,160,692	38,350,528
	<u>55,032,124</u>	<u>56,088,612</u>
Total deposits	55,032,124	56,088,612
Accrued interest payable and other liabilities	154,822	408,577
	<u>55,186,946</u>	<u>56,497,189</u>
Total liabilities	55,186,946	56,497,189
Commitments		
Stockholders' equity:		
Common stock, \$5 par value; authorized 10,000,000 shares; 600,000 issued and outstanding	3,000,000	3,000,000
Additional paid-in capital	2,970,862	2,970,862
Accumulated deficit	(68,501)	(36,773)
Accumulated other comprehensive income	(52,024)	54,628
	<u>5,850,337</u>	<u>5,988,717</u>
Total stockholders' equity	5,850,337	5,988,717
	<u>\$ 61,037,283</u>	<u>62,485,906</u>

See accompanying notes to financial statements.

EAGLE NATIONAL BANK

Statements of Operations

For the Years Ended December 31, 2003 and 2002

	2003	2002
Interest and dividend income:		
Interest and fees on loans	\$ 2,969,322	3,369,326
Interest on federal funds sold	46,012	41,087
Interest and dividends on investment securities	300,691	299,630
Total interest and dividend income	3,316,025	3,710,043
Interest expense:		
Deposits	1,092,589	1,287,512
Other	5,397	19,654
Total interest expense	1,097,986	1,307,166
Net interest income	2,218,039	2,402,877
Provision for loan losses		150,000
Net interest income after provision for loan losses	2,218,039	2,252,877
Other income:		
Service charges on deposit accounts	80,283	74,495
Gain on call of securities		15,485
Mortgage origination income	149,389	39,902
Other	38,363	20,576
Total other income	268,035	150,458
Other expenses:		
Salaries and employee benefits	1,365,987	1,061,745
Occupancy	246,513	160,740
Other	927,802	713,463
Total other expenses	2,540,302	1,935,948
Earnings (loss) before income taxes	(54,228)	467,387
Income tax benefit (expense)	22,500	(177,607)
Net earnings (loss)	\$ (31,728)	289,780
Basic and diluted net (loss) earnings per common share	\$ (.05)	.48

See accompanying notes to financial statements.

EAGLE NATIONAL BANK

Statements of Comprehensive Income

For the Years Ended December 31, 2003 and 2002

	2003	2002
Net earnings (loss)	\$ (31,728)	289,780
Other comprehensive income (loss):		
Unrealized holding gains (losses) on investment securities available for sale arising during period	(161,594)	76,985
Reclassification adjustment for (gains) losses on investment securities available for sale		(15,485)
Total other comprehensive income (loss) before tax	(161,594)	61,500
Income taxes related to other comprehensive income:		
Unrealized holding gains (losses) on investment securities available for sale arising during period	54,942	(26,175)
Reclassification adjustment for gains (losses) on investment securities available for sale		5,265
Total income taxes related to other comprehensive income (loss)	54,942	(20,910)
Total other comprehensive (loss) income, net of tax	(106,652)	40,590
Total comprehensive income (loss)	\$ (138,380)	330,370

See accompanying notes to financial statements.

EAGLE NATIONAL BANK

Statements of Changes in Stockholders' Equity

For the Years Ended December 31, 2003 and 2002

	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2001	\$ 3,000,000	2,970,862	(326,553)	14,038	5,658,347
Net earnings			289,780		289,780
Changes in unrealized gains (losses) on securities available for sale				40,590	40,590
Balance, December 31, 2002	3,000,000	2,970,862	(36,773)	54,628	5,988,717
Net loss			(31,728)		(31,728)
Changes in unrealized gains (losses) on securities available for sale				(106,652)	(106,652)
Balance, December 31, 2003	\$ 3,000,000	2,970,862	(68,501)	(52,024)	5,850,337

See accompanying notes to financial statements.

Eagle National Bank

Statements of Cash Flows

For the Years Ended December 31, 2003 and 2002

	2003	2002
Cash flows from operating activities:		
Net earnings (loss)	\$ (31,728)	289,780
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Net gains on investment securities		(15,485)
Depreciation, amortization and accretion	181,802	99,735
Deferred income tax (benefit) expense	101,630	(44,577)
Provision for loan losses		150,000
Change in:		
Accrued interest receivable and other assets	76,431	(279,141)
Accrued interest payable and other liabilities	(253,755)	158,224
Net cash provided by operating activities	74,380	358,536
Cash flows from investing activities:		
Purchases of investment securities available for sale	(7,196,109)	(1,024,219)
Change in other investments	71,418	3,282
Proceeds from sales, calls, maturities and paydowns of investment securities	3,390,901	3,567,490
Net change in loans	(2,591,346)	2,914,386
Purchases of premises and equipment	(837,423)	(510,282)
Net cash (used) provided by investing activities	(7,162,559)	4,950,657
Cash flows from financing activities:		
Net change in deposits	(1,056,488)	7,085,099
Net change in federal funds purchased		(783,000)
Net cash (used) provided by financing activities	(1,056,488)	6,302,099
Net change in cash and cash equivalents	(8,144,667)	11,611,292
Cash and cash equivalents at beginning of period	12,021,352	410,060
Cash and cash equivalents at end of period	\$ 3,876,685	12,021,352
Supplemental disclosures of cash flow information and noncash investing activities:		
Cash paid for interest	\$ 1,143,448	1,360,930
Change in unrealized gain (loss) on securities available for sale, net of tax	\$ (106,652)	40,590

See accompanying notes to financial statements.

EAGLE NATIONAL BANK

Notes to Financial Statements

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Eagle National Bank (the "Bank") is a community oriented commercial bank that opened to the public on December 2, 1997. The main emphasis of the Bank is on retail banking and it offers such customary banking services as consumer and commercial checking accounts, savings accounts, certificates of deposit, commercial and consumer loans, money transfers and a variety of other banking services. The Bank's main office is in Stockbridge (Henry County), Georgia, and operates one branch facility located in McDonough (Henry County), Georgia conducting banking activities primarily in Henry and surrounding counties.

Basis of Presentation

The auditing standards and accounting principles followed by the Bank and the methods of applying these standards and principles conform with accounting principles generally accepted in the United States of America ("GAAP") and with general practices within the banking industry. In preparing financial statements in conformity with GAAP, management is required to make estimates and assumptions that affect the reported amounts in the financial statements. Actual results could differ significantly from those estimates. Material estimates common to the banking industry that are particularly susceptible to significant change in the near term include, but are not limited to, the determination of the allowance for loan losses, the valuation of real estate acquired in connection with or in lieu of foreclosure on loans, and valuation allowances associated with deferred tax assets, the recognition of which are based on future taxable income.

Certain 2002 amounts have been reclassified to conform with the presentation used for 2003.

Investment Securities

The Bank classifies its investment securities in one of three categories: trading, available for sale, or held to maturity. Trading securities are bought and held principally for the purpose of selling them in the near term. Held to maturity securities are those securities for which the Bank has the ability and intent to hold the security until maturity. All other securities not included in trading or held to maturity are classified as available for sale. At December 31, 2003 and 2002, all securities were classified as available for sale.

Available for sale securities are recorded at fair value. Held to maturity securities are recorded at cost, adjusted for the amortization or accretion of premiums or discounts. Unrealized holding gains and losses, net of the related tax effect, on securities available for sale are excluded from earnings and are reported as a separate component of stockholders' equity until realized. Transfers of securities between categories are recorded at fair value at the date of transfer. Unrealized holding gains or losses associated with transfers of securities from held to maturity to available for sale are recorded as a separate component of stockholders' equity. The unrealized holding gains or losses included in the separate component of stockholders' equity for securities transferred from available for sale to held to maturity are maintained and amortized into earnings over the remaining life of the security as an adjustment to yield in a manner consistent with the amortization or accretion of premium or discount on the associated security.

A decline in the market value of any available for sale or held to maturity investment below cost that is deemed other than temporary is charged to earnings and establishes a new cost basis for the security.

Premiums and discounts are amortized or accreted over the life of the related security as an adjustment to the yield. Realized gains and losses for securities classified as available for sale and held to maturity are included in earnings and are derived using the specific identification method for determining the cost of securities sold.

Other Investments

Other investments include equity securities (Federal Reserve Bank Stock, Federal Home Loan Bank stock and The Bankers Bank stock) with no readily determined fair value. These investments are carried at cost.

Loans, Loan Fees and Interest Income on Loans

Loans are stated at the principal amount outstanding, net of the allowance for loan losses. Interest on loans is calculated by using the simple interest method on daily balances of the principal amount outstanding.

Accrual of interest is discontinued on a loan when management believes, after considering economic and business conditions and collection efforts that the borrower's financial condition is such that collection of interest is doubtful. When a loan is placed on nonaccrual status, previously accrued and uncollected interest is charged to interest income on loans. Generally, payments on nonaccrual loans are applied to principal.

Loan fees greater than \$1,000, net of certain origination costs, are deferred and amortized over the lives of the respective loans. All other loan fees are recognized when the loan closes.

Allowance for Loan Losses

The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged against the allowance for loan losses when management believes that the collection of the principal is unlikely. The allowance represents an amount, which in management's judgment, will be adequate to absorb probable losses on existing loans that may become uncollectible.

Management's judgment in determining the adequacy of the allowance is based on evaluations of the probability of collection of loans. These evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, current economic conditions that may affect the borrower's ability to pay, overall portfolio quality, and review of specific problem loans. Management uses an external independent loan reviewer to challenge and corroborate its loan gradings and provide additional analysis, including peer group comparisons, in determining the adequacy of the allowance for loan losses and necessary provisions to the allowance.

Management believes the allowance for loan losses is adequate. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the allowance for loan losses. Such regulators may require

additions to the allowance based on their judgments of information available to them at the time of their examination.

Premises and Equipment

Premises and equipment are carried at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in income for the period. The cost of maintenance and repairs that do not improve or extend the useful life of the respective asset is charged to income as incurred, whereas significant renewals and improvements are capitalized. The range of estimated useful lives for premises and equipment are:

Equipment and furniture	3 - 10 years
Buildings	40 years

Income Taxes

The Bank uses the liability method of accounting for income taxes, which requires the recognition of deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Additionally, this method requires the recognition of future tax benefits, such as net operating loss carryforwards, to the extent that realization of such benefits is more likely than not. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which the assets and liabilities are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income tax expense in the period that includes the enactment date.

In the event the future tax consequences of differences between the financial reporting bases and the tax bases of the Bank's assets and liabilities results in deferred tax assets, an evaluation of the probability of being able to realize the future benefits indicated by such asset is required. A valuation allowance is provided for the portion of the deferred tax asset when it is more likely than not that some portion or all of the deferred tax asset will not be realized. In assessing the realization of the deferred tax assets, management considers the scheduled reversals of deferred tax liabilities, projected future taxable income, and tax planning strategies.

Cash and Cash Equivalents

Cash and cash equivalents include cash and due from banks and federal funds sold.

Net Earnings (Loss) Per Common Share

Basic earnings (loss) per common share are based on the weighted average number of common shares outstanding during the period while the effects of potential common shares outstanding such as options, convertible securities and warrants are included in diluted earnings per share. At December 31, 2003 and 2002, the inclusion of any potential common shares (54,000 shares) related to stock options had no effect on earnings (loss) per share. Earnings (loss) per share are calculated based on weighted average shares outstanding of 600,000 for the years ended December 31, 2003 and 2002.

Stock Based Compensation

Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation," encourages, but does not require, entities to compute the fair value of options at the date of grant and to recognize such costs as compensation expense immediately if there is no vesting period or ratably over the vesting period of the options. The Bank has chosen not to adopt the cost recognition principles of this statement and accounts for stock options under Accounting Principles Board Opinion No. 25 and its related interpretations. Had compensation costs been determined based upon the fair value of the options at the grant dates consistent with the method of SFAS No. 123, the Bank's net earnings and earnings per share for 2002 would have reflected the proforma amounts below:

	<u>2002</u>
Net earnings, as reported	\$ 289,780
Proforma stock-based compensation cost adjustments associated with new grants, previous grants vesting or cancellation, net of tax	94,934
Proforma net earnings	\$ 384,714
Net earnings per share, as reported	\$.48
Proforma stock-based compensation cost adjustments associated with new grants, previous grants vesting or cancellation, net of tax, per share	.16
Proforma net earnings, per share	\$.64

The weighted average grant-date fair value of options in 2002 was \$4.02. The fair value of each option is estimated on the date of grant using the minimum value option-pricing model, with the following weighted average assumptions used for grants:

	<u>2002</u>
Dividend yield	0%
Risk free interest rate	4%
Expected life	10 years

See note 7 for additional information regarding the stock option plan.

Recent Accounting Pronouncements

Accounting standards that have been issued or proposed by the Financial Accounting Standards Board (FASB) and other standard setting entities that do not require adoption until a future date are either not directly applicable at the present time or are not expected to have a material impact on the Bank's financial statements upon adoption.

(2) INVESTMENT SECURITIES

Investment securities available for sale at December 31, 2003 and 2002 are as follows:

December 31, 2003				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Mortgage-backed securities	\$ 7,456,004	22,494	101,319	7,377,179
Trust preferred securities	500,000			500,000
Total	\$ 7,956,004	22,494	101,319	7,877,179

December 31, 2002				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Mortgage-backed securities	\$ 3,672,247	82,771	2	3,755,016
Trust preferred securities	500,000			500,000
Total	\$ 4,172,247	82,771	2	4,255,016

The following outlines the unrealized losses and fair value by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2003:

Description of securities	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Mortgage-backed securities	\$ 6,048,386	101,319			6,048,386	101,319

The amortized cost and estimated fair value of securities available for sale at December 31, 2003, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Fair Value
1 to 5 years	\$	
5 to 10 years		
Greater than 10 years	500,000	500,000
Mortgage-backed securities	7,456,004	7,377,179
Total	\$ 7,956,004	7,877,179

There were no proceeds from sales or calls of securities available for sale in 2003. There were no securities pledged to secure public deposits in 2003 or 2002. Proceeds from calls of investments for 2002 were \$1,000,000.

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At December 31, 2003 and 2002, the Bank had no outstanding derivative financial instruments such as swaps, options, futures, or forward contracts.

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(3) LOANS

Major classifications of loans at December 31, 2003 and 2002 are summarized as follows:

	2003	2002
	<u> </u>	<u> </u>
Commercial	\$ 3,616,205	5,568,801
Real estate and construction	40,682,307	34,697,913
Consumer	904,051	2,570,216
	<u> </u>	<u> </u>
	45,202,563	42,836,930
Less: Allowance for loan losses	551,878	777,592
	<u> </u>	<u> </u>
Net loans	\$ 44,650,685	42,059,338
	<u> </u>	<u> </u>

The Bank grants loans and extensions of credit to individuals and a variety of firms and corporations located primarily in Henry County and other surrounding Georgia counties. A substantial portion of the loan portfolio is collateralized by improved and unimproved real estate and is dependent upon the real estate market.

In the normal course of business, the Bank sells loan participations to other financial institutions. Loan participations are typically sold to comply with legal lending limits to one borrower imposed by regulatory authorities. The participations are sold without recourse and the Bank imposes no transfer or ownership restrictions on the purchaser. At December 31, 2003 and 2002, the Bank had \$12,837,000 and \$23,765,000 in loan participations sold.

An analysis of the activity in the allowance for loan losses for 2003 and 2002 is presented below:

	2003	2002
	<u> </u>	<u> </u>
Balance at the beginning of the period	\$ 777,592	627,592
Provision for loan losses		150,000
Loans charged off	(230,816)	
Recoveries on loans charged off	5,102	
	<u> </u>	<u> </u>
Balance at the end of the period	\$ 551,878	777,592
	<u> </u>	<u> </u>

(4) PREMISES AND EQUIPMENT

Premises and equipment at December 31, 2003 and 2002, are summarized as follows:

	2003	2002
	<u> </u>	<u> </u>
Land	\$ 1,120,696	1,120,696
Buildings	2,247,113	1,319,435
Equipment and furniture	867,781	537,357
Construction in progress		420,679
	<u> </u>	<u> </u>
	4,235,590	3,398,167
Less: Accumulated depreciation	577,513	417,162
	<u> </u>	<u> </u>
	\$ 3,658,077	2,981,005
	<u> </u>	<u> </u>

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Depreciation expense was approximately \$160,400 and \$98,800 for the years ended December 31, 2003 and 2002, respectively.

(5) DEPOSITS

The aggregate amount of time deposits, each with a minimum denomination of \$100,000, was approximately \$7,449,000 and \$9,341,000 at December 31, 2003 and 2002, respectively.

At December 31, 2003, the scheduled maturities of time deposits are as follows:

2004	\$	27,594,429
2005		2,636,134
2006		306,241
2007		307,106
2008		316,782
		31,160,692
	\$	31,160,692

(6) INCOME TAXES

The components of income tax (benefit) expense for the years ended December 31, 2003 and 2002 are as follows:

	2003	2002
Deferred	\$ 101,630	(44,577)
Utilization of net operating loss		(30,500)
Current	(124,130)	252,684
	\$ (22,500)	177,607

The difference between income tax (benefit) and the amount computed by applying the statutory federal income tax rate to income before taxes for the years ended December 31, 2003 and 2002, is as follows:

	2003	2002
Pretax income at statutory rate	\$ (18,438)	158,912
Add (deduct) individually insignificant tax rate differences and nondeductible expenses	(4,062)	18,695
	\$ (22,500)	177,607

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The following summarizes the sources and expected tax consequences of future deductions (income) for income tax purposes which comprised the net deferred taxes at December 31, 2003 and 2002:

	2003	2002
Deferred income tax assets:		
Allowance for loan losses	\$ 189,880	286,957
Operating loss and credit carryforwards	33,008	9,507
Net unrealized loss on investment securities	26,801	
Other real estate		17,462
	249,689	313,926
Deferred income tax liabilities:		
Premises and equipment and other	(55,728)	(45,136)
Net unrealized gain on investments		(28,141)
	(55,728)	(73,277)
Net deferred income taxes	\$ 193,961	240,649

(7) EMPLOYEE BENEFIT AND STOCK OPTION PLANS

The Bank has a defined contribution plan, intended to comply with the requirements of section 401(k) of the Internal Revenue Code, covering substantially all employees subject to certain minimum age and service requirements. Contributions to the plan are determined annually by the Board of Directors. The Bank matched 50% of each participant's contributions up to 6% of the participant's eligible compensation, which totaled \$29,000 and \$21,000, in 2003 and 2002, respectively.

The Bank has a stock option plan, adopted in 2001, for the benefit of directors, key officers and employees. This plan reserves 120,000 shares to be issued at fair value at the date of the grant in the case of incentive stock options and at prices determined at the Board's discretion in the case of non-qualified options. The options vest over periods of time as specified in the option agreements and expire after 10 years.

Options outstanding and activity for the years ended December 31, 2003 and 2002 under this plan consisted of the following:

	2003		2002	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Beginning of period	54,000	\$ 12.50	79,000	\$ 12.50
Granted			9,000	\$ 12.50
Exercised				
Cancelled			(34,000)	\$ 12.50
	54,000	\$ 12.50	54,000	\$ 12.50
Number of shares exercisable	46,800	\$ 12.50	45,000	\$ 12.50

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(8) DIVIDEND RESTRICTIONS

Banking regulations restrict the amount of dividends that the Bank may pay without obtaining prior approval. Capital adequacy considerations could further limit the availability of dividends from the Bank. At December 31, 2003, the Bank could not impair capital by the payment of dividends.

(9) REGULATORY MATTERS

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2003 and 2002, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2003 and 2002, the most recent notification from the Office of the Comptroller of the Currency categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.

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The Bank's actual capital amounts and ratios are presented in the table (amounts presented in thousands).

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2003:						
Total Capital						
(to Risk Weighted Assets)	\$ 6,455	12.37%	\$ 4,174	≥8.0%	\$ 5,218	≥10.0%
Tier I Capital						
(to Risk Weighted Assets)	\$ 5,903	11.31%	\$ 2,087	≥4.0%	\$ 3,131	≥6.0%
Tier I Capital						
(to Average Assets)	\$ 5,903	9.68%	\$ 2,440	≥4.0%	\$ 3,050	≥5.0%
As of December 31, 2002:						
Total Capital						
(to Risk Weighted Assets)	\$ 6,568	12.98%	\$ 4,047	≥8.0%	\$ 5,059	≥10.0%
Tier I Capital						
(to Risk Weighted Assets)	\$ 5,934	11.73%	\$ 2,024	≥4.0%	\$ 3,035	≥6.0%
Tier I Capital						
(to Average Assets)	\$ 5,934	9.91%	\$ 2,394	≥4.0%	\$ 2,993	≥5.0%

(10) RELATED PARTY TRANSACTIONS

The Bank conducts transactions with its directors and executive officers, including companies in which they have beneficial interest, in the normal course of business. It is the policy of the Bank that loan transactions with directors and executive officers be made on substantially the same terms as those prevailing at the time for comparable loans to other persons. The following is a summary of activity for related party loans for 2003:

Beginning balance	\$ 1,288,830
Loans advanced	911,886
Repayments	(621,167)
Ending balance	<u>\$ 1,579,549</u>

The aggregate amount of deposits from directors and executive officers and their affiliates amounted to approximately \$3,582,000 and \$4,705,000 at December 31, 2003 and 2002, respectively.

(11) COMMITMENTS

On May 21, 2002, the Bank entered into an agreement to implement a program of corrective action of certain conditions. Corrective actions include, but are not limited to; the appointment of certain officer positions, the evaluation of Board of Director committees and duties thereof, the review and evaluation of management and Board of Directors supervision, the design and implementation of a

strategic three-year plan, financial budget and capital plan, and the development and enhancement of certain Bank policies, procedures and internal reports. The corrective actions have varying time frame completion dates and regularly scheduled reporting to the regulatory authorities. On February 17, 2004, the Bank received notification from the bank regulators that all corrective actions required by the agreement had been satisfied and the agreement was terminated.

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments could include commitments to extend credit, standby letters of credit and financial guarantees. Those instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet. The contract amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

The exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit and financial guarantees written is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

In most cases, the Bank requires collateral or other security to support financial instruments with credit risk.

	Approximate Contract Amount	
	2003	2002
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	\$ 4,624,000	5,535,000
Standby letters of credit	\$ 344,000	225,000

Commitments to extend credit are agreements to lend to a customer, as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank, upon extension of credit is based on management's credit evaluation. Collateral held varies but may include unimproved and improved real estate, certificates of deposit, or personal property.

Standby letters of credit and financial guarantees written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to local businesses. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Letters of credit at December 31, 2003, were approximately 100% collateralized.

(12) PROPOSED OFFERING OF COMMON STOCK

In the second quarter of 2004, the Bank intends to commence a private placement of up to 300,000 shares of its \$5 par value common stock. The shares are to be offered for sale pursuant to an exemption from the registration requirements of Federal and State securities laws. Proceeds from the offering, net of offering costs, will be used to support future asset growth of the Bank.

AGREEMENT AND PLAN OF REORGANIZATION

THIS AGREEMENT AND PLAN OF REORGANIZATION (the "**Agreement**") is made and entered into as of this 2nd day of August, 2004, by and between **EAGLE NATIONAL BANK**, a bank chartered under the laws of the United States (hereinafter, "**Eagle**"), and **UNITED COMMUNITY BANKS, INC.**, a Georgia business corporation (hereinafter, "**United**").

WHEREAS, the respective boards of directors of Eagle and United deem it advisable and in the best interests of each such entity and their respective shareholders that Eagle merge with United's Georgia banking subsidiary, United Community Bank ("**UCB Georgia**"), with UCB Georgia being the surviving bank (the "**Merger**"), and with each of the issued and outstanding shares of common stock, \$5.00 par value per share, of Eagle ("**Eagle Stock**") being converted the right to receive 0.8636 shares of the authorized common stock, \$1.00 par value per share, of United ("**United Stock**") or \$20.32 in cash, as shall be elected by the shareholders of Eagle up to a maximum aggregate total of 120,000 shares of Eagle Stock for cash and 480,000 shares of Eagle Stock for United Stock, all upon the terms and conditions hereinafter set forth and as set forth in the Agreement and Plan of Merger attached hereto as *Exhibit A* and incorporated herein by reference (the "**Merger Agreement**"); and

WHEREAS, the boards of directors of the respective entities believe that the Merger and the operating efficiency and synergies produced thereby will enhance and strengthen the franchises and future prospects of United and each of the banks;

NOW, THEREFORE, for and in consideration of the premises and the mutual covenants and agreements herein contained, and other good and valuable consideration, the receipt and adequacy of which as legally sufficient consideration are hereby acknowledged, the parties hereto agree as follows:

ARTICLE I**CLOSING**

The transactions contemplated herein shall be consummated (the "**Closing**") at the offices of Kilpatrick Stockton LLP, Suite 2800, 1100 Peachtree Street, Atlanta, Georgia, on the first business day following receipt of all approvals from any governmental authorities having jurisdiction over the transactions contemplated by this Agreement and the Merger Agreement, and the expiration of any waiting or similar period required by applicable law (the "**Closing Date**"), or at such other time and place as may be mutually satisfactory to the parties hereto.

ARTICLE II**MERGER**

Pursuant to the terms and conditions provided herein, on the Closing Date Eagle shall be merged with and into UCB Georgia in accordance with and in the manner set forth in the Merger Agreement. The surviving bank following the Merger will operate under the articles of incorporation of UCB Georgia. Upon the terms and conditions of this Agreement and the Merger Agreement, United shall make available on or before the Effective Date (as defined in the Merger Agreement) for delivery to the holders of Eagle Stock: (a) the number of shares of United Stock to be issued upon conversion of the shares of Eagle Stock for stock elections; and (b) sufficient funds to make cash election payments and payments in lieu of the issuance of fractional shares as provided in the Merger Agreement; *provided, however*, that no more than 120,000 shares of Eagle Stock may be exchanged for cash (the "**Maximum Cash Election**") and no more than 480,000 shares of Eagle Stock may be exchanged for United Stock (the "**Maximum Stock Election**"). If any Eagle Stock certificate shall have been lost, stolen

or destroyed, United may, in its reasonable discretion and as a condition precedent to the issuance of any United Stock or cash election payment, require the owner of such lost, stolen or destroyed Eagle Stock certificate to provide a bond and an appropriate affidavit and indemnity agreement (reasonably satisfactory to United) as indemnification against any claim that may be made against United with respect to such Eagle Stock certificate.

ARTICLE III

OTHER AGREEMENTS

3.1 Registration and Listing of United Stock. (a) United agrees to file with the Securities and Exchange Commission (the "**SEC**") as soon as reasonably practicable a registration statement (the "**United Registration Statement**") under the Securities Act of 1933, as amended (the "**1933 Act**"), on Form S-4 or some other appropriate form covering the issuance of the shares of United Stock to the shareholders of Eagle pursuant to this Agreement and the Merger Agreement and to use its reasonable best efforts to cause the United Registration Statement to become effective and to remain effective through the Closing Date. United agrees to take any action required to be taken under the applicable state securities laws in connection with the issuance of shares of United Stock upon consummation of the Merger. Eagle agrees to provide United reasonable assistance as necessary in the preparation of the United Registration Statement, including, without limitation, providing United with all material facts regarding the operations, business, assets, liabilities and personnel of Eagle, together with the audited financial statements of Eagle, all as and to the extent required by the 1933 Act and the rules, regulations and practices of the SEC, for inclusion in the United Registration Statement. The United Registration Statement shall not cover resales of United Stock by any of the shareholders of Eagle, and United shall have no obligation to cause the United Registration Statement to continue to be effective after the Closing or to prepare or file any post-effective amendments to the United Registration Statement after the Closing.

(b) United agrees to list on the Nasdaq National Market, by the Closing Date, the shares of United Stock to be issued to the shareholders of Eagle pursuant to this Agreement and the Merger Agreement.

3.2 Meeting of Eagle Shareholders. Eagle shall call a special meeting of its shareholders (the "**Special Meeting**") to be held not more than thirty (30) days after the United Registration Statement becomes effective under the 1933 Act for the purpose of submitting the Merger Agreement to such shareholders for their approval. In connection with the Special Meeting, United and Eagle shall prepare and submit to the Eagle shareholders a notice of meeting, proxy statement and proxy (the "**Eagle Proxy Materials**"), which shall include the final prospectus from the United Registration Statement in the form filed with the SEC.

3.3 Absence of Brokers. Except for Stevens & Company (who is entitled to a payment by Eagle on the Closing Date equal to 1% of the total purchase price), which has provided financial advisory services to Eagle, each party hereto represents and warrants to the other that no broker, finder or other financial consultant has acted on its behalf in connection with this Agreement or the transactions contemplated hereby. Each party agrees to indemnify the other and hold and save it harmless from any claim or demand for commissions or other compensation by any broker, finder, financial consultant or similar agent claiming to have been employed by or on behalf of such party.

3.4 Access to Properties, Books, Etc. Each party hereto shall allow the other party and its authorized representatives full access during normal business hours from and after the date hereof and prior to the Closing Date to all of the respective properties, books, contracts, commitments and records of such party and its subsidiaries and shall furnish the other party and its authorized representatives such information concerning its affairs as the other party may reasonably request provided that such request shall be reasonably related to the transactions contemplated by this Agreement and shall not

interfere unreasonably with normal operations. Each party shall cause its personnel, employees and other representatives to assist the other party in making any such investigation. During such investigation, the investigating party and its authorized representatives shall have the right to make copies of such records, files, tax returns and other materials as it may deem advisable and shall advise the other party of those items of which copies are made. No investigation made heretofore or hereafter by either party and its authorized representatives shall affect the representations and warranties of either such party hereunder.

3.5 Confidentiality. Prior to consummation of the Merger, the parties to this Agreement will provide one another with information which may be deemed by the party providing the information to be confidential. Each party agrees that it will hold confidential and protect all information provided to it by the other party to this Agreement or such party's affiliates, except that the obligations contained in this *Section 3.5* shall not in any way restrict the rights of any party or person to use information that: (a) was known to such party prior to the disclosure by the other party; (b) is or becomes generally available to the public other than by breach of this Agreement; (c) is provided by one party for disclosure concerning such party in the United Registration Statement; or (d) otherwise becomes lawfully available to a party to this Agreement on a non-confidential basis from a third party who is not under an obligation of confidence to the other party to this Agreement. If this Agreement is terminated prior to the Closing, each party hereto agrees to return all documents, statements and other written materials, whether or not confidential, and all copies thereof, provided to it by or on behalf of the other party to this Agreement. The provisions of this *Section 3.5* shall survive termination, for any reason whatsoever, of this Agreement, and, without limiting the remedies of the parties hereto in the event of any breach of this *Section 3.5*, the parties hereto will be entitled to seek injunctive relief against the other party in the event of a breach or threatened breach of this *Section 3.5*.

3.6 Full Cooperation. The parties shall cooperate fully with each other in connection with any acts or actions required to be taken as part of their respective obligations under this Agreement.

3.7 Expenses. All of the expenses incurred by United in connection with the authorization, preparation, execution and performance of this Agreement and the Merger Agreement including, without limitation, all fees and expenses of its agents, representatives, counsel and accountants and the fees and expenses related to filing the United Registration Statement and all regulatory applications with state and federal authorities in connection with the transactions contemplated hereby and thereby, (the "*United Expenses*") shall be paid by United. All expenses incurred by Eagle in connection with the authorization, preparation, execution and performance of this Agreement and the Merger Agreement, including, without limitation, all fees and expenses of its agents, representatives, counsel and accountants (the "*Eagle Expenses*"), shall be paid by Eagle. The cost of reproducing and mailing the Eagle Proxy Materials shall be shared by the parties, with each party paying fifty percent (50%).

3.8 Preservation of Goodwill. Each party hereto shall use its best efforts to preserve its business organization, to keep available the services of its present employees and of the present employees and to preserve the goodwill of customers and others having business relations with such party.

3.9 Approvals and Consents. Each party hereto represents and warrants to and covenants with the other that it will use its best efforts, and will cause its officers, directors, employees and agents to use their best efforts, to obtain as soon as is reasonably practicable all approvals and consents of state and federal departments or agencies required or deemed necessary for consummation of the transactions contemplated by this Agreement and the Merger Agreement.

3.10 Agreement by Eagle Executive Officers, Directors and 5% Shareholders. Each of the directors, executive officers and five (5%) shareholders of Eagle will, contemporaneously with the execution of this Agreement, execute and deliver to United an agreement, the form of which is attached hereto as *Exhibit B*, pursuant to which each of them agrees: (a) to recommend, subject to any applicable fiduciary duty, to Eagle shareholders approval of the Merger; (b) to vote the capital stock of Eagle owned or

controlled by them in favor of the Merger; and (c) to transfer or assign shares of United Stock received by them in connection with the Merger only in compliance with the 1933 Act, applicable state securities laws and the rules and regulations promulgated under either.

3.11 Press Releases. Prior to the Effective Date, United shall approve the form and substance of any press release or other public disclosure by either party materially related to this Agreement or any other transaction contemplated hereby; *provided, however*, that nothing in this *Section 3.11* shall be deemed to prohibit any party from making any disclosure which its counsel deems necessary or advisable in order to satisfy such party's disclosure obligations imposed by law.

3.12 Employee Benefits and Contracts. Following the Effective Date, United shall provide generally to officers and employees of Eagle who continue employment with United employee benefits on terms and conditions which, when taken as a whole, are substantially similar to those then currently provided by United to its other similarly situated officers and employees. Subject to applicable legal requirements, United will take action to enable the employees of Eagle to transfer through a rollover contribution their proceeds from any Eagle 401(k) plan into a separate third party individual retirement account, provided that the Eagle Board of Directors must adopt resolutions to terminate the 401(k) plan prior to the Closing Date. For purposes of eligibility to participate and any vesting determinations (but not benefit accruals) in connection with the provision of any such employee benefits by United to the former officers and employees of Eagle who continue employment with United, service with Eagle prior to the Effective Date shall be counted. Except for the termination of any Eagle 401(k) plan and that certain Employment Agreement between Eagle and Samuel K. Parrish, which shall be terminated prior to Closing pursuant to *Section 7.9* hereof, and the stock options held by Eagle officers and directors, which will be exchanged for cash pursuant to the Merger Agreement, United shall also honor in accordance with their terms all employment, severance, consulting, and other contracts of a compensatory nature to the extent disclosed in the Eagle Disclosure Memorandum between Eagle and any current or former director, officer or employee thereof and no other contracts of the types described that are not so disclosed shall be deemed to be assumed by United by reason of this *Section 3.12*. If, during the calendar year in which falls the Effective Date, United shall terminate any "group health plan", within the meaning of Section 4980B(g)(2) of the Internal Revenue Code, in which one or more Eagle employees participated immediately prior to the Effective Date (an "**Eagle Plan**"), United shall cause any successor group health plan to waive any pre-existing condition limitations to the same extent they are waived for United employees, give credit for such calendar year for any such Eagle employee's participation in the Eagle Plan prior to the Effective Date for purposes of applying any such pre-existing condition limitations set forth therein, and give credit for such calendar year covered expenses paid by any such Eagle employee under an Eagle Plan prior to the Effective Date towards satisfaction of any annual deductible limitation and out-of pocket maximum applied under such successor group health plan. United also shall be considered a successor employer for and shall provide to "qualified beneficiaries", determined immediately prior to the Effective Date, under any Eagle Plan appropriate "continuation coverage" (as those terms are defined in Section 4980B of the Internal Revenue Code) following the Effective Date under either the Eagle Plan or any successor group health plan maintained by United.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF EAGLE

As an inducement to United to enter into this Agreement and to consummate the transactions contemplated hereby, Eagle represents, warrants, covenants and agrees as follows:

4.1 Eagle Disclosure Memorandum. By August 6, 2004, Eagle will deliver to United a memorandum (the "**Eagle Disclosure Memorandum**") containing certain information regarding Eagle as indicated at various places in this Agreement. All information set forth in the Eagle Disclosure Memorandum or in documents incorporated by reference in the Eagle Disclosure Memorandum is true, correct and complete, does not omit to state any fact necessary in order to make the statements therein not misleading, and shall be deemed for all purposes of this Agreement to constitute part of the representations and warranties of Eagle under this *Article IV*. The information contained in the Eagle Disclosure Memorandum shall be deemed to be part of and qualify all representations and warranties contained in this *Article IV* and the covenants in *Article V* to the extent applicable. All information in each of the documents and other writings furnished to United pursuant to this Agreement or the Eagle Disclosure Memorandum is or will be true, correct and complete and does not and will not omit to state any fact necessary in order to make the statements therein not misleading. Eagle shall promptly provide United with written notification of any event, occurrence or other information necessary to maintain the Eagle Disclosure Memorandum and all other documents and writings furnished to United pursuant to this Agreement as true, correct and complete in all material respects at all times prior to and including the Closing. Eagle agrees that upon receipt of the Eagle Disclosure Memorandum, United shall have until August 13, 2004 to review the Eagle Disclosure Memorandum and to terminate this Agreement if for any reason in its sole discretion United believes that proceeding with the Merger in light of the content of such memorandum would be detrimental to United; *provided, however*, that United acknowledges that a termination fee may be due and payable by Eagle under that certain Agreement, dated as of August 1, 2002, by and between Fiserv Solutions, Inc. and Eagle, and United agrees that the payment of such termination fee under such agreement shall not be grounds for termination of this Agreement.

4.2 Corporate and Financial.

4.2.1 Corporate Status. Eagle is a bank duly organized, validly existing, and in good standing under the laws of the United States and has no direct or indirect subsidiaries. Eagle has all of the requisite corporate power and authority and is entitled to own or lease its properties and assets and to carry on its business as and in the places where such properties or assets are now owned, leased or operated and such business is now conducted.

4.2.2 Authority. Subject to the required regulatory approvals and notice filing, as stated in *Section 4.6.2* and the approval of Eagle shareholders, the execution, delivery and performance of this Agreement and the other transactions contemplated or required in connection herewith will not, with or without the giving of notice or the passage of time, or both:

- (a) violate any provision of federal or state law applicable to Eagle, the violation of which could be reasonably expected to have a material adverse effect on the business, operations, properties, assets, financial condition or prospects of Eagle;
- (b) violate any provision of the charter documents or bylaws of Eagle;
- (c) conflict with or result in a breach of any provision of, or termination of, or constitute a default under any instrument, license, agreement, or commitment to which Eagle is a party, which, singly or in the aggregate, could reasonably be expected to have a material adverse effect on the business, operations, properties, assets, financial condition or prospects of Eagle; or

(d) constitute a violation of any order, judgment or decree to which Eagle is a party, or by which Eagle or any of its assets or properties are bound.

Assuming this Agreement constitutes the valid and binding obligation of United, this Agreement constitutes the valid and binding obligation of Eagle, and is enforceable in accordance with its terms, except as limited by laws affecting creditors' rights generally and by the discretion of courts to compel specific performance.

4.2.3 Capital Structure. (a) As of the date of this Agreement, Eagle has authorized capital stock consisting solely of 10,000,000 shares of common stock, par value \$5.00 per share, of which 600,000 shares are issued and outstanding as of the date hereof, exclusive of 51,000 shares reserved for issuance upon exercise of outstanding options (the "*Eagle Stock Options*"). All of the issued and outstanding shares of Eagle Stock are duly authorized and validly issued, fully paid and non-assessable and were offered, issued and sold in compliance with all applicable federal and state securities laws. No person has any right of rescission or claim for damages under federal or state securities laws with respect to the issuance of any shares of Eagle Stock previously issued. None of the shares of Eagle Stock have been issued in violation of any preemptive or other rights of its shareholders.

(b) Except for the Eagle Stock Options and as otherwise described in the Eagle Disclosure Memorandum, Eagle does not have outstanding any securities which are either by their terms or by contract convertible or exchangeable into capital stock of Eagle, or any other securities or debt, of Eagle, or any preemptive or similar rights to subscribe for or to purchase, or any options or warrants or agreements or understandings for the purchase or the issuance (contingent or otherwise) of, or any calls, commitments or claims of any character relating to, its capital stock or securities convertible into its capital stock. Except as otherwise described in the Eagle Disclosure Memorandum, Eagle is not subject to any obligation (contingent or otherwise) to repurchase or otherwise acquire or retire, or to register, any shares of its capital stock.

(c) There is no agreement, arrangement or understanding to which Eagle is a party restricting or otherwise relating to the transfer of any shares of capital stock of Eagle.

(d) All shares of common stock or other capital stock, or any other securities or debt, of Eagle, which have been purchased or redeemed by Eagle have been purchased or redeemed in accordance with all applicable federal, state and local laws, rules, and regulations, including, without limitation, all federal and state securities laws and rules and regulations of any securities exchange or system on which such stock, securities or debt are, or at such time were, traded, and no such purchase or redemption has resulted or will, with the giving of notice or lapse of time, or both, result in a default or acceleration of the maturity of, or otherwise modify, any agreement, note, mortgage, bond, security agreement, loan agreement or other contract or commitment of Eagle.

4.2.4 Corporate Records. The stock records and minute books of Eagle, heretofore or hereafter furnished or made available to United by Eagle, (a) fully and accurately reflect all issuances, transfers and redemptions of the Common Stock; (b) correctly show the record addresses and the number of shares of such stock issued and outstanding on the date hereof held by the shareholders of Eagle; (c) correctly show all corporate action taken by the directors and shareholders of Eagle (including actions taken by consent without a meeting); and (d) contain true and correct copies or originals of the respective charter documents and all amendments thereto, bylaws as amended and currently in force, and the minutes of all meetings or consent actions of its directors and shareholders. No resolutions, regulations or bylaws have been passed, enacted, consented to or adopted by such directors or shareholders except those contained in the minute

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books. All corporate records have been maintained in accordance with all applicable statutory requirements and are complete and accurate.

4.2.5 Tax Returns; Taxes. (a) Eagle has duly filed: (i) all required federal and state tax returns and reports; and (ii) all required returns and reports of other governmental units having jurisdiction with respect to taxes imposed upon its income, properties, revenues, franchises, operations or other assets or taxes imposed which might create a material lien or encumbrance on any of such assets or affect materially and adversely its business or operations. Such returns or reports are, and when filed will be, true, complete and correct, and Eagle has paid, to the extent such taxes or other governmental charges have become due, all taxes and other governmental charges set forth in such returns or reports. All federal, state and local taxes and other governmental charges paid or payable by Eagle have been paid, or have been accrued or reserved on its books in accordance with generally accepted accounting principles applied on a basis consistent with prior periods. Adequate reserves for the payment of taxes have been established on the books of Eagle for all periods through the date hereof, whether or not due and payable and whether or not disputed. Until the Closing Date, Eagle shall continue to provide adequate reserves for the payment of expected tax liabilities in accordance with generally accepted accounting principles applied on a basis consistent with prior periods. Eagle has not received any notice of a tax deficiency or assessment of additional taxes of any kind and, to the knowledge of Eagle, there is no threatened claim against Eagle or any basis for any such claim, for payment of any additional federal, state, local or foreign taxes for any period prior to the date of this Agreement in excess of the accruals or reserves with respect to any such claim shown in the Eagle Financial Statements described in *Section 4.2.6* below or disclosed in the notes with respect thereto. There are no waivers or agreements by Eagle for the extension of time for the assessment of any taxes. The federal income tax returns of Eagle have not been examined by the Internal Revenue Service for any period since December 31, 1998 and no tax return is currently the subject of an audit.

(b) Except as set forth in the Eagle Disclosure Memorandum, proper and accurate amounts have been withheld by Eagle from its employees for all periods in full and complete compliance with the tax withholding provisions of applicable federal, state and local tax laws, and proper and accurate federal, state and local tax returns have been filed by Eagle for all periods for which returns were due with respect to withholding, social security and unemployment taxes, and the amounts shown thereon to be due and payable have been paid in full.

4.2.6 Financial Statements. Eagle has delivered to United true, correct and complete copies of the financial statements of Eagle for the years ended December 31, 2003, 2002 and 2001, and the financial statements of Eagle for the six (6) month period ended June 30, 2004, including balance sheets, statements of income, statements of comprehensive income, statements of changes in shareholders' equity and statements of cash flows (the financial statements for the years ended December 31, 2003, 2002 and 2001 and the financial statements for the six (6) month period ended June 30, 2004 being herein referred to as the "**Eagle Financial Statements**"). All of such financial statements have been prepared in accordance with generally accepted accounting principles consistently applied, and present fairly the assets, liabilities and financial condition of Eagle as of the dates indicated therein and the results of its operations for the years ended December 31, 2003, 2002 and 2001 and for the six (6) month period ended June 30, 2004.

4.2.7 Regulatory Reports. Eagle has made available to United for review and inspection all Reports of Condition and Income filed by Eagle with the Office of the Comptroller of the Currency (the "**OCC**") to date and for each of the three (3) years ended December 31, 2003, 2002 and 2001, together with all such other reports filed for the same three-year period with other applicable regulatory agencies (collectively, the "**Eagle Reports**"). All of the Eagle Reports, as amended, have been prepared in accordance with applicable rules and regulations applied on a

basis consistent with prior periods and contain in all material respects all information required to be presented therein in accordance with such rules and regulations.

4.2.8 Accounts. The Eagle Disclosure Memorandum contains a list of each and every bank and other institution in which Eagle maintains an account or safety deposit box, the account numbers, and the names of all persons who are presently authorized to draw thereon, have access thereto or give instructions regarding distribution of funds or assets therein.

4.2.9 Notes and Obligations. (a) Except as set forth in the Eagle Disclosure Memorandum or as provided for in the loss reserve described in subsection (b) below, all notes receivable or other obligations owned by Eagle or due to it shown in the Eagle Financial Statements and any such notes receivable and obligations on the date hereof and on the Closing Date are and will be genuine, legal, valid and collectible obligations of the respective makers thereof and are not and will not be subject to any offset or counterclaim. Except as set forth in subsection (b) below, all such notes and obligations are evidenced by written agreements, true and correct copies of which will be made available to United for examination prior to the Closing Date. All such notes and obligations were entered into by Eagle in the ordinary course of its business and in compliance with all applicable laws and regulations.

(b) Eagle has established a loss reserve in the Eagle Financial Statements and as of the date of this Agreement and will establish a loan loss reserve as of the Closing Date which is adequate to cover anticipated losses which might result from such items as the insolvency or default of borrowers or obligors on such loans or obligations, defects in the notes or evidences of obligation (including losses of original notes or instruments), offsets or counterclaims properly chargeable to such reserve, or the availability of legal or equitable defenses which might preclude or limit the ability of Eagle to enforce the note or obligation, and the representations set forth in subsection (a) above are qualified in their entirety by the aggregate of such loss reserve. Except as described in the Eagle Disclosure Memorandum, at the Closing Date, the ratio of the loss reserve, established on such date in good faith by Eagle, to total loans outstanding at such time shall not exceed the ratio of the loan loss reserve to the total loans outstanding as reflected in the Eagle Financial Statements, established on or before such date in good faith by Eagle, in accordance with generally accepted accounting principles.

4.2.10 Liabilities. Eagle has no debt, liability or obligation of any kind required to be shown pursuant to generally accepted accounting principles on the consolidated balance sheet of Eagle, whether accrued, absolute, known or unknown, contingent or otherwise, including, but not limited to: (a) liability or obligation on account of any federal, state or local taxes or penalty, interest or fines with respect to such taxes; (b) liability arising from or by virtue of the distribution, delivery or other transfer or disposition of goods, personal property or services of any type, kind or variety; (c) unfunded liabilities with respect to any pension, profit sharing or employee stock ownership plan, whether operated by Eagle or any other entity covering employees of Eagle; or (d) environmental liabilities, except: (i) those reflected in the Eagle Financial Statements; and (ii) as disclosed in the Eagle Disclosure Memorandum.

4.2.11 Absence of Changes. Except as specifically provided for in this Agreement or specifically set forth in the Eagle Disclosure Memorandum, since December 31, 2003:

(a) there has been no change in the business, assets, liabilities, results of operations or financial condition of Eagle, or in any of its relationships with customers, employees, lessors or others, other than changes in the ordinary course of business, none of which individually or in the aggregate has had, or which may have, a material adverse effect on such businesses or properties;

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- (b) there has been no material damage, destruction or loss to the assets, properties or business of Eagle, whether or not covered by insurance, which has had, or which may have, an adverse effect thereon;
- (c) the business of Eagle has been operated in the ordinary course, and not otherwise;
- (d) the properties and assets of Eagle used in its business have been maintained in good order, repair and condition, ordinary wear and tear excepted;
- (e) the books, accounts and records of Eagle have been maintained in the usual, regular and ordinary manner;
- (f) there has been no declaration, setting aside or payment of any dividend or other distribution on or in respect of the capital stock of Eagle;
- (g) there has been no increase in the compensation or in the rate of compensation or commissions payable or to become payable by Eagle to any director or executive officer, or to any employee earning \$35,000 or more per annum, or any general increase in the compensation or in the rate of compensation payable or to become payable to employees of Eagle earning less than \$35,000 per annum ("*general increase*" for the purpose hereof meaning any increase generally applicable to a class or group of employees, but not including increases granted to individual employees for merit, length of service, change in position or responsibility or other reasons applicable to specific employees and not generally to a class or group thereof), or any increase in any payment of or commitment to pay any bonus, profit sharing or other extraordinary compensation to any employee;
- (h) there has been no change in the charter or bylaws of Eagle;
- (i) there has been no labor dispute, unfair labor practice charge or employment discrimination charge, nor, to the knowledge of Eagle, any organizational effort by any union, or institution or threatened institution, of any effort, complaint or other proceeding in connection therewith, involving Eagle, or affecting its operations;
- (j) there has been no issuance, sale, repurchase, acquisition, or redemption by Eagle of any of its capital stock, bonds, notes, debt or other securities, and there has been no modification or amendment of the rights of the holders of any outstanding capital stock, bonds, notes, debt or other securities thereof;
- (k) there has been no mortgage, lien or other encumbrance or security interest (other than liens for current taxes not yet due or purchase money security interests arising in the ordinary course of business) created on or in (including without limitation, any deposit for security) any asset or assets of Eagle or assumed by it with respect to any asset or assets;
- (l) there has been no indebtedness or other liability or obligation (whether absolute, accrued, contingent or otherwise) incurred by Eagle which would be required to be reflected on a balance sheet of Eagle prepared as of the date hereof in accordance with generally accepted accounting principles applied on a consistent basis, except as incurred in the ordinary course of business;
- (m) no obligation or liability of Eagle has been discharged or satisfied, other than in the ordinary course of business;
- (n) there have been no sales, transfers or other dispositions of any asset or assets of Eagle, other than sales in the ordinary course of business; and

(o) there has been no amendment, termination or waiver of any right of Eagle under any contract or agreement or governmental license, permit or permission which has had or may have an adverse effect on its business or properties.

4.2.12 *Litigation and Proceedings.* Except as set forth on the Eagle Disclosure Memorandum, there are no actions, decrees, suits, counterclaims, claims, proceedings or governmental actions or investigations, pending or, to the knowledge of Eagle, threatened against, by or affecting Eagle, or any officer, director, employee or agent in such person's capacity as an officer, director, employee or agent of Eagle or relating to the business or affairs of Eagle, in any court or before any arbitrator or governmental agency, and no judgment, award, order or decree of any nature has been rendered against or with respect thereto by any agency, arbitrator, court, commission or other authority, nor does Eagle have any unasserted contingent liabilities which might have an adverse effect on its assets or on the operation of its businesses or which might prevent or impede the consummation of the transactions contemplated by this Agreement.

4.2.13 *Proxy Materials.* Neither the Eagle Proxy Materials nor other materials furnished by Eagle to the Eagle shareholders in connection with the transactions contemplated by this Agreement or the Merger Agreement, or in any amendments thereof or supplements thereto, will, at the times such documents are distributed to the holders of shares of Eagle Stock and through the acquisition of shares of Eagle Stock by United pursuant to the Merger, contain with respect to Eagle any untrue statement of a material fact or omit to state any information required to be stated therein or omit to state any material fact necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading.

4.2.14 *No Material Adverse Change.* Since December 31, 2003, there has not been any change in the condition of Eagle, any contracts entered into by Eagle, or other changes in the operations of Eagle which, in any case, would have a material adverse effect on Eagle on a consolidated basis taken as a whole.

4.3 *Business Operations.*

4.3.1 *Customers.* There are no presently existing facts which could reasonably be expected to result in the loss of any material borrower or depositor or in Eagle's inability to collect amounts due therefrom or to return funds deposited thereby, except as set forth on the Eagle Disclosure Memorandum.

4.3.2 *Permits; Compliance with Law.* (a) Eagle has all permits, licenses, approvals, authorizations and registrations under all federal, state, local and foreign laws required for Eagle to carry on its business as presently conducted, and all of such permits, licenses, approvals, authorizations and registrations are in full force and effect, and no suspension or cancellation of any of them is pending or, to the knowledge of Eagle, threatened.

(b) Eagle has complied with all laws, regulations, ordinances, rules, and orders applicable to it or its business, except for any non-compliance which would not have a material adverse effect on Eagle. The Eagle Disclosure Memorandum contains a list of any known violations of such laws, regulations, ordinances, rules or orders by any present officer, director, or employee of Eagle, and which resulted in any order, proceeding, judgment or decree which would be required to be disclosed pursuant to Item 401(f) of Regulation S-K promulgated by the SEC. No past violation of any such law, regulation, ordinance, rule or order has occurred which could impair the right or ability of Eagle to conduct its business.

(c) Except as set forth in the Eagle Disclosure Memorandum, no notice or warning from any governmental authority with respect to any failure or alleged failure of Eagle to comply in any respect with any law, regulation, ordinance, rule or order has been received, nor is any such notice or warning proposed or, to the knowledge of Eagle, threatened.

4.3.3 Environmental. (a) Except as set forth in the Eagle Disclosure Memorandum, Eagle:

(i) has not caused or permitted, and no claim exists regarding the environmental condition of the property or the generation, manufacture, use, or handling or the release or presence of, any Hazardous Material (as defined below) on, in, under or from any properties or facilities currently owned or leased by Eagle or adjacent to any properties so owned or leased; and

(ii) has complied in all material respects with, and has kept all records and made all filings or reports required by, and is otherwise in compliance with all applicable federal, state and local laws, regulations, orders, permits and licenses relating to the generation, treatment, manufacture, use, handling, release or presence of any Hazardous Material on, in, under or from any properties or facilities currently owned or leased by Eagle.

(b) Except as set forth in the Eagle Disclosure Memorandum, neither Eagle nor any of its officers, directors, employees or agents, in the course of such individual's employment by Eagle, has given advice with respect to, or participated in any respect in, the management or operation of any entity or concern whose business relates in any way to the generation, storage, handling, disposal, transfer, production, use or processing of Hazardous Material, nor has Eagle foreclosed on any property on which there is a threatened release of any Hazardous Material, or on which there has been such a release and full remediation has not been completed, or any property on which contained (not released) Hazardous Material is or was located.

(c) Except as set forth in the Eagle Disclosure Memorandum, neither Eagle, nor any of its officers, directors, employees, or agents, is aware of, has been told of, or has observed, the presence of any Hazardous Material on, in, under, or around property on which Eagle holds a legal or security interest, in violation of, or creating a liability under, federal, state, or local environmental statutes, regulations, or ordinances.

(d) The term "**Hazardous Material**" means any substance whose nature, use, manufacture, or effect render it subject to federal, state or local regulation governing that material's investigation, remediation or removal as a threat or potential threat to human health or the environment and includes, without limitation, any substance within the meaning of "*hazardous substances*" under the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. § 9601, "*hazardous wastes*" within the meaning of the Resource Conservation and Recovery Act, 42 U.S.C. § 6921, any petroleum product, including any fraction of petroleum, or any asbestos containing materials. However, the term "**Hazardous Material**" shall not include those substances which are normally and reasonably used in connection with the occupancy or operation of office buildings (such as cleaning fluids, and supplies normally used in the day to day operation of business offices).

4.3.4 Insurance. The Eagle Disclosure Memorandum contains a complete list and description (including the expiration date, premium amount and coverage thereunder) of all policies of insurance and bonds presently maintained by, or providing coverage for, Eagle or through Eagle for any of its officers, directors and employees, all of which are, and will be maintained through the Closing Date, in full force and effect, together with a complete list of all pending claims under any of such policies or bonds. All terms, obligations and provisions of each of such policies and bonds have been complied with, all premiums due thereon have been paid, and no notice of cancellation with respect thereto has been received. Except as set forth in the Eagle Disclosure Memorandum, such policies and bonds provide adequate coverage to insure the properties and businesses of Eagle and the activities of its officers, directors and employees against such risks and in such amounts as are prudent and customary. Eagle will not as of the Closing Date have any liability for premiums or for retrospective premium adjustments for any period prior

to the Closing Date. Eagle has heretofore made, or will hereafter make, available to United a true, correct and complete copy of each insurance policy and bond in effect since its inception with respect to the business and affairs of Eagle.

4.4 *Properties and Assets.*

4.4.1 *Contracts and Commitments.* The Eagle Disclosure Memorandum contains a list identifying and briefly describing all written contracts, purchase orders, agreements, security deeds, guaranties or commitments (other than loans, loan commitments and deposits made by or with Eagle in the ordinary course of business), to which Eagle is a party or by which it may be bound involving the payment or receipt, actual or contingent, of more than \$25,000 or having a term or requiring performance over a period of more than ninety (90) days. Each such contract, agreement, guaranty and commitment of Eagle is in full force and effect and is valid and enforceable in accordance with its terms, and constitutes a legal and binding obligation of the respective parties thereto and is not the subject of any notice of default, termination, partial termination or of any ongoing, pending, completed or threatened investigation, inquiry or other proceeding or action that may give rise to any notice of default, termination or partial termination. Eagle has complied in all material respects with the provisions of such contracts, agreements, guaranties and commitments. A true and complete copy of each such document has been or will be made available to United for examination.

4.4.2 *Licenses; Intellectual Property.* Eagle has all patents, trademarks, trade names, service marks, copyrights, trade secrets and know-how reasonably necessary to conduct its business as presently conducted and, except as described in the Eagle Disclosure Memorandum, Eagle is not a party, either as licensor or licensee, to any agreement for any patent, process, trademark, service mark, trade name, copyright, trade secret or other confidential information and there are no rights of third parties with respect to any trademark, service mark, trade secrets, confidential information, trade name, patent, patent application, copyright, invention, device or process owned or used by Eagle or presently expected to be used by it in the future. All patents, copyrights, trademarks, service marks, trade names, and applications therefor or registrations thereof, owned or used by Eagle, are listed in the Eagle Disclosure Memorandum. Eagle has complied with all applicable laws relating to the filing or registration of "*fictitious names*" or trade names.

4.4.3 *Personal Property.* Eagle has good and marketable title to all of its personalty, tangible and intangible, reflected in the Eagle Financial Statements (except as since sold or otherwise disposed of by it in the ordinary course of business), free and clear of all encumbrances, liens or charges of any kind or character, except: (a) those referred to in the notes to the Eagle Financial Statements as securing specified liabilities (with respect to which no default exists or, to the knowledge of Eagle, is claimed to exist); (b) those described in the Eagle Disclosure Memorandum; and (c) liens for taxes not due and payable.

4.4.4 *Eagle Leases.* (a) All leases (the "*Eagle Leases*") pursuant to which Eagle is lessor or lessee of any real or personal property (such property, the "*Leased Property*") are valid and enforceable in accordance with their terms; there is not under any of the Eagle Leases any default or any claimed default by Eagle, or event of default or event which with notice or lapse of time, or both, would constitute a default by Eagle and in respect of which adequate steps have not been taken to prevent a default on its part from occurring.

(b) The copies of the Eagle Leases heretofore or hereafter furnished or made available by Eagle to United are true, correct and complete, and the Eagle Leases have not been modified in any respect other than pursuant to amendments, copies of which have been concurrently delivered or made available to United, and are in full force and effect in accordance with their terms.

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(c) Except as set forth in the Eagle Disclosure Memorandum, there are no contractual obligations, agreements in principle or present plans for Eagle to enter into new leases of real property or to renew or amend existing Eagle Leases prior to the Closing Date.

4.4.5 Real Property. (a) Eagle does not own any interest in any real property (other than as lessee) except as set forth in the Eagle Disclosure Memorandum (such properties being referred to herein as "**Eagle Realty**"). Except as disclosed in the Eagle Disclosure Memorandum, Eagle has good title to the Eagle Realty and the titles to the Eagle Realty are covered by title insurance policies providing coverage in the amount of the original purchase price, true, correct and complete copies of which have been or will be furnished to United with the Eagle Disclosure Memorandum. Eagle has not encumbered the Eagle Realty since the effective dates of the respective title insurance policies.

(b) Except as set forth in the Eagle Disclosure Memorandum, the interests of Eagle in the Eagle Realty and in and under each of the Eagle Leases are free and clear of any and all liens and encumbrances and are subject to no present claim, contest, dispute, action or, to the knowledge of Eagle, threatened action at law or in equity.

(c) The present and past use and operations of, and improvements upon, the Eagle Realty and all real properties included in the Leased Properties (the "**Eagle Leased Real Properties**") are in compliance in all material respects with all applicable building, fire, zoning and other applicable laws, ordinances and regulations and with all deed restrictions of record, no notice of any violation or alleged violation thereof has been received, and there are no proposed changes therein that would affect the Eagle Realty, the Eagle Leased Real Properties or their uses.

(d) Except as set forth in the Eagle Disclosure Memorandum, no rent has been paid in advance and no security deposit has been paid by, nor is any brokerage commission payable by or to, Eagle with respect to any Lease pursuant to which it is lessor or lessee.

(e) Eagle is not aware of any proposed or pending change in the zoning of, or of any proposed or pending condemnation proceeding with respect to, any of the Eagle Realty or the Eagle Leased Real Properties which may adversely affect the Eagle Realty or the Eagle Leased Real Properties or the current or currently contemplated use thereof.

(f) The buildings and structures owned, leased or used by Eagle are, taken as a whole, in good operating order (except for ordinary wear and tear), usable in the ordinary course of business, and are sufficient and adequate to carry on the business and affairs of Eagle.

4.5 Employees and Benefits.

4.5.1 Directors or Officers of Other Corporations. Except as set forth in the Eagle Disclosure Memorandum, no director, officer, or employee of Eagle serves, or in the past five years has served, as a director or officer of any other corporation on behalf of or as a designee of Eagle.

4.5.2 Employee Benefits. (a) Except as set forth in the Eagle Disclosure Memorandum, Eagle does not provide and is not obligated to provide, directly or indirectly, any benefits for employees, including, without limitation, any pension, profit sharing, stock option, retirement bonus, hospitalization, medical, insurance, vacation or other employee benefits under any practice, agreement or understanding.

(b) The Eagle Disclosure Memorandum lists separately any employee benefit plan within the meaning of Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("**ERISA**") sponsored by Eagle (collectively, "**ERISA Plans**"). True, correct and complete copies of all ERISA Plans and, to the extent applicable, all related trust agreements, insurance contracts, summary plan descriptions, Internal Revenue Service determination letters

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and filings, the past three years of actuarial reports and valuations, annual reports and Form 5500 filings (including attachments), and any other related documents requested by United or its counsel have been, or prior to the Closing Date will be, made available to United.

(c) Eagle is not currently and has never been in the past required to contribute to a multiemployer plan as defined in Section 3(37)(A) of ERISA. Eagle does not maintain or contribute to, nor within the past six years has it maintained or contributed to, an employee pension benefit plan as defined in Section 3(2) of ERISA that is or was subject to Title IV of ERISA.

(d) Each ERISA Plan has been operated and administered in all material respects in accordance with, and has been amended to comply with (unless such amendment is not yet required), all applicable laws, rules and regulations, including, without limitation, ERISA, the Internal Revenue Code of 1986, as amended (the "**Code**"), and the regulations issued under ERISA and the Code. With respect to each ERISA Plan, other than routine claims for benefits submitted in the ordinary course of the benefits process, no litigation or administrative or other proceeding is pending or, to the knowledge of Eagle, threatened involving such ERISA Plan or any of its fiduciaries. With respect to each ERISA Plan, neither Eagle nor any of its directors, officers, employees or agents, nor any "*party in interest*" or "*disqualified person*" (as such terms are defined in Section 3(14) of ERISA and Section 4975 of the Code) has been engaged in or been a party to any transaction relating to the ERISA Plan which would constitute a breach of fiduciary duty under ERISA or a "*prohibited transaction*" (as such term is defined in Section 406 of ERISA or Section 4975 of the Code), unless such transaction is specifically permitted under Sections 407 or 408 of ERISA, Section 4975 of the Code or a class or administrative exemption issued by the Department of Labor. Each ERISA Plan that is a group health plan within the meaning of Section 607(l) of ERISA and Section 4980B of the Code is in material compliance with the continuation coverage requirements of Section 501 of ERISA and Section 4980B of the Code.

(e) Of the ERISA Plans, the "*employee pension benefit plans*" within the meaning of Section 3(2) of ERISA (collectively, the "**Employee Pension Benefit Plans**") are separately identified on the Eagle Disclosure Memorandum. With respect to each Employee Pension Benefit Plan, except as set forth on the Eagle Disclosure Memorandum: (i) such Employee Pension Benefit Plan constitutes a qualified plan within the meaning of Section 401(a) of the Code and the trust is exempt from federal income tax under Section 501(a) of the Code; (ii) all contributions required by such plan have been made or will be made on a timely basis; and (iii) no termination, partial termination or discontinuance of contributions has occurred without a determination by the IRS that such action does not affect the tax-qualified status of such plan.

(f) As of the Closing Date, with respect to each ERISA Plan, Eagle will have provided adequate reserves, or insurance or qualified trust funds, to provide for all payments and contributions required, or reasonably expected to be required, to be made under the provisions of such ERISA Plan or required to be made under applicable laws, rules and regulations, with respect to any period prior to the Closing Date to the extent reserves are required under generally accepted accounting principles, based on an actuarial valuation satisfactory to the actuaries of Eagle representing a projection of claims expected to be incurred under such ERISA Plan.

(g) Except as disclosed on the Eagle Disclosure Memorandum, Eagle does not provide and has no obligation to provide benefits, including, without limitation, death, health or medical benefits (whether or not insured) with respect to current or former employees of

Eagle beyond their retirement or other termination of service with Eagle other than: (i) coverage mandated by applicable Law; (ii) benefits under the Employee Pension Benefit Plans; or (iii) benefits the full cost of which is borne by the current or former employee or his beneficiary.

(h) Except as set forth in the Eagle Disclosure Memorandum, neither this Agreement nor any transaction contemplated hereby will: (i) entitle any current or former employee, officer or director of Eagle to severance pay, unemployment compensation or any similar or other payment or (ii) accelerate the time of payment or vesting of, or increase the amount of compensation or benefits due any such employee, officer or director.

4.5.3 Labor-Related Matters. Except as described in the Eagle Disclosure Memorandum, Eagle is not, and has not been, a party to any collective bargaining agreement or agreement of any kind with any union or labor organization or to any agreement with any of its employees which is not terminable at will or upon ninety (90) days notice at the election of, and without cost or penalty to, Eagle. Eagle has not received at any time in the past five (5) years, any demand for recognition from any union, and no attempt has been made, or will have been made as of the Closing Date, to organize any of its employees. Eagle has complied in all material respects with all obligations under the National Labor Relations Act, as amended, the Age Discrimination in Employment Act, as amended, and all other federal, state and local labor laws and regulations applicable to employees. Except as described in the Eagle Disclosure Memorandum, there are no unfair labor practice charges pending or threatened against Eagle, and there are, and in the past three (3) years there have been, no charges, complaints, claims or proceedings, no slowdowns or strikes pending or threatened against, or involving, as the case may be, Eagle with respect to any alleged violation of any legal duty (including but not limited to any wage and hour claims, employment discrimination claims or claims arising out of any employment relationship) by Eagle as to any of its employees or as to any person seeking employment therefrom, and no such violations exist.

4.5.4 Related Party Transactions. Except for: (a) loans and extensions of credit made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions by Eagle with other persons who are not affiliated with Eagle, and which do not involve more than the normal risk of repayment or present other unfavorable features; (b) deposits, all of which are on terms and conditions identical to those made available to all customers of Eagle at the time such deposits were entered into; and (c) transactions specifically described in the Eagle Disclosure Memorandum, there are no contracts with or commitments to present or former five percent (5%) or greater shareholders, directors, officers, or employees involving the expenditure of more than \$60,000 as to any one individual, including with respect to any business directly or indirectly controlled by any such person, or \$100,000 for all such contracts or commitments in the aggregate for all such individuals (other than contracts or commitments relating to services to be performed by any officer, director or employee as a currently-employed employee of Eagle).

4.6 Other Matters.

4.6.1 Regulatory Reports. Eagle will make available to United for review and inspection all applications, reports or other documents filed by it for each of its past three (3) full fiscal years with any regulatory or governmental agencies. All of such applications, reports and other documents have been prepared in accordance with applicable rules and regulations of the regulatory agencies with which they were filed.

4.6.2 Approvals, Consents and Filings. Except for the approval of the Board of Governors of the Federal Reserve System (the "*Federal Reserve*"), the FDIC, the Department of Banking and Finance of the State of Georgia (the "*Georgia Department*"), the notice filing to be made with the

OCC or as set forth in the Eagle Disclosure Memorandum, neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated hereby or thereby will: (a) require any consent, approval, authorization or permit of, or filing with or notification to, any governmental or regulatory authority; or (b) violate any order, writ, injunction, decree, statute, rule or regulation applicable to Eagle, or any of Eagle's assets.

4.6.3 Default. (a) Except for those consents described in or set forth pursuant to *Section 4.6.2* above and as described in the Eagle Disclosure Memorandum, neither the execution of this Agreement nor consummation of the transactions contemplated herein:

(i) constitutes a breach of or default under any contract or commitment to which Eagle is a party or by which Eagle or its properties or assets are bound;

(ii) does or will result in the creation or imposition of any security interest, lien, encumbrance, charge, equity or restriction of any nature whatsoever in favor of any third party upon any assets of Eagle; or

(iii) constitutes an event permitting termination of any agreement or the acceleration of any indebtedness of Eagle.

(b) Eagle is not in default under its charter documents or bylaws or under any term or provision of any security deed, mortgage, indenture or security agreement, or of any other contract or instrument to which Eagle is a party or by which it or any of its property is bound.

4.6.4 Representations and Warranties. No representation or warranty contained in this *Article IV* or in any written statement delivered by or at the direction of Eagle pursuant hereto or in connection with the transactions contemplated hereby contains or will contain any untrue statement, nor will such representations and warranties taken as a whole omit any statement necessary in order to make any statement not misleading. Copies of all documents that have been or will be furnished to United in connection with this Agreement or pursuant hereto are or shall be true, correct and complete.

ARTICLE V

CONDUCT OF BUSINESS OF EAGLE PENDING CLOSING

Except as expressly otherwise provided herein or in the Eagle Disclosure Memorandum, Eagle covenants and agrees that, without the prior written consent of United between the date hereof and the Closing Date:

5.1 Conduct of Business. Eagle will conduct its business only in the ordinary course, without the creation of any indebtedness for borrowed money (other than deposit and similar accounts and customary credit arrangements between banks in the ordinary course of business).

5.2 Maintenance of Properties. Eagle will maintain its properties and assets in good operating condition, ordinary wear and tear excepted.

5.3 Insurance. Eagle will maintain and keep in full force and effect all of the insurance referred to in *Section 4.3.4* hereof or other insurance equivalent thereto in all material respects.

5.4 Capital Structure. No change will be made in the authorized or issued capital stock or other securities of Eagle, and Eagle will not issue or grant any right or option to purchase or otherwise acquire any of the capital stock or other securities of Eagle.

5.5 Dividends. No dividend, distribution or payment will be declared or made in respect to the Eagle Stock and Eagle will not, directly or indirectly, redeem, purchase or otherwise acquire any of its capital stock.

5.6 Amendment of Charter Documents or Bylaws; Corporate Existence. Eagle will not amend its charter documents or bylaws, and Eagle will maintain its corporate existence and powers.

5.7 No Acquisitions. Eagle shall not, without the express written consent of United, acquire by merging or consolidating with, or by purchasing a substantial portion of the assets of, or by any other manner, any business or any corporation, partnership, association or other entity or division thereof or otherwise acquire or agree to acquire any assets which are material, individually or in the aggregate, to Eagle.

5.8 No Dispositions. Eagle will not sell, mortgage, lease, buy or otherwise acquire, transfer or dispose of any real property or interest therein (except for sales in the ordinary course of business) and Eagle will not, except in the ordinary course of business, sell or transfer, mortgage, pledge or subject to any lien, charge or other encumbrance any other tangible or intangible asset.

5.9 Banking Arrangements. No change will be made in the banking and safe deposit arrangements referred to in *Section 4.2.8* hereof.

5.10 Contracts. Eagle will not, without the express written consent of United, enter into or renew any contract of the kind described in *Section 4.4.1* hereof.

5.11 Books and Records. The books and records of Eagle will be maintained in the usual, regular and ordinary course.

5.12 Advice of Changes. Eagle shall promptly advise United orally and in writing of any change or event having, or which could have, a material adverse effect on the assets, liabilities, business, operations or financial condition of Eagle.

5.13 Reports. Eagle shall file all reports required to be filed with any regulatory or governmental agencies between the date of this Agreement and the Closing Date and shall deliver to United copies of all such reports promptly after the same are filed.

5.14 No Severance or Termination Payments. Eagle shall not grant any severance or termination pay to any director, officer or other employee, or adopt any new severance plan; *provided, however*, that for purposes of complying with *Section 7.9*, Eagle may make a payment to Samuel K. Parrish so long as the aggregate payment does not constitute an "excess parachute payment" under Section 280G(b)(2) of the Code.

ARTICLE VI

REPRESENTATIONS AND WARRANTIES OF UNITED

As an inducement to Eagle to enter into this Agreement and to consummate the transactions contemplated hereby, United represents, warrants, covenants and agrees as follows:

6.1 Corporate Status. United is a corporation duly organized, validly existing and in good standing under the laws of the State of Georgia. United is entitled to own or lease its properties and to carry on its business in the places where such properties are now owned, leased or operated and such business is now conducted.

6.2 Authority. Subject to the required regulatory approvals and notice filing, as stated in *Section 4.6.2*, and the approval of Eagle shareholders, the execution, delivery and performance of this Agreement and the other transactions contemplated or required in connection herewith will not, with or without the giving of notice or the passage of time, or both:

- (a) violate any provision of federal or state law applicable to United, the violation of which could be reasonably expected to have a material adverse effect on the business, operations, properties, assets, financial condition or prospects of United;

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- (b) violate any provision of the articles of incorporation or bylaws of United;
- (c) conflict with or result in a breach of any provision of, or termination of, or constitute a default under any instrument, license, agreement, or commitment to which United is a party, which, singly or in the aggregate, could reasonably be expected to have a material adverse effect on the business, operations, properties, assets, financial condition or prospects of United; or
- (d) constitute a violation of any order, judgment or decree to which United is a party, or by which United or any of its assets or properties are bound.

Assuming this Agreement constitutes the valid and binding obligation of Eagle, this Agreement constitutes the valid and binding obligation of United, and is enforceable in accordance with its terms, except as limited by laws affecting creditors' rights generally and by the discretion of courts to compel specific performance.

6.3 Capital Structure. (a) As of the date of this Agreement, United has authorized capital stock consisting solely of 100,000,000 shares of common stock, par value \$1.00 per share, of which 36,253,892 shares are issued and outstanding as of the date hereof, exclusive of 366,862 shares held as treasury shares, 372,000 shares reserved for issuance upon conversion of United's prime plus one-quarter percent ($1/4\%$) Convertible Subordinated Debentures due December 31, 2006 (the "**2006 Debentures**") and 2,160,148 shares reserved for issuance upon the exercise of outstanding options and vesting of restricted stock (the "**United Stock Options and Awards**") and 10,000,000 shares of preferred stock, par value \$1.00 per share (the "**Preferred Stock**"), of which 48,300 shares are issued and outstanding as of the date hereof. All of the issued and outstanding shares of United Stock are duly and validly issued, fully paid and nonassessable and were offered, issued and sold in compliance with all applicable federal or state securities laws. No person has any right of rescission or claim for damages under federal or state securities laws with respect to the issuance of shares of United Stock previously issued. None of the shares of United Stock have been issued in violation of the preemptive or other rights of its shareholders.

(b) Except for the 2006 Debentures and the United Stock Options and Awards, United does not have outstanding any securities which are either by their terms or by contract convertible or exchangeable into United Stock or Preferred Stock, or any other securities or debt, of United, or any preemptive or similar rights to subscribe for or to purchase, or any options or warrants or agreements or understandings for the purchase or the issuance (contingent or otherwise) of, or any calls, commitments or claims of any character relating to, its capital stock or securities convertible into its capital stock. United is not subject to any obligation (contingent or otherwise) to repurchase or otherwise acquire or retire, or to register, any shares of its capital stock.

(c) There is no material agreement, arrangement or understanding to which United is a party restricting or otherwise relating to the transfer of any shares of United Stock.

(d) All shares of common stock or other capital stock, or any other securities or debt, of United, which have been purchased or redeemed by United have been purchased or redeemed in accordance with all applicable federal, state and local laws, rules, and regulations, including, without limitation, all federal and state securities laws and rules and regulations of any securities exchange or system on which such stock, securities or debt are, or at such time were, traded, and no such purchase or redemption has resulted or will, with the giving of notice or lapse of time, or both, result in a default or acceleration of the maturity of, or otherwise modify, any agreement, note, mortgage, bond, security agreement, loan agreement or other contract or commitment of United.

6.4 Financial Statements. United has delivered to Eagle true, correct and complete copies of the audited financial statements of United for the years ended December 31, 2003, 2002, and 2001, and unaudited financial statements of United for the six (6) month period ended June 30, 2004, including

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consolidated balance sheets, consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows and (the audited financial statements for the years ended December 31, 2003, 2002 and 2001 and the unaudited financial statements for the six (6) month period ended June 30, 2004 being referred to as the "**United Financial Statements**"). All of such financial statements have been prepared in accordance with generally accepted accounting principles consistently applied, and present fairly the assets, liabilities and financial condition of United as of the dates indicated therein and the results of its operations for the respective periods then ended.

6.5 Disclosure Reports. United has a class of securities registered pursuant to Section 12(g) of the Securities Exchange Act of 1934, as amended (the "**1934 Act**"), and has delivered to Eagle copies of:

- (a) its Annual Report on Form 10-K for its fiscal year ended December 31, 2003 (and those portions of its 2003 Annual Report to Shareholders incorporated therein by reference) filed pursuant to Section 13 of the Act;
- (b) the Proxy Statement for its 2004 Annual Meeting of Shareholders, filed pursuant to Section 14 of the Act;
- (c) its Quarterly Report on Form 10-Q for the quarter ended March 31, 2004, filed pursuant to Section 13 of the Act; and
- (d) its Current Reports on Form 8-K filed on January 27, 2004, March 15, 2004, April 20, 2004 and July 26, 2004.

The Annual Report, Proxy Statement, Quarterly Reports and Current Reports noted above include all of the annual, periodic and current reports and proxy statements required to be filed by United with the Securities and Exchange Commission since December 31, 2003, and are herein collectively referred to as the "**United SEC Reports**". The United SEC Reports taken together correctly describe, among other things, the business, operations and principal properties of United in accordance with the requirements of the applicable report forms of the SEC. As of the respective dates of filing (or, if amended or superceded by a filing prior to the date of this Agreement, then on the date of such amended or superceded filing), none of the United SEC Reports contained any untrue statement of a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. The financial statements contained in the United SEC Reports have been prepared in accordance with generally accepted accounting principals consistently applied and present fairly the financial condition of United as of the dates thereof and the results of operations for the periods covered thereby.

6.6 No Material Adverse Change. Since the date of its latest published financial statements included in the United SEC Reports, there has not been any change in the condition of United, any contracts entered into by United, any of the United Financial Statements or other changes in the operations of United which, in any case, would have a material adverse effect on United on a consolidated basis taken as a whole.

6.7 Representations and Warranties. No representation or warranty contained in this *Article VI* or in any written statement delivered by or at the direction of United pursuant hereto or in connection with the transactions contemplated hereby contains or will contain any untrue statement, nor will such representations and warranties taken as a whole omit any statement necessary in order to make any statement not misleading. Copies of all documents that have been or will be furnished to Eagle in connection with this Agreement or pursuant hereto are or shall be true, correct and complete.

ARTICLE VII

CONDITIONS TO OBLIGATIONS OF UNITED

All of the obligations of United under this Agreement are subject to the fulfillment prior to or at the Closing Date of each of the following conditions, any one or more of which may be waived by United:

7.1 Veracity of Representations and Warranties. The representations and warranties of Eagle contained herein or in any certificate, schedule or other document delivered pursuant to the provisions hereof, or in connection herewith, shall be true in all material respects as of the date when made and shall be deemed to be made again at and as of the Closing Date and shall be true in all material respects at and as of such time, except as a result of changes or events expressly permitted or contemplated herein.

7.2 Performance of Agreements. Eagle shall have performed and complied with all agreements and conditions required by this Agreement to be performed or complied with by it prior to or on the Closing Date.

7.3 Certificates, Resolutions, Opinion. Eagle shall have delivered to United:

(a) a certificate executed by the President of Eagle, dated as of the Closing Date, and certifying in such detail as United may reasonably request to the fulfillment of the conditions specified in *Sections 7.1* and *7.2* hereof;

(b) a certificate executed by the Secretary of Eagle, dated as of the Closing Date, certifying and attesting to the: (i) charter of Eagle; (ii) bylaws of Eagle; and (iii) duly adopted resolutions of the Board of Directors and shareholders of Eagle (1) authorizing and approving the execution of this Agreement and the Merger Agreement and the consummation of the transactions contemplated herein and therein in accordance with their respective terms, and (2) authorizing all other necessary and proper corporate action to enable Eagle to comply with the terms hereof and thereof;

(c) a certificate of the valid existence of Eagle under the laws of the United States executed by the OCC, and dated not more than five (5) business days prior to the Closing Date;

(d) certificates from the appropriate public officials, dated not more than five (5) business days prior to the Closing Date, certifying that Eagle has filed all corporate tax returns required by the laws of such state and has paid all taxes shown thereon to be due; and

(e) an opinion of Martin Snow, LLP, counsel for Eagle, dated the Closing Date, in the form attached hereto as *Exhibit C*.

7.4 Shareholder Approval. The Merger Agreement shall have been approved by the vote of the holders of at least two-thirds of the Eagle Stock.

7.5 Regulatory Approvals. United shall have received from any and all governmental authorities, bodies or agencies having jurisdiction over the transactions contemplated by this Agreement and the Merger Agreement, including, but not limited to the Federal Reserve, the FDIC, the Georgia Department and the OCC, such consents, authorizations and approvals as are necessary for the consummation thereof and all applicable waiting or similar periods required by law shall have expired.

7.6 Effective Registration Statement. The United Registration Statement shall have been declared effective by the SEC and no stop order shall have been entered with respect thereto.

7.7 Certificate of Merger. The Secretary of State of the State of Georgia shall have issued a certificate of merger with respect to the Merger in accordance with the provisions of the Financial Institutions Code of Georgia and the National Bank Act.

7.8 Accountants' Letter. United shall have received a letter from Porter Keadle Moore, LLP, dated the Closing Date, to the effect that: At the request of Eagle they have carried out procedures to a specified date not more than five (5) business days prior to the Closing Date, which procedures did not constitute an examination in accordance with generally accepted auditing standards, of the financial statements of Eagle, as follows:

(a) read the unaudited balance sheets, statements of income, statements of comprehensive income, statements of changes in shareholder's equity and statements of cash flow, of Eagle from December 31, 2003 through the date of the most recent monthly financial statements available in the ordinary course of business;

(b) read the minutes of the meetings of shareholders and Board of Directors of Eagle from December 31, 2003 to said date not more than five (5) business days prior to the Closing Date; and

(c) consulted with certain officers and employees of Eagle responsible for financial and accounting matters and, based on such procedures, nothing has come to their attention which would cause them to believe that:

(i) such unaudited financial statements are not fairly presented in conformity with generally accepted accounting principles applied on a basis consistent with that of the Eagle Financial Statements;

(ii) as of said date not more than five (5) business days prior to the Closing Date, the shareholders' equity, long-term debt, reserve for possible loan losses and total assets of Eagle, in each case as compared with the amounts shown in the Eagle Financial Statements, are not different except as set forth in such letter, or

(iii) for the period from December 31, 2003 to said date not more than five (5) business days prior to the Closing Date, the net interest income, total and per-share amounts of consolidated income and net income of Eagle, as compared with the corresponding portion of the preceding twelve (12) month period, are not different except as set forth in such letter.

7.9 Settlement of Employment Agreement. Samuel K. Parrish shall have entered a settlement agreement in form and content satisfactory to United to settle his Employment Agreement with Eagle that provides for the payment of one lump sum amount equal to three (3) times his current base salary (the "**Settlement Payment**"). Notwithstanding anything in this Agreement to the contrary, if the Settlement Payment would be a "parachute payment" under Section 280G(b)(2) of the Code, such Settlement Payment shall, but only to the extent necessary, be modified or reduced so that the Settlement Payment shall not cause Eagle to have paid an "excess parachute payment" as defined in Section 280G(b)(1) of the Code. In computing such amount, the parties shall take into account all provisions of Code Section 280G, and the regulations thereunder.

7.10 Noncompetition Agreement. Each of Samuel K. Parrish and Major William Loftin, Jr. shall have executed a one (1) year noncompetition agreement in form and content satisfactory to United.

7.11 Termination of Stock Option Agreements. Each of Samuel K. Parrish, Jim D. Windham, Marcia G. Taylor, Norman W. Strawn, Jr., Allette B. Cheaves and Karen Cooper shall have entered a termination agreement in form and content satisfactory to United to terminate their respective Stock Option Agreement with Eagle for a payment equal to \$6.75 per option outstanding to each under his or her respective agreement.

ARTICLE VIII

CONDITIONS TO OBLIGATIONS OF EAGLE

All of the obligations of Eagle under this Agreement are subject to the fulfillment prior to or at the Closing Date of each of the following conditions, any one or more of which may be waived by it:

8.1 Veracity of Representations and Warranties. The representations and warranties of United contained herein or in any certificate, schedule or other document delivered pursuant to the provisions hereof, or in connection herewith, shall be true in all material respects as of the date when made and shall be deemed to be made again at and as of the Closing Date and shall be true in all material respects at and as of such time, except as a result of changes or events expressly permitted or contemplated herein.

8.2 Performance of Agreements. United shall have performed and complied with all agreements and conditions required by this Agreement to be performed or complied with by it prior to or at the Closing Date.

8.3 Certificates, Resolutions, Opinion. United shall have delivered to Eagle:

(a) a certificate executed by the President or an Executive Vice President of United, dated the Closing Date, certifying in such detail as Eagle may reasonably request to the fulfillment of the conditions specified in *Sections 8.1* and *8.2* hereof;

(b) a certificate executed by the Secretary or an Assistant Secretary of United, dated as of the Closing Date, certifying and attesting to the: (i) articles of incorporation of United; (ii) bylaws of United; and (iii) duly adopted resolutions of the board of directors of United (1) authorizing and approving the execution of this Agreement and the Merger Agreement on behalf of United, and the consummation of the transactions contemplated herein and therein in accordance with their respective terms, and (2) authorizing all other necessary and proper corporate actions to enable United to comply with the terms hereof and thereof;

(c) a certificate of the valid existence of United, under the laws of the State of Georgia executed by the Secretary of State of the State of Georgia, dated not more than five (5) business days prior to the Closing Date; and

(d) an opinion of Kilpatrick Stockton LLP, counsel for United, dated the Closing Date, in the form attached hereto as *Exhibit D*.

8.4 Shareholder Approval. The Merger Agreement shall have been approved by the vote of the holders of at least two-thirds of Eagle Stock.

8.5 Regulatory Approvals. Any and all governmental authorities, bodies or agencies having jurisdiction over the transactions contemplated by this Agreement and the Merger Agreement, including, but not limited to the Federal Reserve, the FDIC, the Georgia Department and the OCC shall have granted such consents, authorizations and approvals as are necessary for the consummation hereof and thereof, and all applicable waiting or similar periods required by law shall have expired.

8.6 Effective Registration Statement. The United Registration Statement shall have been declared effective by the SEC and no stop order shall have been entered with respect thereto.

8.7 Tax Opinion. Eagle shall have received from Kilpatrick Stockton LLP its opinion, in form and substance reasonably satisfactory to Eagle, to the effect that:

(a) The Merger and the issuance of shares of United Stock in connection therewith, as described herein and in the Merger Agreement, will constitute a tax-free reorganization under Section 368(a)(1)(A) of the Code;

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(b) No gain or loss will be recognized by holders of Eagle Stock upon the exchange of such stock solely for United Stock as a result of the Merger;

(c) Gain or loss will be recognized pursuant to Section 302 of the Code by holders of Eagle Stock upon their receipt of cash, including cash (i) as a result of a cash election, (ii) in lieu of fractional shares of United Stock, and (iii) upon their exercise of dissenters' rights;

(d) No gain or loss will be recognized by Eagle as a result of the Merger;

(e) The aggregate tax basis of United Stock received by shareholders of Eagle pursuant to the Merger will be the same as the tax basis of the shares of Eagle Stock exchanged therefor (i) decreased by any portion of such tax basis allocated to fractional shares of United Stock that are treated as redeemed by United, (ii) decreased by the amount of cash received by a Eagle shareholder in the Merger (other than cash received with respect to fractional shares), and (iii) increased by the amount of gain recognized by a Eagle shareholder in the Merger (other than gain recognized with respect to fractional shares); and

(f) The holding period of the shares of United Stock received by the shareholders of Eagle will include the holding period of the shares of Eagle Stock exchanged therefor, provided that the stock of Eagle is held as a capital asset on the date of the consummation of the Merger.

8.8 Certificate of Merger. The Secretary of State of the State of Georgia shall have issued a certificate of merger with respect to the Merger in accordance with the provisions of the Financial Institutions Code of Georgia and the National Bank Act.

ARTICLE IX

WARRANTIES, NOTICES, ETC.

9.1 Warranties. All statements contained in any certificate or other instrument delivered by or on behalf of Eagle or United pursuant hereto or in connection with the transactions contemplated hereby shall be deemed representations and warranties hereunder by them.

9.2 Survival of Representations. All representations, warranties, covenants, and agreements made by either party hereto in or pursuant to this Agreement or in any instrument, exhibit, or certificate delivered pursuant hereto shall be deemed to have been material and to have been relied upon by the party to which made, but, except as set forth hereafter or specifically stated in this Agreement, such representations, warranties, covenants, and agreements shall expire and be of no further force and effect upon the consummation of the Merger; *provided, however,* that the following shall survive consummation of the Merger and the transactions contemplated hereby:

(a) the opinions of counsel referred to in *Sections 7.3(e)* and *8.3(d)* of this Agreement;

(b) any intentional misrepresentation of any material fact made by either party hereto in or pursuant to this Agreement or in any instrument, document or certificate delivered pursuant hereto; and

(c) the covenant with respect to the confidentiality of certain information contained in *Section 3.5* hereof.

9.3 Notices. All notices or other communications required or permitted to be given or made hereunder shall be in writing and delivered personally or sent by pre-paid, first class certified or registered mail, return receipt requested, or by facsimile transmission, to the intended recipient thereof at its address or facsimile number set out below. Any such notice or communication shall be deemed to have been duly given immediately (if given or made in person or by facsimile confirmed by mailing a copy thereof to the recipient in accordance with this *Section 9.3* on the date of such facsimile), or five (5) days after mailing (if given or made by mail), and in proving same it shall be sufficient to show that

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the envelope containing the same was delivered to the delivery service and duly addressed, or that receipt of a facsimile was confirmed by the recipient as provided above. Either party may change the address to which notices or other communications to such party shall be delivered or mailed by giving notice thereof to the other party hereto in the manner provided herein.

To Eagle: Eagle National Bank
850 Eagles Landing Parkway
Stockbridge, Georgia 30281
Attention: Samuel Parrish
Facsimile: (770) 507-5854

With copies to: Martin Snow, LLP
240 Third Street
Macon, Georgia 31201
Attention: Edward J. Harrell
Facsimile: (478) 743-4204

To United: United Community Banks, Inc.
P.O. Box 398
Blairsville, Georgia 30512
Attention: Jimmy C. Tallent
President
Facsimile: (706) 745-1335

With copies to: Kilpatrick Stockton LLP
Suite 2800
1100 Peachtree Street
Atlanta, Georgia 30303-4530
Attention: Richard R. Cheatham
Facsimile: (404) 815-6555

9.4 Entire Agreement. This Agreement and the Merger Agreement supersede all prior discussions and agreements between Eagle and United with respect to the Merger and the other matters contained herein and therein, and this Agreement and the Merger Agreement contain the sole and entire agreement between Eagle and United with respect to the transactions contemplated herein and therein.

9.5 Waiver; Amendment. Prior to or on the Closing Date, United shall have the right to waive any default in the performance of any term of this Agreement by Eagle, to waive or extend the time for the fulfillment by Eagle of any or all of Eagle's obligations under this Agreement, and to waive any or all of the conditions precedent to the obligations of United under this Agreement, except any condition which, if not satisfied, would result in the violation of any law or applicable governmental regulation. Prior to or on the Closing Date, Eagle shall have the right to waive any default in the performance of any term of this Agreement by United, to waive or extend the time for the fulfillment by United of any or all of United's obligations under this Agreement, and to waive any or all of the conditions precedent to the obligations of Eagle under this Agreement, except any condition which, if not satisfied, would result in the violation of any law or applicable governmental regulation. This Agreement may be amended by a subsequent writing signed by the parties hereto, *provided, however*, that the provisions of *Sections 7.5 and 8.5* requiring regulatory approval shall not be amended by the parties hereto without regulatory approval.

ARTICLE X

TERMINATION

In addition to the termination rights set forth in *Section 4.1*, this Agreement may be terminated at any time prior to or on the Closing Date upon written notice to the other party as follows, and, upon any such termination of this Agreement, neither party hereto shall have any liability to the other, except as provided in *Section 10.9* and except that the provisions of *Section 3.5* hereof shall survive the termination of this Agreement for any reason.

10.1 *Material Adverse Change.*

(a) By United, if, after the date hereof, a material adverse change in the financial condition or business of Eagle shall have occurred which change would reasonably be expected to have a material adverse effect on the market price of Eagle Stock, or if Eagle shall have suffered a material loss or damage to any of its properties or assets, which change, loss or damage materially affects or impairs its ability to conduct its business.

(b) By Eagle, if, after the date hereof, a material adverse change in the financial condition or business of United shall have occurred which change would reasonably be expected to have a material adverse effect on the market price of United Stock, or if United shall have suffered a material loss or damage to any its properties or assets, which change, loss or damage materially affects or impairs its ability to conduct its business.

10.2 *Noncompliance.*

(a) By United, if the terms, covenants or conditions of this Agreement to be complied with or performed by Eagle before the Closing shall not have been substantially complied with or substantially performed at or before the Closing Date and such noncompliance or nonperformance shall not have been waived by United.

(b) By Eagle, if the terms, covenants or conditions of this Agreement to be complied with or performed by United before the Closing shall not have been substantially complied with or substantially performed at or before the Closing Date and such noncompliance or nonperformance shall not have been waived by Eagle.

10.3 *Failure to Disclose.*

(a) By United, if it learns of any fact or condition not disclosed in this Agreement, the Eagle Disclosure Memorandum, or the Eagle Financial Statements, which was required to be disclosed by Eagle pursuant to the provisions of this Agreement with respect to the business, properties, assets or earnings of Eagle which materially and adversely affects such business, properties, assets or earnings or the ownership, value or continuance thereof.

(b) By Eagle, if it learns of any fact or condition not disclosed in this Agreement or the United SEC Reports, which was required to be disclosed by United pursuant to the provisions of this Agreement with respect to the business, properties, assets or earnings of United which materially and adversely affect such business, properties, assets or earnings or the ownership, value or continuance thereof.

10.4 *Adverse Proceedings.* By either party, if any action, suit or proceeding shall have been instituted or threatened against either party to this Agreement to restrain or prohibit, or to obtain substantial damages in respect of, this Agreement or the consummation of the transactions contemplated herein, which, in the good faith opinion of Eagle or United makes consummation of the transactions herein contemplated inadvisable.

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10.5 Termination Date. By either party, if the Closing Date shall not have occurred on or before December 31, 2004.

10.6 Dissenters. By United, if the holders of more than ten percent (10%) shares of the outstanding Eagle Stock elect to exercise their statutory right to dissent from the Merger and demand payment in cash for the "fair value" of their shares.

10.7 Shareholders Vote. By either party, if the Merger Agreement is not approved by the vote of the holders of at least two-thirds of Eagle Stock as required by applicable law.

10.8 Environmental Liability of Eagle. By United, if it learns of any potential liability of Eagle arising from noncompliance with any federal, state or local environmental law by Eagle, or any potential liability of Eagle arising from any environmental condition of the properties or assets of Eagle, including any properties or assets in which Eagle holds a security interest.

10.9 Termination Fee. (a) If either party terminates this Agreement pursuant to *Section 10.7* or if Eagle terminates this Agreement, or otherwise causes the Merger to not occur, while a Competing Offer (as defined in (b) below) is outstanding or after such an offer has been accepted, then in such case, Eagle shall pay, or cause to be paid to United, at the time of the termination or the act or inaction by Eagle that otherwise causes the Merger to not occur, an amount equal to \$500,000 (the "**Termination Fee**") plus an amount equal to the United Expenses.

(b) "Competing Offer" means any inquiry, proposal or offer, whether in writing or otherwise, from anyone other than United to acquire beneficial ownership (as determined under Rule 13d-3 of the Exchange Act) of all or a material portion of the assets of Eagle or 15% or more of any class of equity securities of Eagle pursuant to a merger, consolidation or other business combination, sale of shares of capital stock, sale of assets, tender offer, exchange offer or similar transaction with respect to Eagle, including any single or multi-step transaction or series of related transactions, which is structured to permit such party to acquire beneficial ownership of any material portion of the assets of, or 15% or more of the equity interest in Eagle.

ARTICLE XI

COUNTERPARTS, HEADINGS, ETC.

This Agreement may be executed simultaneously in any number of counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same instrument. The headings herein set out are for convenience of reference only and shall not be deemed a part of this Agreement. A pronoun in one gender includes and applies to the other genders as well.

ARTICLE XII

BINDING EFFECT

This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and assigns; *provided, however,* that this Agreement may not be assigned by either party without the prior written consent of the other.

ARTICLE XIII

GOVERNING LAW

The validity and effect of this Agreement and the Merger Agreement and the rights and obligations of the parties hereto and thereto shall be governed by and construed and enforced in accordance with the laws of the State of Georgia.

[Remainder of page intentionally left blank.]

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IN WITNESS WHEREOF, Eagle and United have caused this Agreement to be executed by their respective duly authorized corporate officers and their respective corporate seals to be affixed hereto as of the day and year first above written.

EAGLE NATIONAL BANK

(BANK SEAL)

ATTEST:

/s/ Allette B. Cheaves

Secretary

By: /s/ Samuel K. Parrish

Samuel K. Parrish
President

UNITED COMMUNITY BANKS, INC.

(CORPORATE SEAL)

ATTEST:

/s/ Lori McKay

Assistant Secretary

By: /s/ Thomas C. Gilliland

Thomas C. Gilliland
Executive Vice President

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EXHIBIT A

AGREEMENT AND PLAN OF MERGER

(Merger Agreement)

THIS AGREEMENT AND PLAN OF MERGER (the "*Agreement*") is made and entered into as of this 2nd day of August 2004, by and between **UNITED COMMUNITY BANK**, a Georgia bank ("*UCB Georgia*") and wholly-owned subsidiary of **UNITED COMMUNITY BANKS, INC.**, a Georgia corporation ("*United*"), and **EAGLE NATIONAL BANK**, a bank chartered under the laws of the United States ("*Eagle*", and together with UCB Georgia, the "*Constituent Banks*").

WHEREAS, the authorized capital stock of United consists of 100,000,000 shares of Common Stock, \$1.00 par value per share (the "*United Stock*"), of which 36,253,892 shares are issued and outstanding as of the date hereof and 10,000,000 shares of preferred stock, par value \$1.00 per share (the "*Preferred Stock*"), of which 48,300 shares are issued and outstanding; and

WHEREAS, the authorized capital stock of Eagle consists of 10,000,000 shares of common stock, par value \$5.00 per share (the "*Eagle Stock*"), of which 600,000 shares are issued and outstanding as of the date hereof, exclusive of 51,000 shares reserved for issuance upon exercise of outstanding options (the "*Eagle Stock Options*"); and

WHEREAS, the authorized capital stock of UCB Georgia consists of 100,000 shares of common stock, \$10.00 par value per share (the "*UCB Georgia Stock*"), of which 85,000 shares are issued and outstanding as of the date hereof; and

WHEREAS, the respective Boards of Directors of Eagle and UCB Georgia deem it advisable and in the best interests of each party and its shareholders that Eagle merge with UCB Georgia, with UCB Georgia being the surviving bank; and

WHEREAS, the respective Boards of Directors of Eagle and UCB Georgia, by resolutions duly adopted, have unanimously approved and adopted this Agreement and directed that it be submitted to the shareholders of each of Eagle and UCB Georgia for their approval; and

WHEREAS, United has agreed to issue shares of United Stock and/or cash which shareholders of Eagle will be entitled to receive, according to the terms and conditions contained herein, on or after the Effective Date (as defined herein) of the merger provided for herein;

NOW, THEREFORE, for and in consideration of the premises and the mutual agreements herein contained, and other good and valuable consideration, the receipt and adequacy of which as legally sufficient consideration are hereby acknowledged, the parties hereto have agreed and do hereby agree, as follows:

1. Merger.

Pursuant to and with the effects provided in the applicable provisions of Article 2 of the Financial Institution Code of Georgia, Chapter 1 of Title 7 of the Official Code of Georgia (the "*Code*"), Eagle (hereinafter sometimes referred to as the "*Merged Bank*") shall be merged with and into UCB Georgia (the "*Merger*"). UCB Georgia shall be the surviving bank (the "*Surviving Bank*") and shall continue under the name "*United Community Bank*". On the Effective Date (as defined herein) of the Merger, the individual existence of the Merged Bank shall cease and terminate.

2. Actions to be Taken.

The acts and things required to be done by the Code in order to make this Agreement effective, including the submission of this Agreement to the shareholders of the Constituent Banks and the filing of the articles of merger relating hereto in the manner provided in said Code, shall be attended to and

done by the proper officers of the Constituent Banks with the assistance of counsel as soon as practicable.

3. *Effective Date.*

The Merger shall be effective upon the approval of this Agreement by the shareholders of the Merged Bank and the filing of the articles of merger relating hereto in the manner provided in the Code (the "***Effective Date***").

4. *Articles of Incorporation and Bylaws of the Surviving Bank.*

(a) The Articles of Incorporation of UCB Georgia, as heretofore amended, as in effect on the Effective Date shall be the Articles of Incorporation of the Surviving Bank.

(b) Until altered, amended or repealed, as therein provided, the Bylaws of UCB Georgia as in effect on the Effective Date shall be the Bylaws of the Surviving Bank.

5. *Directors.*

Upon the Merger contemplated herein becoming effective, the directors of the Surviving Bank shall be the individuals set forth on Attachment 1 hereto. Said persons shall hold office until the next annual meeting of the shareholder of the Surviving Bank and until their successors are elected in accordance with the Bylaws of the Surviving Bank. If on the Effective Date any vacancy shall exist on the Board of Directors of the Surviving Bank, such vacancy shall be filled in the manner specified in the Bylaws of the Surviving Bank.

6. *Manner and Basis of Converting Shares of Capital Stock; Capital Structure of the Surviving Bank.*

The manner and basis of converting the shares of capital stock of each of the Constituent Banks into shares of United shall be as follows:

(a) Upon the Effective Date, each share of the Surviving Bank issued and outstanding immediately prior to the Effective Date shall remain outstanding.

(b) In the Merger, the holders of Eagle Stock shall be entitled to elect to receive, in exchange for their shares of Eagle Stock, shares of United Stock, cash or a combination thereof, in the amounts specified by such holders in accordance with the provisions of *Section 6(c)* below, and each share of Eagle Stock outstanding immediately prior to the Effective Date shall, by virtue of the Merger, be converted on the Effective Date into fully paid and nonassessable shares of United Stock and/or cash as follows, subject to any adjustments occurring after the date hereof as contemplated by *Section 6(e)* below:

- (1) 0.8636 shares of United Stock for each outstanding share of Eagle Stock;
- (2) \$20.32 in cash, without interest, per share of Eagle Stock; or
- (3) any combination of *Section 6(b)(1)* and *6(b)(2)* above;

provided, however, that no more than 120,000 shares of Eagle Stock may be exchanged for cash (the "***Maximum Cash Election***") and no more than 480,000 shares of Eagle Stock may be exchanged for United Stock (the "***Maximum Stock Election***") and any shares of Eagle Stock elected to be exchanged for cash above the Maximum Cash Election or Maximum Stock Election shall be subject to proration as provided in *Section 6(c)* below

(c) At the same time that the notice of special meeting of Eagle shareholders is first mailed to Eagle shareholders, a form of election shall also be mailed to each Eagle shareholder (the date of such form of election being referred to herein as the "***Mailing Date***"). Each Eagle shareholder shall indicate thereon, his, her or its preference as to the proportion of United Stock and/or cash which he, she or it desires to receive in exchange for his, her or its Eagle Stock, and shall return

the form to the Secretary of Eagle within 20 days of the Mailing Date. If holders of Eagle Stock elect to receive cash for a number of shares of Eagle Stock in excess of the Maximum Cash Election or elect to receive United Stock for a number of shares of Eagle Stock in excess of the Maximum Stock Election, then the number of shares exchanged for cash or United Stock, respectively, by each shareholder so electing will be reduced such that the amount of shares exchanged for cash equals the Maximum Cash Election and the amount of shares exchanged for stock equals the Maximum Stock Election, based on the ratio that the number of shares elected to be exchanged by such shareholder bears to the total number of shares elected to be exchanged for cash or stock by all Eagle shareholders. To the extent an Eagle shareholder does not receive 0.8636 shares of United Stock for each share of Eagle Stock such shareholder elected to be exchanged for United Stock or \$20.32 in cash for each share of Eagle Stock such shareholder elected to be exchanged for cash due to the proration provided in this Section 6(c), such shareholder shall be entitled to receive \$20.32 in cash for each remaining share of Eagle Stock not exchanged for United Stock or 0.8636 for each remaining share of Eagle Stock not exchanged for cash, respectively.

(d) Upon the Effective Date, all rights with respect to Eagle Stock pursuant to stock options (the "*Eagle Stock Options*") granted by Eagle which are outstanding at the Effective Date, whether or not exercisable, shall be converted on the Effective Date, subject to any adjustments occurring after the date hereof as contemplated by *Section 6(e)* below, into \$6.75 in cash, without interest, for each share that would be issued upon exercise of the Eagle Stock Options.

(e) If either party should change the number of its outstanding shares as a result of a stock split, stock dividend, or similar recapitalization with respect to such shares prior to the Effective Date then the shares to be issued hereunder to holders of Eagle Stock shall be proportionately adjusted.

(f) No scrip or fractional share certificates of United Stock shall be issued in connection with the Merger and an outstanding fractional share interest will not entitle the owner thereof to vote, to receive dividends or to have any of the rights of a shareholder with respect to such fractional interest. In lieu of any fractional interest, there shall be paid in cash, without interest, an amount (computed to the nearest cent) equal to such fraction multiplied by \$20.32.

(g) As soon as practicable after the Effective Date, each holder as of the Effective Date of any of the shares of Eagle Stock to be converted as elected by such holder as above provided, upon presentation and surrender of the certificates representing such shares to United, shall be entitled to receive in exchange therefor a certificate representing the number of shares of United Stock, and cash, to which such shareholder shall be entitled according to the terms of this Agreement. Until such surrender, each such outstanding certificate which prior to the Effective Date represented Eagle Stock shall be deemed for all corporate purposes to evidence ownership of the number of shares of United Stock into which the same shall have been converted as elected by such holder as above provided, the right to receive cash by such holder as above provided, and the right to receive payment for fractional shares.

(h) Upon the Effective Date, each share of United Stock issued and outstanding immediately prior to the Effective Date shall continue unchanged and shall continue to evidence a share of common stock of the Surviving Bank.

7. Termination of Separate Existence.

Upon the Effective Date, the separate existence of the Merged Bank shall cease and the Surviving Bank shall possess all of the rights, privileges, immunities, powers and franchises, as well of a public nature as of a private nature, of each of the Constituent Banks; and all property, real, personal and mixed, and all debts due on whatever account, and all other choses in action, and all and every other

interest of or belonging to or due to each of the Constituent Banks shall be taken and deemed to be transferred to and vested in the Surviving Bank without further act or deed, and the title to any real estate or any interest therein, vested in either of the Constituent Banks shall not revert or be in any way impaired by reason of the Merger. The Surviving Bank shall thenceforth be responsible and liable for all the liabilities, obligations and penalties of each of the Constituent Banks; and any claim existing or action or proceeding, civil or criminal, pending by or against either of said Constituent Banks may be prosecuted as if the Merger had not taken place, or the Surviving Bank may be substituted in its place, and any judgment rendered against either of the Constituent Banks may thenceforth be enforced against the Surviving Bank; and neither the rights of creditors nor any liens upon the property of either of the Constituent Banks shall be impaired by the Merger.

8. Further Assignments.

If at any time the Surviving Bank shall consider or be advised that any further assignments or assurances in law or any other things are necessary or desirable to vest in said bank, according to the terms hereof, the title to any property or rights of the Merged Bank, the proper officers and directors of the Merged Bank shall and will execute and make all such proper assignments and assurances and do all things necessary and proper to vest title in such property or rights in the Surviving Bank, and otherwise to carry out the purposes of this Agreement.

9. Condition Precedent to Consummation of the Merger.

This Agreement is subject to, and consummation of the Merger is conditioned upon, the fulfillment as of the Effective Date of each of the following conditions:

(a) Approval of this Agreement by the affirmative vote of the holders of two-thirds of the outstanding voting shares of Eagle; and

(b) All the terms, covenants, agreements, obligations, and conditions of the Agreement and Plan of Reorganization (the "*Acquisition Agreement*") of even date herewith, by and between Eagle and United, to be complied with, satisfied and performed on or prior to the Closing Date (as defined therein), shall have been complied with, satisfied and performed in all material respects unless accomplishment of such covenants, agreements, obligations and conditions has been waived by the party benefited thereby.

10. Termination.

This Agreement may be terminated and the Merger abandoned in accordance with the terms of the Acquisition Agreement, at any time before or after adoption of this Agreement by the directors of either of the Constituent Banks, notwithstanding favorable action on the Merger by the shareholders of the Merged Bank, but not later than the issuance of the certificate of merger by the Secretary of State of the State of Georgia with respect to the Merger in accordance with the provisions of the Code.

11. Counterparts; Title; Headings.

This Agreement may be executed simultaneously in any number of counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same instrument. The title of this Agreement and the headings herein set out are for the convenience of reference only and shall not be deemed a part of this Agreement.

12. Amendments; Additional Agreements.

At any time before or after approval and adoption by the shareholders of Eagle, this Agreement may be modified, amended or supplemented by additional agreements, articles or certificates as may be determined in the judgment of the respective Boards of Directors of the Constituent Banks to be necessary, desirable or expedient to further the purposes of this Agreement, to clarify the intention of the parties, to add to or modify the covenants, terms or conditions contained herein or to effectuate or

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facilitate any governmental approval of the Merger or this Agreement, or otherwise to effectuate or facilitate the consummation of the transactions contemplated hereby; *provided, however*, that no such modification, amendment or supplement shall reduce to any extent the consideration into which shares of Eagle Stock shall be converted in the Merger pursuant to *Section 6* hereof.

IN WITNESS WHEREOF, the Constituent Banks have each caused this Agreement to be executed on their respective behalfs and their respective bank seals to be affixed hereto as of the day and year first above written.

UNITED COMMUNITY BANK

(BANK SEAL)

ATTEST:

By:

Assistant Secretary

Thomas C. Gilliland
Executive Vice President

EAGLE NATIONAL BANK

(BANK SEAL)

ATTEST:

By:

Secretary

Samuel K. Parrish
President

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ATTACHMENT 1

Directors of the Surviving Bank

Billy M. Decker
Dr. G. David Gowder III
Robert L. Head, Jr.
Charles E. Hill
Jack C. Lance, Sr.
W.C. Nelson, Jr.
Paul B. Owenby
Jimmy C. Tallent
Andrew M. Williams III

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EXHIBIT B

July 29, 2004

United Community Banks, Inc.
P.O. Box 398
Blairsville, GA 30512

Ladies and Gentlemen:

In connection with the proposed merger (the "**Merger**") of Eagle National Bank ("**Eagle**") with and into United Community Bank, a Georgia bank ("**UCB Georgia**") and wholly-owned subsidiary of United Community Banks, Inc. ("**United**"), pursuant to the Agreement and Plan of Reorganization of even date herewith among United and Eagle (the "**Acquisition**"), the undersigned hereby covenants, represents and warrants as follows:

1. *Recommendation for Merger and Voting of Eagle Stock.* Subject to any applicable fiduciary duty, the undersigned agrees to recommend to all holders of the capital stock of Eagle ("**Eagle Stock**") that they vote in favor of the Merger. In addition, the undersigned agrees to vote any and all shares of Eagle Stock owned or controlled by him or her in favor of the Merger.

2. *Compliance with Securities Laws.* The undersigned acknowledges that he or she will be subject to the restrictions on resales contained in Rule 145 of the Rules and Regulations of the Securities and Exchange Commission ("**SEC**") under the Securities Act of 1933, as amended, and agrees to sell, transfer or otherwise dispose of any shares of capital stock of United ("**United Stock**") received by him or her pursuant to the Merger only in compliance with the provisions of such Act and Rule. The undersigned acknowledges that United is not under any obligation to file a registration statement with the SEC covering the disposition of the undersigned's shares of United Stock to be received pursuant to the Merger.

3. *Restrictive Legend.* The undersigned agrees that the certificates representing shares of United Stock to be issued to the undersigned pursuant to the Merger will be stamped or otherwise imprinted with a legend in substantially the following form:

The shares represented by this certificate may not be sold, transferred or otherwise disposed of except in a transaction covered by an effective registration statement under the Securities Act of 1933, as amended, or in accordance with Rule 145 promulgated thereunder, or in accordance with a legal opinion satisfactory to the Company that such sale or transfer is otherwise exempt from the requirements of such Act.

Sincerely,
[Director, Executive Officer or 5% Shareholder]

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EXHIBIT C

- (1) Eagle was duly organized as a bank, and is existing and in good standing, under the laws of the United States.
- (2) Eagle has the corporate power to execute and deliver the Acquisition Agreement and Merger Agreement to perform its obligations thereunder, to own and use its assets and to conduct its business.
- (3) Eagle has duly authorized the execution and delivery of the Acquisition Agreement and the Merger Agreement and all performance by Eagle thereunder, and has duly executed and delivered the Acquisition Agreement and the Merger Agreement.
- (4) No consent, approval, authorization or other action filed by, or filing with, any governmental authority of the United States or the State of Georgia is required for Eagle's execution and delivery of the Acquisition Agreement and the Merger Agreement and consummation of the Transaction, which consent, approval or authorization has not been previously received.
- (5) The Acquisition Agreement and the Merger Agreement are enforceable against Eagle.
- (6) The authorized capital stock of Eagle consists of 10,000,000 shares of common stock, par value \$5.00 per share, of which 600,000 shares are issued and outstanding as of the date hereof, exclusive of 51,000 shares reserved for issuance upon exercise of outstanding options. All of the issued and outstanding shares of capital stock of Eagle has been duly authorized and validly issued and is fully paid and non-assessable and were offered, issued and sold in compliance with all applicable federal and state securities laws. To such counsel's knowledge, there are no outstanding options, warrants, rights, calls, commitments, conversion rights, plans or other agreements providing for the purchase or issuance of any authorized but unissued shares of such capital stock.

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EXHIBIT D

- (1) United was duly organized as a corporation, and is existing and in good standing, under the laws of the State of Georgia.
- (2) United has the corporate power to execute and deliver the Acquisition Agreement and Merger Agreement to perform its obligations thereunder, to own and use its Assets and to conduct its business.
- (3) United has duly authorized the execution and delivery of the Acquisition Agreement and the Merger Agreement and all performance by United thereunder, and has duly executed and delivered the Acquisition Agreement and Merger Agreement:
- (4) No consent, approval, authorization or other action filed by, or filing with, any governmental authority of the United States or the State of Georgia is required for United's execution and delivery of the Acquisition Agreement and the Merger Agreement and consummation of the Transaction, which consent, approval or authorization has not been previously received.
- (5) The Acquisition Agreement and the Merger Agreement are enforceable against United.
- (6) The shares of United Stock to be issued upon consummation of the Merger have been duly authorized and upon issuance as contemplated in the Merger Agreement, will be validly issued, fully paid and non-assessable.

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SECTION 215A OF TITLE 12 OF THE UNITED STATES CODE
Merger Of National Banks or State Banks into National Banks
Approval Of Comptroller, Board And Shareholders;
Merger Agreement; Notice; Capital Stock;
Liability of Receiving Association

(a) One or more national banking associations or one or more State banks, with the approval of the Comptroller, under an agreement not inconsistent with section 215-215b of this title, may merge into a national banking association located within the same State, under the charter of the receiving association. The merger agreement shall

(1) be agreed upon in writing by a majority of the board of directors of each association or State bank participating in the plan of merger;

(2) be ratified and confirmed by the affirmative vote of the shareholders of each such association or State bank owning at least two-thirds of its capital stock outstanding, or by a greater proportion of such capital stock in the case of a State bank if the laws of the State where it is organized so require, at a meeting to be held on the call of the directors, after publishing notice of the time, place, and object of the meeting for four consecutive weeks in a newspaper of general circulation published in the place where the association or State bank is located, or, if there is no such newspaper, then in the newspaper of general circulation published nearest thereto, and after sending such notice to each shareholder of record by certified or registered mail at least ten days prior to the meeting, except to those shareholders who specifically waive notice, but any additional notice shall be given to the shareholders of such State bank which may be required by the laws of the State where it is organized. Publication of notice may be waived, in cases where the Comptroller determines that an emergency exists justifying such waiver, by unanimous action of the shareholders of the association or State bank;

(3) specify the amount of the capital stock of the receiving association, which shall not be less than that required under existing law for the organization of a national bank in the place in which it is located and which will be outstanding upon completion of the merger, the amount of stock (if any) to be allocated, and cash (if any) to be paid, to the shareholders of the association or State bank being merged into the receiving association; and

(4) provide that the receiving association shall be liable for all liabilities of the association or State bank being merged into the receiving association.

Dissenting Shareholders

(b) If a merger shall be voted for at the called meetings by the necessary majorities of the shareholders of each association or State-bank participating in the plan of merger, and thereafter the merger shall be approved by the Comptroller, any shareholder of any association or State bank to be merged into the "receiving association who has voted against such merger at the meeting of the association or bank of which he is a stockholder, or has given notice in writing at or prior to such meeting to the presiding officer that he dissents from the plan of merger, shall be entitled to receive the value of the shares so held by him when such merger shall be approved by the Comptroller upon written request made to the receiving association at any time before thirty days after the date of consummation of the merger, accompanied by the surrender of his stock certificates.

Valuation of Shares

(c) The value of the shares of any dissenting shareholder shall be ascertained, as of the effective date of the merger, by an appraisal made by a committee of three persons, composed of (1) one selected by the vote of the holders of the majority of the stock, the owners of which are entitled to payment in cash; (2) one selected by the directors of the receiving association; and (3) one selected by the two so selected. The valuation agreed upon by any two of the three appraisers shall govern. If the value so fixed shall not be satisfactory to any dissenting shareholder who has requested payment, that shareholder may, within five days after being notified of the appraised value of his shares, appeal to the Comptroller, who shall cause a reappraisal to be made which shall be final and binding as to the value of the shares of the appellant.

**Application to Shareholders of Merging Associations;
Appraisal by Comptroller; Expense of Receiving Association;
Sale And Resale of Shares; State Approval and Merger Law**

(d) If, within ninety days from the date of consummation of the merger, for any reason one or more of the appraisers is not selected as herein provided, or the appraisers fail to determine the value of such shares, the Comptroller shall upon written request of any interested party cause an appraisal to be made which shall be final and binding on all parties. The expenses of the Comptroller in making the reappraisal or the appraisal, as the case may be, shall be paid by the receiving association. The value of the shares ascertained shall be promptly paid to the dissenting shareholders by the receiving association. The shares of stock of the receiving association which would have been delivered to such dissenting' shareholders had they not requested payment shall be sold by the receiving association at an advertised public auction, and the receiving, association shall have the right to purchase any of such shares at such public auction, if it is the highest bidder therefor, for the purpose of reselling such shares within thirty days thereafter to such person or persons and at such price not less than par as its board of directors by resolution may determine. If the shares are sold at public auction at a price greater than the amount paid to the dissenting shareholders, the excess in such sale price shall be paid to such dissenting shareholders. The appraisal of such shares of stock in any State bank shall be determined in the manner prescribed by the law of the State in such cases, rather than as provided in this section, if such provision is made in the State law; and no such merger shall be in contravention of the law of the State under which such bank is incorporated. The provisions of this subsection shall apply only to shareholders of (and stock owned by them in) a bank or association being merged into the receiving association.

**Status of Receiving Association;
Property Rights and Interests Vested and Held as Fiduciary**

(e) The corporate existence of each of the merging banks or banking associations participating in such merger shall be merged into and continued in the receiving association and such receiving association shall be deemed to be the same corporation as each bank or banking association participating in the merger. All rights, franchises, and interests of the individual merging banks or banking associations in and to every type of property (real, personal, and mixed) and chosen in action shall be transferred to and vested in the receiving association by virtue of such merger without any deed or other transfer. The receiving association, upon the merger and without any order or other action on the part of any court or otherwise, shall hold and enjoy all rights of property, franchises, and interests, including appointments, designations, and nominations, and all other rights and interests as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, and committee of estates of lunatics, and in every other fiduciary capacity, in the same manner and to the same extent as such rights, franchises, and interests were held or enjoyed by any one of the

merging banks or banking associations at the time of the merger, subject to the conditions hereinafter provided.

Removal as Fiduciary; Discrimination

(f) Where any merging bank or banking association, at the time of the merger, was acting under appointment of any court as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, or committee of estates of lunatics, or in any other fiduciary capacity, the receiving association shall be subject to removal by a court of competent jurisdiction in the same manner and to the same extent as was such merging bank or banking association prior to the merger. Nothing contained in this section shall be considered to impair in any manner the right of any court to remove the receiving association and to appoint in lieu thereof a substitute trustee, executor, or other fiduciary, except that such right shall not be exercised in such a manner as to discriminate against national banking associations, nor shall any receiving association be removed solely because of the fact that it is a national banking association.

Issuance of Stock by Receiving Association; Preemptive Rights

(g) Stock of the receiving association may be issued as provided by the terms of the merger agreement, free from any preemptive rights of the shareholders of the respective merging banks.

Letterhead of STEVENS & COMPANY

August 2, 2004

Eagle National Bank Board of Directors
850 Eagle's Landing Parkway
Stockbridge, GA 30281

Ladies and Gentlemen:

You have requested an opinion as to the fairness, from a financial point of view, to the pending merger of Eagle National Bank with United Community Banks ("United"). Under the terms of the merger, which we value at \$12,536,494 United will purchase the 51,000 shares under option for cash at an intrinsic value of \$6.75 each to total \$344,250.00. The 600,000 shares of common stock will then be acquired for \$12,191,750 or \$20.32 per share. United will pay 80% of the purchase price in the form of their common stock valued at \$23.53 representing the twenty day trading average of prior to signing the definitive agreement. The exchange ratio will be 0.8636 shares of United for each share of Eagle National. The remaining 20% will be paid in the form of cash, or \$2,438,400.

In arriving at our opinion, we have reviewed the Agreement, publicly financial information concerning both Eagle National and United, compared the terms of this transaction with other bank sales in Georgia including historical relations to book value and earnings multiples, and have had direct contact with management of both parties to view the affects of the post merger combination. In addition, we performed other studies that we felt were appropriate to this merger discussion including the shareholder make up of Eagle National and their desire to remain as long term investors.

Additionally, we have had discussions with United with respect to their plans to engage the existing employees in future operations as well as benefits that are afforded in the combination that we believe were appropriate and were part of the objectives you identified in terms of a merger partner.

Our opinion relies upon and assumed without independent verification the accuracy of all information provided to us by both Eagle National and United and we have not assumed responsibility thereof. We have also assumed that all regulatory and shareholder approvals will be obtained without any adverse effect on either Eagle National Bank or United.

The opinion is based on economic, market, and financial facts at the time of the expressed as of the date first shown above. The opinion is based on a financial point of view and we are expressing no view as to the price of United's currency in the future. We have acted as financial advisor to Eagle and will disclose that we own stock in either Eagle National Bank or United at the time of the agreement. We will, however, receive a fee from Eagle National Bank for our services.

This letter is to the Board of Directors of Eagle National Bank in conjunction with and for purposes of evaluating the merger with United and does not constitute a recommendation to any shareholder of Eagle National as to how each shareholder should vote on the proposed merger or any other matter.

Subject to the foregoing, it is the opinion of STEVENS & COMPANY that as of the date shown above that the proposed merger with United for \$12,536, is fair from a financial point of view and will afford the shareholders of Eagle National Bank an enhanced premium on their stock.

Sincerely yours,

STEVENS & COMPANY

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**STATISTICAL DATA
ON
OFFICE OF THE COMPTROLLER OF THE CURRENCY VALUATIONS**

The chart below lists the results of appraisals the Office of the Comptroller of the Currency performed between January 1, 1985, and September 30, 1991. The OCC provides statistical data on book value and price/earnings ratios for comparable purposes, but does not necessarily rely on such data in determining the value of the banks' shares. Dissenting shareholders should not view these statistics as determination for future appraisals.

THE OCC DID NOT RELY ON ALL THE INFORMATION SET FORTH IN THE CHART IN PERFORMING EACH APPRAISAL. THE OCC'S PAST APPRAISALS ARE NOT NECESSARILY DETERMINATIVE OF ITS FUTURE APPRAISALS OF A PARTICULAR BANK'S SHARES.

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Appraisal date	Appraisal value	Price offered	Book value	Average price earnings ratio of peer group
1/1/85	\$ 107.05	\$ 110.00	\$ 178.29	5.3
1/2/85	73.16	NA	66.35	6.8
1/15/85	53.41	60.00	83.95	4.8
1/31/85	22.72	20.00	38.49	5.4
2/1/85	30.63	24.00	34.08	5.7
2/25/85	27.74	27.55	41.62	5.9
4/30/85	25.98	35.00	42.21	4.5
7/30/85	3,153.10	2,640.00	6,063.66	NC
9/1/85	17.23	21.00	21.84	4.7
11/22/85	316.74	338.75	519.89	5.0
11/22/85	30.28	NA	34.42	5.9
12/16/85	66.29	77.00	89.64	5.6
12/27/85	60.85	57.00	119.36	5.3
12/31/85	61.77	NA	73.56	5.9
12/31/85	75.79	0.00	58.74	12.1
1/12/86	19.93	NA	26.37	7.0
3/14/86	59.02	200.00	132.20	3.1
4/21/86	40.44	35.00	43.54	6.4
5/2/86	15.50	16.50	23.69	5.0
7/3/86	405.74	NA	612.82	3.9
7/31/86	297.34	600.00	650.63	4.4
8/22/86	103.53	106.67	136.23	NC
12/26/86	16.66	NA	43.57	4.0
12/31/86	53.39	95.58	69.66	7.1
5/1/87	186.42	NA	360.05	5.1
6/11/87	50.46	70.00	92.35	4.5
6/11/87	38.53	55.00	77.75	4.5
7/31/87	13.10	NA	20.04	6.7
8/26/87	55.92	57.52	70.88	NC
8/31/87	19.55	23.75	30.64	5.0
8/31/87	10.98	NA	17.01	4.2
10/6/87	56.48	60.00	73.11	5.6
3/15/88	297.63	NA	414.95	6.2
6/2/88	27.26	NA	28.45	5.4
6/30/88	137.78	NA	215.36	6.0
8/30/88	768.62	677.00	1,090.55	10.7
3/31/89	773.62	NA	557.30	7.9
5/26/89	136.47	180.00	250.42	4.5
5/29/90	9.87	NA	11.04	9.9

(1) The "Appraisal Date" is the consummation date for the conversion, consolidation, or merger.

(2) "NA" means not available.

(3) "NC" means not computed.

PART II.

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 20. Indemnification of Directors and Officers.

United's Articles of Incorporation, as amended, provide that no director of United shall be personally liable to United or its shareholders for breach of his or her duty of care or other duty as a director, but only to the extent permitted from time to time by the Georgia Business Corporation Code.

United's Bylaws require it to indemnify its directors, officers, employees, and agents against judgments, fines, penalties, amounts paid in settlement, and expenses, including attorney's fees, resulting from various types of legal actions or proceedings instituted by third parties if the actions of the director, officer, employee, or agent being indemnified meet the standards of conduct specified therein.

In addition, United's Bylaws require it to indemnify its directors, officers, employees, and agents for expenses actually and reasonably incurred in connection with legal actions or proceedings instituted by or in the right of United to procure a judgment in its favor, if the actions of the director, officer, employee, or agent being indemnified meet the standards of conduct set forth therein. However, United will not indemnify a director, officer, employee, or agent for such expenses if such person is adjudged liable to United, unless so ordered by the court in which the legal action or proceeding is brought.

A determination concerning whether or not the applicable standard of conduct has been met by a director, officer, employee, or agent seeking indemnification must be made by (a) a disinterested majority of the board of directors, (b) United's legal counsel, if a quorum of disinterested directors is not obtainable or if the disinterested directors so order, or (c) an affirmative vote of a majority of shares held by the shareholders. No indemnification may be made to or on behalf of a director, officer, employee or agent in connection with any other proceeding in which such person was adjudged liable on the basis that personal benefit was improperly received by him or her.

As provided under Georgia law, the liability of a director may not be eliminated or limited (a) for any appropriation, in violation of his duties, of any business opportunity of United, (b) for acts or omissions which involve intentional misconduct or a knowing violation of law, (c) for unlawful corporate distributions or (d) for any transaction from which the director received an improper benefit.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to United's directors, officers and controlling persons pursuant to the foregoing provisions, or otherwise, United has been advised that in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable.

United's directors and officers are insured against losses arising from any claim against them as such for wrongful acts or omissions, subject to certain limitations.

Item 21. Exhibits and Financial Statement Schedules.

- (a) Exhibits.

Exhibit No.	Exhibit
2.1	Agreement and Plan of Reorganization, dated as of August 2, 2004, by and between United and Eagle.
3.1	Restated Articles of Incorporation of United (incorporated herein by reference to Exhibit 3.1 to United's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001, File No. 0-21656, filed with the Commission on August 14, 2001).

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- 3.2 Amended and Restated Bylaws of United (incorporated herein by reference to Exhibit 3.1 to United Community Banks, Inc.'s Annual Report on Form 10-K, for the year ended December 31, 1997, File No. 0-21656, filed with the Commission on March 27, 1998).
 - 3.3 Amendment to the Restated Articles of Incorporation of United.
 - 4.1 Junior Subordinated Indenture between United and The Chase Manhattan Bank, as Trustee, dated as of July 20, 1998 (incorporated herein by reference to Exhibit 4.1 to United's Registration Statement on Form S-4, File No. 333-64911, filed with the Commission on September 30, 1998).
 - 4.2 Form of Certificate of Junior Subordinated Debenture (incorporated herein by reference to Exhibit 4.2 to United's Registration Statement on Form S-4, File No. 333-64911, filed with the Commission on September 30, 1998).
 - 4.3 Certificate of Trust of United Community Capital Trust (incorporated herein by reference to Exhibit 4.3 to United's Registration Statement on Form S-4, File No. 333-64911, filed with the Commission on September 30, 1998).
 - 4.4 Amended and Restated Trust Agreement among United Community Banks, Inc., as depositor, The Chase Manhattan Bank, as Property Trustee, and Chase Manhattan Bank Delaware, as Delaware Trustee, dated as of July 20, 1998 (incorporated herein by reference to Exhibit 4.4 to United's Registration Statement on Form S-4, File No. 333-64911, filed with the Commission on September 30, 1998).
 - 4.5 Form of New Capital Security Certificate for United Community Capital Trust (incorporated herein by reference to Exhibit 4.5 to United's Registration Statement on Form S-4, File No. 333-64911, filed with the Commission on September 30, 1998).
 - 4.6 Guarantee Agreement between United Community Banks, Inc., as Guarantor, and The Chase Manhattan Bank, as Guarantee Trustee, dated as of July 20, 1998 (incorporated herein by reference to Exhibit 4.6 to United's Registration Statement on Form S-4, File No. 333-64911, filed with the Commission on September 30, 1998).
 - 4.7 Registration Rights Agreement dated July 20, 1998 among United Community Banks, Inc., United Community Capital Trust and Wheat First Securities, Inc. as Initial Purchaser of 8.125% Junior Subordinated Deferrable Interest Debentures Due July 15, 2028 (incorporated herein by reference to Exhibit 4.7 to United Community Banks, Inc.'s Registration Statement on Form S-4, File No. 333-64911, filed with the Commission on September 30, 1998).
 - 4.8 Form of Floating Rate Convertible Subordinated Payable In Kind Debenture due December 31, 2006 (incorporated herein by reference to Exhibit 4.2 to United's Registration Statement on Form S-1, File No. 333-20887, filed with the Commission on January 31, 1997).
 - 4.9 See Exhibits 3.1, 3.2 and 3.3 for provisions of Restated Articles of Incorporation, Amended and Restated By-Laws and Amendment to the Restated Articles of Incorporation, which define the rights of the Shareholders.
 - 4.10 Indenture, dated November 26, 2002, by and between United and Marshall & Ilsley Trust Company, N.A., as Trustee (incorporated herein by reference to Exhibit 4.9 to United's Registration Statement on Form S-4/A, File No. 333-103024, filed with the Commission on February 21, 2003).
 - 4.11 Form of 6.75% Subordinated Notes due 2012 (incorporated herein by reference to Exhibit 4.10 to United Community Banks, Inc.'s Registration Statement on Form S-4/A, File No. 333-103024, filed with the Commission on February 21, 2003).
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- 4.12 Indenture, dated September 24, 2003, by and between United and Marshall & Ilsley Trust Company, N.A. as Trustee (incorporated herein by reference to Exhibit 4.12 to United Community Banks, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2003, File No. 0-21656).
 - 4.13 Form of Subordinated Step-up Notes due 2015 (incorporated herein by reference to Exhibit 4.13 to United Community Banks, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2003, File No. 0-21656).
 - 5 Opinion and Consent of Kilpatrick Stockton LLP.
 - 8 Opinion and Consent of Kilpatrick Stockton LLP as to the federal income tax consequences to the merger of United and Eagle.
 - 10.1 Amendment to United Community Banks, Inc. 2000 Key Employee Stock Option Plan, dated March 5, 2004.
 - 10.2 Settlement Agreement, by and between United and Eagle and Samuel K. Parrish.*
 - 10.3 Form of Noncompetition Agreement, by and between United and Samuel K. Parish and Major William Loftin, Jr.*
 - 23.1 Consent of Porter Keadle Moore, LLP (for United).
 - 23.2 Consent of Porter Keadle Moore, LLP (for Eagle).
 - 23.3 Consent of Kilpatrick Stockton LLP (included as part of Exhibits 5 and 8).
 - 23.4 Consent of Stevens & Company.
 - 24 Power of Attorney (included on the Signature Page to this Registration Statement).
 - 99.1 Form of Proxy.
 - 99.2 Election Form.*
-

*

To be filed by amendment.

- (b) Financial Statement Schedules: No financial statements schedules are required to be filed as part of this Registration Statement.
- (c) Report, Opinion or Appraisal: The opinion of Stevens & Company is included as Appendix C to the proxy statement/prospectus filed as a part of this Registration Statement.

Item 22. Undertakings

(a) The undersigned registrant hereby undertakes as follows: that prior to any public reoffering of the securities registered hereunder through use of a prospectus which is a part of this registration statement, by any person or party who is deemed to be an underwriter within the meaning of Rule 145(c), the issuer undertakes that such reoffering prospectus will contain the information called for by the applicable registration form with respect to reofferings by persons who may be deemed underwriters, in addition to the information called for by the other items of the applicable form.

(b) The undersigned registrant hereby undertakes that every prospectus (i) that is filed pursuant to paragraph (a) immediately preceding, or (ii) that purports to meet the requirements of section 10(a)(3) of the Securities Act of 1933, as amended, and is used in connection with an offering of securities subject to Rule 415, will be filed as a part of an amendment to the registration statement and will not be used until such amendment is effective, and that, for purposes of determining any liability under the Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

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(c) The undersigned registrant hereby undertakes to deliver or cause to be delivered with the prospectus, to each person to whom the prospectus is sent or given, the latest annual report to security holders that is incorporated by reference in the prospectus and furnished pursuant to and meeting the requirements of Rule 14a-3 or Rule 14c-3 under the Securities Exchange Act of 1934; and, where interim financial information required to be presented by Article 3 of Regulation S-X is not set forth in the prospectus, to deliver, or cause to be delivered to each person to whom the prospectus is sent or given, the latest quarterly report that is specifically incorporated by reference in the prospectus to provide such interim financial information.

(d) The undersigned registrant hereby undertakes to respond to requests for information that is incorporated by reference into the prospectus pursuant to Items 4, 10(b), 11, or 13 of this Form S-4, within one business day of receipt of such request, and to send the incorporated documents by first class mail or other equally prompt means. This includes information contained in documents filed subsequent to the effective date of the registration statement through the date of responding to the request.

(e) The undersigned registrant hereby undertakes to supply by means of a post-effective amendment all information concerning a transaction, and the company being acquired involved therein, that was not the subject of and included in the registration statement when it became effective.

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, United Community Banks, Inc. has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Blairsville, State of Georgia, on September 8, 2004.

UNITED COMMUNITY BANKS, INC.

By: /s/ JIMMY C. TALLENT

 Jimmy C. Tallent
 President and Chief Executive Officer

Know all men by these presents, that each person whose signature appears below constitutes and appoints Jimmy C. Tallent and Robert L. Head, Jr., or either of them, as attorney-in-fact, with each having the power of substitution, for him in any and all capacities, to sign any amendments to this Registration Statement on Form S-4 and to file the same, with exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, as amended, this Registration Statement has been signed by the following persons in the capacities indicated on September 8, 2004.

Signature	Title
_____ /s/ JIMMY C. TALLENT _____ Jimmy C. Tallent	President, Chief Executive Officer and Director (Principal Executive Officer)
_____ /s/ REX S. SCHUETTE _____ Rex S. Schuette	Executive Vice President and Chief Financial Officer (Principal Financial Officer)
_____ /s/ ALAN H. KUMLER _____ Alan H. Kumler	Senior Vice President, Controller and Chief Accounting Officer (Principal Accounting Officer)
_____ /s/ ROBERT L. HEAD, JR. _____ Robert L. Head, Jr.	Chairman of the Board
_____ /s/ W.C. NELSON, JR. _____ W.C. Nelson, Jr.	Vice Chairman of the Board
_____ /s/ A. WILLIAM BENNETT _____ A. William Bennett	Director
_____ Robert Blalock	Director
_____ /s/ GUY W. FREEMAN _____ Guy W. Freeman	Director
_____ /s/ THOMAS C. GILLILAND _____ Thomas C. Gilliland	Director

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Signature	Title
_____ Thomas C. Gilliland	
/s/ CHARLES HILL _____ Charles Hill	Director
/s/ HOYT O. HOLLOWAY _____ Hoyt O. Holloway	Director
/s/ CLARENCE W. MASON, SR. _____ Clarence W. Mason, Sr.	Director
/s/ TIM WALLIS _____ Tim Wallis	Director

EXHIBIT INDEX

Exhibit	Description of Exhibit
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8	Opinion and Consent of Kilpatrick Stockton LLP as to the federal income tax consequences to the merger of United Community Bank and Eagle National Bank.
10.1	Amendment to United Community Banks, Inc. 2000 Key Employee Stock Option Plan.
23.1	Consent of Porter Keadle Moore LLP (for United).
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23.4	Consent of Stevens & Company.
24	Power of Attorney (included on the Signature Page to this Registration Statement).
99.1	Form of Proxy.

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