

FIRST UNITED CORP/MD/
Form DEF 14A
March 15, 2012

SCHEDULE 14A

(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities

Exchange Act of 1934 (Amendment No.)

Filed by the Registrant x

Filed by a Party other than the Registrant "

Check the appropriate box:

Preliminary Proxy Statement

Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

x Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to Rule 14a-11(c) or Rule 14a-12

First United Corporation

(Name of Registrant as Specified in Its Charter)

N/A

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

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies: N/A

(2) Aggregate number of securities to which transaction applies: N/A

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined): N/A

(4) Proposed maximum aggregate value of transaction: N/A

(5) Total fee paid: N/A

Fee paid previously with preliminary materials: N/A

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount previously paid:

(2) Form, Schedule or Registration Statement no.:

(3) Filing Party:

(4) Date Filed:

March 26, 2012

To Our Shareholders:

On behalf of the Board of Directors and the whole First United Team, I cordially invite you to attend the Annual Meeting of Shareholders to be held on Thursday, May 10, 2012, at 10:00 a.m., at The Wisp Resort, 296 Marsh Hill Road, McHenry, Maryland 21541. The notice of meeting and proxy statement accompanying this letter describe the specific matters to be acted upon. In addition, there will be a report on the progress of your Corporation.

Your vote on the matters to be acted upon at the Annual Meeting is important, regardless of the number of shares you own. Whether or not you plan to attend the Annual Meeting in person, it is important that your shares be represented. To ensure that your shares are represented, I urge you to execute and return the enclosed Proxy Card or to submit your Proxy by telephone or Internet promptly. If you attend the meeting, you may withdraw your Proxy and vote in person, if you so desire.

There will be a reception with light refreshments immediately following the meeting for all registered shareholders. I look forward to seeing you there.

We are taking advantage of the Securities and Exchange Commission's rules that allow companies to furnish proxy materials to their shareholders through the Internet. We believe these rules allow us to provide you with the information you need while lowering the costs of delivery and reducing the environmental impact of the Annual Meeting.

Sincerely yours,

WILLIAM B. GRANT
Chairman of the Board &
Chief Executive Officer

P.O. Box 9 Oakland, MD 21550-0009 Telephone 888-692-2654

FIRST UNITED CORPORATION

19 South Second Street

P.O. Box 9

Oakland, Maryland 21550-0009

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

March 26, 2012

To Shareholders of First United Corporation:

Notice is hereby given that the Annual Meeting of the Shareholders of First United Corporation (the "Corporation") will be held at The Wisp Resort, 296 Marsh Hill Road, McHenry, Maryland 21541. The meeting is scheduled for:

THURSDAY, MAY 10, 2012, at 10:00 a.m.

The purposes of the meeting are:

To vote on the election of the four (4) nominees named in the attached Proxy Statement and form of Proxy to serve
1. on the Board of Directors until the 2015 Annual Meeting of Shareholders and until the election and qualification of their successors.

2. To ratify the appointment of ParenteBeard, LLC as the Corporation's independent registered public accounting firm for 2012.

3. To approve, by a non-binding advisory vote, the Corporation's executive compensation program and policies.

4. To transact such other business as may be properly brought before the meeting or any adjournment thereof.

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The Board of Directors has fixed February 27, 2012 as the record date for purposes of determining shareholders who are entitled to notice of and to vote at the Annual Meeting of Shareholders.

Anyone acting as proxy agent for a shareholder must present a Proxy that has been properly executed by the shareholder, that authorizes the agent to so act, and that is in form and substance satisfactory to the judges of election and consistent with the Corporation's Amended and Restated Bylaws, as amended.

By order of the Board of Directors

CARISSA L. RODEHEAVER

Secretary

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FIRST UNITED CORPORATION

19 South Second Street

P.O. Box 9

Oakland, Maryland 21550-0009

(800) 470-4356

PROXY STATEMENT

This Proxy Statement is furnished in connection with the solicitation by the Board of Directors of First United Corporation (the “Corporation”) of the accompanying Proxy to be voted at the Annual Meeting of Shareholders to be held on May 10, 2012, at 10:00 a.m. at The Wisp Resort, 296 Marsh Hill Road, McHenry, Maryland 21541, and any adjournment or postponements thereof. The cost of soliciting proxies will be borne by the Corporation. In addition to solicitation by mail, proxies may be solicited by officers, Directors and regular employees of the Corporation personally or by telephone, electronic mail and/or facsimile. No additional remuneration will be paid to officers, Directors or regular employees who solicit proxies. The Corporation may reimburse brokers, banks, custodians, nominees and other fiduciaries for their reasonable out-of-pocket expenses in forwarding proxy materials to their principals. The approximate date on which this Proxy Statement and the related Proxy Card will be sent or given to shareholders is March 26, 2012.

As used in this Proxy Statement, the terms “the Corporation”, “we”, “us”, and “our” refer to First United Corporation and its consolidated subsidiaries unless the context clearly requires otherwise.

OUTSTANDING SHARES; VOTING RIGHTS; QUORUM AND REQUIRED VOTE

Shareholders of record at the close of business on February 27, 2012 (the “Record Date”) of issued and outstanding shares of the Corporation’s common stock, par value \$.01 per share (“Common Stock”), are entitled to notice of and to vote at the Annual Meeting. As of the Record Date, the number of outstanding shares of Common Stock entitled to vote is 6,182,757, each of which is entitled to one vote.

The presence, in person or by proxy, of shareholders entitled to cast a majority of all votes entitled to be cast at the Annual Meeting shall constitute a quorum. Withheld votes (in the case of the election of directors), abstentions and broker non-votes will all be counted for purposes of determining whether a quorum is present.

Directors are elected by the affirmative vote of a majority of all shares of Common Stock voted at the Annual Meeting. Accordingly, the withholding of a vote for a director nominee, as described in Proposal 1, will constitute a vote against that nominee, but a broker non-vote with respect to the election of directors will have no impact on the outcome of that vote. The ratification of the appointment of the Corporation's independent registered public accounting firm, as described in Proposal 2, and the approval of the Corporation's executive compensation, as described in Proposal 3, each require the affirmative vote of a majority of all shares of Common Stock voted at the Annual Meeting. Accordingly, an abstention or a broker non-vote with respect to Proposal 2 or Proposal 3 will have no impact on the outcome of those proposals. Except in cases of certain extraordinary matters for which the Corporation's governing instruments or applicable law require a different proportion, the affirmative vote of a majority of all shares of Common Stock voted at the Annual Meeting is sufficient to approve any motion that comes before the meeting pursuant to Proposal 4, as described in this Proxy Statement. Abstentions and broker non-votes with respect to any motion that comes before the meeting pursuant to Proposal 4 (other than certain extraordinary matters as discussed above) will have no impact on the outcome of the vote on such motion.

All properly executed Proxies received pursuant to this solicitation will be voted as directed by the shareholders in their Proxies. If no direction is given in your Proxy, your shares will be voted FOR ALL NOMINEES named in Proposal 1, FOR ratification of the appointment of the Corporation's independent registered public accounting firm named in Proposal 2, FOR approval of the Corporation's executive compensation as described in Proposal 3, and in the discretion of the proxies as to any other matters that may properly come before the meeting, as described in Proposal 4.

Proxies may be revoked at any time before a vote is taken or the authority granted is otherwise exercised. Revocation may be accomplished by: (i) the execution of a later dated Proxy; (ii) the execution of a later casted Internet or telephone vote with regard to the same shares; (iii) giving written notice to Carissa L. Rodeheaver, Secretary, First United Corporation, P.O. Box 9, Oakland, Maryland 21550-0009; or (iv) giving written notice to the Secretary in person at the 2012 Annual Meeting. Any shareholder who attends the 2012 Annual Meeting and revokes his/her proxy may vote in person. However, attendance by a shareholder at the 2012 Annual Meeting alone will not have the effect of revoking that shareholder's validly executed Proxy.

Methods of Voting

Shareholders may vote on matters that are properly presented at the 2012 Annual Meeting in four ways:

By completing the accompanying Proxy Card and returning it to the Corporation at the address noted on the Proxy Card;

By submitting your vote telephonically;

By submitting your vote electronically via the Internet; or

By attending the 2012 Annual Meeting and casting your vote in person.

For the 2012 Annual Meeting, the Corporation is offering registered shareholders the opportunity to vote their shares electronically through the Internet or by telephone. Instead of submitting the accompanying Proxy Card by mail, shareholders may vote by telephone or via the Internet by following the procedures described on the Proxy Card. To vote via telephone or the Internet, please have the Proxy Card in hand, and call the number or go to the website listed on the Proxy Card and follow the instructions. The telephone and Internet voting procedures are designed to authenticate shareholders' identities, to allow shareholders to give their voting instructions, and to confirm that shareholders' instructions have been recorded properly. Shareholders voting through the Internet should understand that they may bear certain costs associated with Internet access, such as usage charges from their Internet service providers.

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE SHAREHOLDER MEETING TO BE HELD ON MAY 10, 2012

This Proxy Statement, the accompanying Proxy Card, and the Corporation's Annual Report to Shareholders (including its Annual Report on Form 10-K for the year ended December 31, 2011) are available at <http://materials.proxyvote.com/33741H>. Information on this website, other than this Proxy Statement, is not a part of this Proxy Statement.

**BENEFICIAL OWNERSHIP OF COMMON STOCK BY
PRINCIPAL SHAREHOLDERS AND MANAGEMENT**

The following table sets forth information as of the Record Date relating to the beneficial ownership of the Common Stock by (i) each person or group known by the Corporation to own beneficially more than five percent (5%) of the outstanding shares of Common Stock; (ii) each of the Corporation's Directors, Director nominees and named executive officers (as defined below under "REMUNERATION OF EXECUTIVE OFFICERS"); and (iii) all Directors, Director nominees and executive officers of the Corporation as a group. Generally, a person "beneficially owns" shares if he or she has or shares with others the right to vote those shares or to invest (or dispose of) those shares, or if he or she has the right to acquire such voting or investment rights, within 60 days of the Record Date (such as by exercising stock options or similar rights). Except as otherwise noted, the address of each person named below is the address of the Corporation. So that shareholders can see how beneficial ownership has changed since the record date for the 2011 annual meeting of shareholders, the table also provides beneficial ownership as of February 25, 2011. This 2011 information is derived from the beneficial ownership table that appeared in the Corporation's definitive proxy statement for the 2011 annual meeting of shareholders and, as noted above, is based on ownership as of the record date for that meeting.

	2012 Common Stock Beneficially Owned as of February 27, 2012	Percent of Outstanding Common Stock		2011 Common Stock Beneficially Owned as of February 25, 2011	Change in Ownership 2012 vs. 2011
Directors, Nominees and Named Executive Officers:					
David J. Beachy	9,757	.16	%	8,177	1,580
Tracy Bemiller	1	0	%	-	1
M. Kathryn Burkey	17,707 (1)	.29	%	9,850	7,857
Paul B. Cox, Jr.	4,766	.08	%	3,886	880
Jeannette R. Fitzwater	13,723 (2)	.22	%	13,723	-
William B. Grant	21,825 (3)	.35	%	10,566	11,259
Robert W. Kurtz	5,470 (4)	.09	%	3,493	1,977
John W. McCullough	10,272	.17	%	7,632	2,640
Elaine L. McDonald	18,890 (5)	.31	%	9,509	9,381
Donald E. Moran	122,346(6)	1.98	%	74,706	47,640
Robin E. Murray	1,077 (7)	.02	%	725	352
Carissa L. Rodeheaver	1,216 (8)	.02	%	1,216	-
Gary R. Ruddell	6,997 (9)	.11	%	3,277	3,720
I. Robert Rudy	43,067 (10)	.70	%	37,308	5,759
Jason B. Rush	953	.02	%	953	-
Keith Sanders	1,229 (11)	.29	%	-	1,229
Richard G. Stanton	17,861 (12)	.02	%	16,541	1,320
Robert G. Stuck	6,521	.11	%	5,641	880
H. Andrew Walls	26,931	.44	%	3,621	23,310
Directors, Nominees & Executive Officers as a group (19 persons)	330,609	5.35	%	_____	
5% Beneficial Owners:					
Firstoak & Company P.O. Box 557 Oakland, Maryland 21550	338,720	5.48	%	346,216	42,504
United States Department of the Treasury 1500 Pennsylvania Avenue, NW Washington, D.C. 20220	326,323	5.28	%	326,323	-
Total	995,652	16.10	%		

(1) Includes 247 shares owned by spouse.

Includes 5,971 shares owned jointly with spouse, 1,146 shares owned by Fitzwater LLC which is owned by spouse,
(2) 1,136 shares owned by spouse and son, 1,014 shares owned by spouse and daughter, and 1,081 shares owned by
spouse and daughter.

(3)

Includes 6,887 shares owned jointly with spouse, six shares owned by daughter, 2,425 shares owned in a 401(k) plan, 405 shares owned by spouse's IRA, 219 shares owned by spouse and daughter, and 11,500 shares of phantom stock held in a deferred compensation plan account ("Phantom Stock"). Each share of Phantom Stock represents a deemed investment of deferred compensation funds in one share of Common Stock and gives the officer the right to receive one share of Common Stock or the cash value thereof following the officer's separation from service with the Corporation. The officer may transfer the funds held in the plan account into an alternative deemed investment option at any time.

- (4) Includes 2,055 owned jointly with spouse.
Includes 230 shares held by spouse's IRA, 5,001 shares held in trust of which Ms. McDonald is a beneficiary, and
- (5) 1,000 shares held by grantor trust of which Ms. McDonald is trustee and beneficiary, which shares are pledged to secure a line of credit.
- (6) Includes 55,000 shares owned by spouse.
- (7) Includes 151 shares owned jointly with spouse, 352 shares owned by spouse, and 574 shares held in a 401(k) plan account.
- (8) Includes 409 shares held jointly with spouse, 17 shares held by spouse for benefit of a minor child, and 790 shares held in a 401(k) plan account.
- (9) Includes 520 shares owned by Ruddell, LLC of which Mr. Ruddell is owner.
- (10) Includes 905 shares owned jointly with spouse, 6,815 shares owned by spouse, 4,229 shares owned by daughters, and 2,000 shares of Phantom Stock in a deferred compensation plan account.
- (11) Includes 500 shares owned jointly with spouse.
- (12) Includes 9,008 shares owned jointly with spouse and 1,748 shares held in spouse's IRA.
- (13) Shares held in the name of Firstoak & Company, as nominee, are administered by the Trust Department of First United Bank & Trust in a fiduciary capacity. Firstoak & Company disclaims beneficial ownership of such shares.

ELECTION OF DIRECTORS (PROPOSAL 1)

Directors are divided into three classes, as nearly equal in number as possible, with respect to the time for which the Directors may hold office. Each Director is elected to hold office for a term of three years, and the terms of one class of Directors expire each year. The terms of Class II Directors expire this year, the terms of Class III Directors expire in 2013, and the terms of Class I Directors expire in 2014. In all cases, Directors serve until their successors are duly elected and qualify.

At this year's Annual Meeting, shareholders will be asked to vote for the election of the four Director nominees identified in the table below. Each of the nominees is a current Class II Director, was nominated by the Nominating and Governance Committee (the "Nominating Committee") and elected by shareholders. In the event a nominee declines or is unable to serve as a Director, which is not anticipated, the proxies will vote in their discretion with respect to a substitute nominee named by the Board.

Information about the principal occupations, business experience and qualifications of these nominees is provided below under the heading "QUALIFICATIONS OF DIRECTOR NOMINEES AND CONTINUING DIRECTORS".

Class II Directors

(Term expires in 2015)

Name	Age
Robert W. Kurtz	65
Elaine L. McDonald	63
Donald E. Moran	81
Gary R. Ruddell	64

The Board of Directors recommends that shareholders vote FOR ALL NOMINEES named above.

CONTINUING DIRECTORS

The following tables identify each Director of the Corporation whose term does not expire in 2012. Information about the principal occupations, business experience and qualifications of these continuing Directors is provided below under the heading “QUALIFICATIONS OF DIRECTOR NOMINEES AND CONTINUING DIRECTORS”.

Class III Directors

(Term expires in 2013)

Name	Age
M. Kathryn Burkey	61
I.Robert Rudy	59
Richard G. Stanton	72
Robert G. Stuck	65
H. Andrew Walls, III	51

Nominees for Class I Directors

(Term expires in 2014)

Name	Age
David J. Beachy	71
Paul Cox, Jr.	72
William B. Grant	58
John W. McCullough	62

QUALIFICATIONS OF DIRECTOR NOMINEES AND CURRENT DIRECTORS

In addition to bringing extensive knowledge of the communities served by the Corporation through their involvement with their communities, as business partners and volunteers, the Nominating Committee believes that all Director nominees and continuing Directors possesses a diverse balance of skills, business experience and expertise necessary to provide leadership to the Company. The following discussion sets forth the specific experience, qualifications, other attributes and skills of each Director nominee and continuing Director that led the Nominating Committee to determine that such person should serve on the Board of Directors. All current Directors also serve on the board of directors of First United Bank & Trust (the “Bank”), the Corporation’s wholly-owned subsidiary.

David J. Beachy possesses significant Board experience obtained from his service as a director of the Corporation and the Bank since 1985. As a retired business owner of Fred E. Beachy Lumber Company, a successful building supply company, for over 40 years, he also possesses substantial business experience.

M. Kathryn Burkey has a vast amount of accounting and business experience through her education, her certification as a Certified Public Accountant, and her ownership and operation for the past 23 years of M. Kathryn Burkey, CPA, an accounting firm. She has gained director experience through her service as past Chairman of the Board of Western Maryland Health System, where she also served on its Compensation Committee, Audit Committee, and Finance Committee, and through her service as a Director of the Corporation and the Bank since 2005. She is also the past president of Maryland Association of Certified Public Accountants.

Paul Cox, Jr. is very active in the community in Washington County, a market area served by the Corporation. He possesses significant business and tax experience gained through the ownership and operation of Professional Tax Service, a tax preparation business. Mr. Cox has served as a Director of the Corporation and the Bank since 1993.

William B. Grant is the Chairman of the Board, Chief Executive Officer (“CEO”), and President of the Bank and the Corporation. Mr. Grant has 32 years of banking experience, which experience includes service as a Director of the Corporation and the Bank since 1995. He also has legal expertise gained through the practice of law. Mr. Grant is a graduate of Stonier Graduate School of Banking and Northwestern Trust Graduate School. He is also a Certified Financial Planner.

Robert W. Kurtz has 37 years of banking experience through his service as past President, Chief Risk Officer, and Chief Financial Officer (“CFO”) of the Corporation and its affiliates, as well as through his service as a Director of the Corporation and the Bank since 1990.

John W. McCullough, a retired partner of Ernst & Young, LLC, possesses substantial tax and accounting experience. He is a Certified Public Accountant and obtained his B.S. degree in accounting from the University of Maryland. Mr. McCullough has served as a Director of the Corporation and the Bank since 2004.

Elaine L. McDonald brings valuable knowledge of the local real estate industry to the Board that she gained as a realtor with Long and Foster Realtors. She also possesses substantial business experience gained through her ownership and operation for 24 years of Alpine Village, Inc., a successful motel and restaurant. She also has knowledge with fundraising activities for national and community based non-profits. Ms. McDonald has served as a Director of the Corporation and the Bank since 1995.

Donald E. Moran has served as a Director of the Corporation and the Bank since 1988. He obtained a B.A. degree in pre-law, with a split minor in History and Geography, from the University of Maryland. His business experience includes service as the president, secretary, and treasurer of Moran Coal Company since 1955. In addition to experience gained as a Director, Mr. Moran was the past president of First National Bank of Piedmont.

Gary R. Ruddell obtained a B.A. degree in marketing from the University of Maryland and has also attended various Maryland Banking sessions. His business experience includes service as the president and chief executive officer of Total Biz Fulfillment, a successful logistical and back-office support services business. Mr. Ruddell is involved in his community and holds officer and director positions with various community organizations. He has served as a Director of the Corporation and the Bank since 2004.

I. Robert Rudy has served as a Director of the Corporation and the Bank since 1992. His education includes a Bachelor of Business Administration degree from Ohio University. His vast business experience has been gained through his ownership and operation of I. R. Rudy’s, Inc., a retail apparel and sporting goods store. His director experience includes Chairman of the Board of Sports Specialists, Ltd, a national retail buying group, and as trustee of The Ohio University Foundation. He also has leadership experience gained from and involvement with various societies, boards and commissions, including the Ohio University College of Business Society of Alumni and Friends from 2003 to 2006, Ohio University College of Business Executive Advisory Board since 2006, Ohio University College of Business Global Competitive Program during 2008 and 2009, Ohio University President’s CEO Roundtable, Maryland Fire Prevention Commission – Commissioner, and Oakland Planning and Zoning Commission. Mr. Rudy is also a retired Chief of the local Volunteer Fire Department.

Richard G. Stanton has significant banking and business experience through 38 years of service with various financial institutions, including as past Chief Executive Officer of the Corporation. He has served as a Director of the Corporation and the Bank since 1985 and is very active in the communities of Garrett County, a key market for the Corporation.

Robert G. Stuck has many years of business experience gained through his ownership and operation of Oakview Motors, Inc., an automobile dealership. He also brings local real estate knowledge to the Board through his service as a real estate agent for Long and Foster Realtors. Mr. Stuck has served as a Director of the Corporation and the Bank since 1995.

H. Andrew Walls, III has significant business experience gained as the owner and operator of Morgantown Printing & Binding, a large printing company, for 15 years. He is active in the communities of Monongalia County, West Virginia, one of the Corporation's market areas. In addition to serving as a Director of the Corporation and the Bank since 2006, Mr. Walls has acquired director experience through his service on the boards of directors of the United Way, the Public Theatre, the Red Cross, and the Salvation Army.

CORPORATE GOVERNANCE MATTERS

Committees of the Board of Directors

The Board of Directors has an Audit Committee, an Asset and Liability Management Committee, an Executive Committee, a Strategic Planning Committee, a Compensation Committee, and a Nominating and Governance Committee. These committees are discussed below.

Audit Committee – The Audit Committee is established pursuant to Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and consists of M. Kathryn Burkey, Paul Cox, Jr., John W. McCullough (Chairperson), Elaine L. McDonald, Richard G. Stanton, and Robert G. Stuck. The committee is responsible for the hiring, compensation and oversight of the Corporation’s independent registered public accounting firm, and it also assists the Board in monitoring the integrity of the financial statements, in monitoring the performance of the Corporation’s internal audit function, and in monitoring the Corporation’s compliance with legal and regulatory requirements. In carrying out its duties, the committee meets with the internal and independent auditors, with and without management present, to discuss the overall scope and plans for their respective audits, the results of their examinations, their evaluations of the Corporation’s internal controls, and the overall quality of the Corporation’s financial reporting. The Board has determined that all audit committee members are financially literate and that Ms. Burkey, and Messrs. McCullough and Stanton each qualify as an “audit committee financial expert” as that term is defined by the Securities Exchange Commission (the “SEC”) in Item 407 of Regulation S-K. This committee met five times in 2011. The Board of Directors has adopted a written charter for the Audit Committee, a copy of which is available on the Corporation’s website at www.mybank4.com.

Asset and Liability Management Committee – The Asset and Liability Management Committee consists of M. Kathryn Burkey, Paul Cox, Jr., William B. Grant, Robert W. Kurtz, John W. McCullough, Donald E. Moran, Gary R. Ruddell, I. Robert Rudy, Richard G. Stanton, and Robert G. Stuck. The committee reviews and recommends changes to the Corporation’s Asset and Liability, Investment, Liquidity, and Capital Plans. This committee met four times in 2011.

Executive Committee – The Executive Committee consists of David J. Beachy, M. Kathryn Burkey, William B. Grant, Robert W. Kurtz, Elaine L. McDonald, Gary R. Ruddell, Robert G. Stuck, and H. Andrew Walls, III. The committee has the authority to review and recommend changes to the Corporation’s insurance program, review the Corporation’s compliance with the Charter and Bylaws, monitor the performance of the Corporation and its subsidiaries, and recommend changes to the personnel policies of the Corporation and its subsidiaries. The Executive Committee is empowered to act on behalf of the full Board between meetings of the Board. This committee did not meet in 2011.

Strategic Planning Committee – The Strategic Planning Committee consists of David J. Beachy, M. Kathryn Burkey, Paul Cox, Jr., William B. Grant, Robert W. Kurtz, John W. McCullough, Elaine L. McDonald, Donald E. Moran, Gary R. Ruddell, I. Robert Rudy, Richard G. Stanton, Robert G. Stuck and H. Andrew Walls, III. The committee focuses on long-term planning to insure that management’s decisions take into account the future operating environment, the development of corporate statements of policy, and review of management’s internal and external information and communications systems. This committee met one time in 2011.

Compensation Committee – The Compensation Committee, which met four times in 2011, consists of David J. Beachy, M. Kathryn Burkey (Chairman), Paul Cox, Jr., John W. McCullough, Donald E. Moran, and Robert G. Stuck. The committee is responsible for recommending to the Board a compensation policy for the executive officers and Directors of the Corporation and its subsidiaries, overseeing the Corporation’s various compensation plans, and recommending changes for executive and Director compensation. The committee determines executive compensation pursuant to the principles discussed below under the heading “REMUNERATION OF EXECUTIVE OFFICERS”. The Board reviews and, where appropriate, approves or ratifies committee recommendations. The Compensation Committee has adopted a written charter, a copy of which is available on the Corporation’s website at www.mybank4.com.

Nominating and Governance Committee – The Nominating Committee consists of David J. Beachy, M. Kathryn Burkey, Paul Cox, Jr., Elaine L. McDonald, Donald E. Moran, and Richard G. Stanton. The committee is responsible for developing qualification criteria for Directors, reviewing Director candidates recommended by shareholders (see “Director Recommendations and Nominations” below), actively seeking, interviewing and screening individuals qualified to become Directors, recommending to the Board those candidates who should be nominated to serve as Directors, and developing and recommending to the Board the Corporate Governance Guidelines applicable to the Corporation and its subsidiaries. This Committee met one time in 2011. The Nominating Committee has a written charter, a copy of which is available on the Corporation’s website at www.mybank4.com.

Director Independence

Pursuant to Rule 5605(b)(1) of The NASDAQ Stock Market Rules (the “NASDAQ Rules”), a majority of the Corporation’s Directors must be “independent directors” as that term is defined by NASDAQ Rule 5605(a)(2). The Corporation’s Board of Directors has determined that each of David J. Beachy, M. Kathryn Burkey, Paul Cox, Jr., John W. McCullough, Elaine L. McDonald, Donald E. Moran, Gary R. Ruddell, Richard G. Stanton, and Robert G. Stuck is an “independent director”, and these independent Directors constitute a majority of the Corporation’s Board of Directors. Each of the members of the Compensation Committee and of the Nominating Committee is an “independent director”. Each member of the Audit Committee satisfies the independence requirements of NASDAQ Rule 5605(c)(2)(A). In making these independence determinations, the Board, in addition to the transactions described below under “CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS”, considered the Bank’s purchase of goods from a retailer affiliated with Mrs. Burkey.

Board Leadership and Role in Risk Oversight

The Corporation is a one-bank holding company and the parent of the Bank, a \$1.4 billion community bank serving four counties in Maryland and four counties in West Virginia. Since its inception in 1984, the Corporation has had three CEOs, and each of these CEOs also served as Chairman of the Board. The Corporation’s predecessor, First United Bank of Oakland, also employed this form of governance for a number of years.

The Corporation has a well-developed and well-seasoned Board of Directors, comprised of the Chairman/CEO and 12 additional Directors, nine of whom are “independent directors” as defined by the NASDAQ Rules.

The Board believes that the Corporation has been well-served by this form of leadership. By having one person serve as both Chairman and CEO, the Board believes that the Corporation demonstrates to shareholders, customers, employees, vendors, regulators, and other stakeholders that we are under strong leadership, with a single individual setting the tone and having primary responsibility for managing and leading the Corporation. The Board believes this structure reduces the potential for confusion or duplication of efforts and assures clarity of leadership.

The Board believes that such a structure is viable when it is reinforced with a strong, competent and independent board of directors as is the case with the Corporation. As noted above, nine of the 13 Directors are independent. The Board believes that this high percentage of independence, coupled with the fact that only one Director – the Chairman/CEO – is employed by the Corporation, assures an objective and shareholder-based view of the Corporation’s operations.

Of these independent directors, four members qualify as “audit committee financial experts” as defined by rules adopted by the SEC pursuant to the Sarbanes-Oxley Act of 2002. While the credentials of the entire Board are noted elsewhere, it is worth illustrating the credentials of these four members that make them eligible for this distinction:

M. Kathryn Burkey – Mrs. Burkey is a practicing Certified Public Accountant, with significant experience in audit.
1. She has also served as chair of the board of Western Maryland Health System, and is the past president of the Maryland Associates of CPAs.

Robert W. Kurtz – Mr. Kurtz retired from the Corporation and the Bank in December 2009, after nearly four decades
2. of service. For several years prior to his retirement, Mr. Kurtz served as President & Chief Risk Officer of the Corporation and the Bank.

John W. McCullough – Mr. McCullough is a retired partner of the accounting firm Ernst & Young, LLP. During a
3. significant portion of his career, Mr. McCullough was heavily engaged in the audit of financial institutions. Mr. McCullough serves as the Chair of the Corporation’s Audit Committee.

Richard G. Stanton – Prior to his retirement in 1996, Mr. Stanton served as Chairman and CEO of the Corporation.
4. Since that time, he has remained on the Board of Directors, where he serves on numerous committees.

In an effort to hone their skills, and to assure their continued independence, members of the Board of Directors undertake regular training. A number of methods are employed to provide in-depth training. On frequent occasions, internal training is provided to familiarize the Board with regulatory requirements imposed on financial institutions by applicable laws such as the Bank Secrecy Act and the Community Reinvestment Act. Periodically, Directors attend seminars related to banking issues, which offer them the additional benefit of meeting with directors of other financial institutions. All Directors have direct access to the American Bankers Association website which enables them to keep abreast of issues pertinent to the banking industry and to research banking materials. Finally, plans are underway to incorporate specific board education under a program recently introduced by the Federal Reserve System.

The strength of the Board, and a valuable counter balance to management, is found in the risk management practices employed by the Board, directly and through its various specialized committees. The Board, as part of its oversight and governance functions, regularly reviews risks and appropriate modeling of Asset Liability Management, loan concentrations, liquidity, management succession and capital planning. Consistent with this, the Corporation was one of the early institutions in its market area to name a Chief Risk Officer, having done so in 2006. Further, in 2009, the Board created a special committee focused on the Corporation's risk elements. This committee, which meets monthly, reviews classified credits and the appropriate plans for them, as well as examining regulatory mandates and assuring that they are fulfilled.

To assist the Board with tracking and reviewing Board and Committee activities, all Directors have 24/7 access to all policies and reports, the minutes of every meeting of the Board and its committees over the last two years, and numerous other reports and models prepared by or for the Corporation.

To maintain a level of independence from management, the Board conducts regular executive sessions. These sessions are lead by the independent Chair of the Corporation's Nominating Committee, Donald Moran.

The governance of the Corporation through a combination of the Chairman and CEO is appropriate also in light of the strength and experience of the Chairman/CEO. Since its beginning, the Corporation has had very experienced individuals in this combined role. Courtney R. Tusing, the first to have the role, came to the Corporation with over 20 years of banking experience, the majority of which were with the Corporation. During his tenure, he also served as President of the Maryland Bankers Association. Richard G. Stanton held the position from 1987 to 1996. He had nearly three decades of experience prior to the position, and had served as Director for a number of years. During his tenure, he served on the Government Relations Committee of the American Bankers Association, which enabled him to help formulate banking policy. The Current Chairman and CEO has held the position since 1996, having joined the Board the year before. With now over 30 years of banking experience, he is past Chairman of the Maryland Bankers Association and is currently on the Board of Directors of the Baltimore Branch of the Federal Reserve Bank of Richmond as well as the America's Community Bankers Council of the American Bankers Association.

In conclusion, the Board believes that a single leader, serving as Chairman and CEO, together with an overwhelmingly independent Board, is the most appropriate leadership structure for the Corporation. The Board may, from time to time, review this structure under the guidance of the Nominating Committee, reporting up to the Board of Directors. The position is supported by academic research on board governance, which endorses such a structure so long as there exists an independent and well-seasoned board, which exists at the Corporation.¹

Attendance at Board Meetings

The Board of Directors held 10 Board meetings in 2011. Each Director who served as such during 2011 attended at least 75% of the aggregate of (i) the total number of meetings of the Board of Directors (held during the period served) and (ii) the total number of meetings held by all committees of the Board on which that person served (held during the period served).

¹ See The Harvard Law School Forum on Corporate Governance and Financial Regulation “Drafting Disclosure Relating to Board Leadership and Risk Oversight”, Posting by Jeffrey Stein, King & Spaulding, January 3, 2010

Director Recommendations and Nominations

The Nominating Committee will from time to time review and consider candidates recommended by shareholders. Shareholder recommendations should be labeled "Recommendation of Director Candidate" and be submitted in writing to: Carissa L. Rodeheaver, Corporate Secretary, First United Corporation, P.O. Box 9, Oakland, Maryland 21550; and must specify (i) the recommending shareholder's contact information, (ii) the class and number of shares of the Corporation's capital stock beneficially owned by the recommending shareholder, (iii) the name, address and credentials of the candidate for nomination, (v) the number of shares of the Corporation's capital stock beneficially owned by the candidate; and (iv) the candidate's written consent to be considered as a candidate. Such recommendation must be received by the Corporate Secretary no less than 150 days nor more than 180 days before the date of the Annual Meeting of Shareholders for which the candidate is being recommended. For purposes of this requirement, the date of the meeting shall be deemed to be on the same day and month as the Annual Meeting of Shareholders for the preceding year.

Candidates may come to the attention of the Nominating Committee from current Directors, executive officers, shareholders, or other persons. The Nominating Committee does not have a formal policy under which it considers the diversity of candidates for directorship when making nomination recommendations. The Nominating Committee periodically reviews its list of candidates available to fill Board vacancies and researches the talent, skills, expertise, and general background of these candidates. In evaluating candidates for nomination, the Nominating Committee uses a variety of methods and regularly assesses the size of the Board, whether any vacancies are expected due to retirement or otherwise, the need for particular expertise on the Board, and whether the Corporation's market areas are adequately represented by Board members. In nominating director candidates, the Nominating Committee generally seeks to choose individuals that have skills, education, experience and other attributes that will compliment and/or broaden the strengths of the existing directors.

In 2003, the Corporation created an "advisory council" consisting of local business owners in each of the geographic regions that we serve. The primary purpose of the advisory coun